The Licensing Journal, *Preparing for Exit Diligence at the Acquisition Stage*, (May 1, 2026)

The Licensing Journal

Click to open document in a browser

Preparing for Exit Diligence at the Acquisition Stage

Nathan O. Viehl

Nathan Viehl is a partner in the Chicago office of Thompson Coburn LLP. He is a trusted M&A advisor to private equity-backed portfolio companies pursuing add-on acquisitions and to founder-owned businesses navigating sales to private equity buyers. His practice spans the full spectrum of middle-market M&A transactions, including mergers, acquisitions, divestitures, financings, and leveraged buyouts.

This article outlines how private equity platforms and portfolio companies can improve exit outcomes by addressing diligence issues during each addon acquisition. It is intended for deal teams searching for experienced portfoliocompany counsel who understand how acquisition-stage decisions influence valuation at exit.

In the private equity lifecycle, value is ultimately realized at exit. Whether selling to a larger sponsor or a strategic buyer, the exit diligence process will involve forensic review, not only of the platform itself but of every add-on acquisition completed during the hold period. Future buyers will examine how each transaction was documented, what issues were identified and addressed, and whether the platform has “clean” legal, tax, and IP infrastructure.

Many PE-backed companies look for legal advisors who not only drive efficient acquisition closings but also manage documentation, IP, tax, and compliance in a way that preserves enterprise value at exit.

Platforms that prioritize speed over documentation quality during their growth phase often face valuation pressure at exit. Legal, tax, or IP issues that were deferred or inadequately addressed during add-on acquisitions can result in meaningful valuation adjustments-either through reduced purchase price, expanded indemnification escrows, or extended earn-out provisions.

A critical distinction that experienced buyers understand-and that many lawyers overlook-is the difference between recurring and non-recurring issues. Non-recurring issues, such as a one-time regulatory fine or a discrete contract dispute, represent isolated risks that a platform can often absorb or remediate without significant valuation impact. These are problems with defined boundaries and finite costs. Recurring issues, by contrast, represent structural or ongoing exposures-incomplete tax nexus compliance across multiple states, systematic gaps in IP assignment practices, or chronic underinvestment in regulatory infrastructure. These issues compound over time and, more importantly, get capitalized into the exit multiple. A buyer pricing a platform at 5-7x EBITDA will discount not just the current-year cost of a recurring problem but its projected impact across the entire investment horizon. A $500,000 annual compliance gap that could have been addressed at acquisition may translate into $2.5 million to $3.5 million of enterprise value reduction at exit-a meaningful drag on sponsor returns that far exceeds the original remediation cost.

Understanding the recurring/nonrecurring distinction has become a core capability of platformacquisition lawyers who support multiyear buyandbuild programs.

Anticipating Future Buyer Scrutiny

An exit-focused approach to add-on acquisitions begins by asking: “What will a sophisticated buyer’s counsel find when they review this transaction in three to five years?” Experienced buyers and their diligence teams are specifically trained to identify recurring issues that will affect their valuation model-and they will discount

accordingly. This perspective encourages platforms to address documentation gaps, regulatory compliance issues, and IP ownership questions at the time of acquisition rather than deferring them to the exit process. The objective is not merely to close transactions but to convert potential recurring exposures into non-recurring remediation costs that can be absorbed at the acquisition stage, ensuring that each add-on enhances rather than complicates the platform's institutional readiness for sale.

This forwardlooking approach aligns with the best practices used by portfolio-company counsel who design acquisition processes to support clean exits.

Key Areas for Exit-Ready Documentation

Institutionalizing Founder-Led Businesses. Many smaller acquisitions involve founder-led companies that have operated on informal employment relationships, verbal agreements, or ambiguous ownership structures. Left unaddressed, these informal practices can evolve into recurring issues-ongoing disputes over compensation or equity, repeated losses of key personnel due to inadequate restrictive covenants, or chronic uncertainty about ownership rights.

The remediation itself is typically non-recurring: implementing institutional-grade employment agreements, formalizing equity arrangements, and documenting key commercial relationships at closing requires upfront effort but creates durable infrastructure. A target company that has relied on handshake agreements with key employees should have formal employment contracts, invention assignment agreements, and appropriate restrictive covenants in place before the platform integration is complete. This one-time investment prevents the compounding costs of informal arrangements from affecting exit valuation.

Portfolio companies often seek counsel who can convert informal founder practices into institutional-grade documentation early in the hold period, a key value driver at exit.

Resolving Tax and Regulatory Compliance Gaps. Tax and regulatory issues represent perhaps the clearest example of the recurring versus non-recurring distinction. Many smaller businesses have incomplete tax nexus analysis, gaps in regulatory filings, or compliance deficiencies that were immaterial at their scale but become significant when aggregated across a platform. These are quintessential recurring exposures: ongoing state tax liabilities, annual filing obligations, and continuing compliance costs that a buyer will capitalize into their valuation model. Identifying and addressing these issues at the acquisition stage-through state tax nexus cleanup, regulatory registration updates, and compliance remediation-converts what would be a recurring drag on valuation into a discrete, non-recurring remediation cost. A $75,000 investment in state tax cleanup at acquisition is far preferable to a $500,000 annual exposure that reduces enterprise value by several million dollars at exit.

Securing Intellectual Property Chain of Title. For SaaS, technology-enabled services, and other IP-intensive platforms, ensuring clean intellectual property ownership is critical to exit value. IP issues present a distinct risk profile that often transcends the recurring versus non-recurring framework. Chain of title gaps-missing assignments from founders, employees, or contractors-represent a fundamental cloud on the platform's core assets that sophisticated buyers may refuse to underwrite at any price. While the cost to remediate at acquisition is often modest (obtaining assignments while original developers and contractors are still accessible), the potential exposure if left unaddressed can be catastrophic, ranging from deal-killing diligence findings to expensive post-closing litigation. Similarly, lapsed trademark or patent registrations may require a significant one-time investment to review and cure, but once addressed, typically involve only minimal ongoing maintenance costs. This includes verifying that all software code, patents, trademarks, and proprietary content are properly assigned to the company, that all developer and contractor agreements include adequate IP assignment provisions, and that any third-party licenses are properly documented. Addressing these issues at acquisition—when the original developers and contractors are often still accessible—-is dramatically easier and less expensive than attempting remediation years later during exit diligence, when key individuals may be unavailable and memories have faded.

© 2026 CCH Incorporated and its affiliates and licensors.
All rights reserved.

Platforms that maintain rigorous documentation and compliance standards throughout their acquisition programs typically experience more efficient exit processes and reduced valuation pressure. The discipline of distinguishing between recurring and non-recurring issues-and systematically converting the former into the latter at the acquisition stage-creates a data room that supports the platform's valuation thesis rather than inviting buyer concerns or post-LOI re-trading. Counsel who understand this distinction can help platforms make intelligent decisions about where to invest in remediation and where isolated, non-recurring risks can be absorbed without meaningful impact on exit value.

© 2026 CCH Incorporated and its affiliates and licensors.
All rights reserved.