

EXIT PHASE

Why most MIPs aren't ready for exit, and what to do about it

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Everything this series has described, the late recording, the parallel spreadsheets, the casual valuations, the unowned register, has one shared property: it is invisible during the hold and undeniable at exit. Due diligence is the mechanism that makes it undeniable. A buyer's advisers will test the equity story with a thoroughness the plan has never experienced, and they will do it on a timetable set by the process, not by how long the answers take to find.

This article looks at what diligence actually asks of a MIP, why most programmes cannot answer cleanly, what an unready plan really costs, and, most usefully, what the repair looks like if you start in time. Because the honest headline is double-edged: exit readiness is a by-product of hold discipline, and most plans did not have it. But readiness can be rebuilt, and the window in which rebuilding is calm rather than frantic is roughly eighteen to twenty-four months before the process starts.

What diligence actually asks

Stripped of the legal phrasing, a buyer's diligence on the MIP is a small set of questions, each of which must be answered with documents rather than assurances:

THE DILIGENCE QUESTION	WHAT ANSWERS IT
Who holds what, exactly?	A register that reconciles, line by line, with the cap table and the signed subscription documents
Is every participation properly established?	Complete document sets per participant: subscription, adherence to the shareholders' agreement, board approvals
What happened to everyone who left?	Leaver files: the determination, the dates, the repurchase price basis and its support, the settlement
Are the values defensible?	Valuation support for every entry and every repurchase, contemporaneous with the event
What will the plan cost at completion?	A waterfall model that maps entitlements to proceeds under the actual documents, tested against the register
Are there claims waiting?	The absence of ambiguity: no verbal promises, no undocumented discretion, no participant who believes something the file does not say

Read the right-hand column and notice what it is: the output of the discipline this series has described, or its absence. Nothing on the list can be produced quickly if it was not kept. A register can be rebuilt, but rebuilding takes weeks; valuation support can sometimes be reconstructed, but a contemporaneous record always beats a retrospective justification; and a leaver who was handled loosely three years ago cannot be re-handled at all, only negotiated with.

Unreadiness has a price, and it is paid in four currencies: money (price chips and escrows sized to the uncertainty), time (every unanswered question extends the process), leverage (a buyer who finds one loose thread pulls harder on everything), and credibility (an equity story that does not reconcile makes every other number in the data room look worse). None of these costs appears as a line item. All of them are real.

The repair: what to do with the runway you have

If the exit is eighteen months or more away, the repair is a project, not a crisis. It has a natural sequence. First, an honest readiness review: take the diligence questions above and attempt to answer them today, from the file, as if the buyer were asking. The gaps that exercise reveals are the work list. Second, reconcile the record: one register, checked against the cap table and the documents, with every discrepancy traced to its cause and corrected or documented. Third, close the participant files: chase the missing signatures, complete the leaver files, assemble the valuation support that exists and commission what defensibly can be. Fourth, build the waterfall model early and test it against the reconciled register, so the number the plan will cost at completion is known before anyone else calculates it. And fifth, fix the process going forward, because a record repaired once and then neglected will need repairing again, and the second repair happens inside the data room.

If the exit is closer than that, the sequence is the same but the ambitions are smaller: reconcile what can be reconciled, disclose what cannot, and never let the buyer find something you did not know about. A known gap, disclosed with context, is a manageable conversation. The same gap discovered by the other side is a lever.

A useful way to think about timing: the readiness review costs a few weeks and can be done quietly at any point in the hold. Every month between that review and the process start is a month in which fixes are cheap, private, and on your timetable. Every month after the process starts, the same fixes are expensive, visible, and on the buyer's.

What this means in practice

FOR FUND MANAGERS

Commission the readiness review before you appoint bankers. It is the cheapest piece of exit preparation there is, and the only one that gets cheaper the earlier it happens.

Treat the MIP as part of the equity story, because the buyer will. The plan determines a real number at completion and touches the entire management team the buyer is about to inherit. It deserves data-room quality, not appendix treatment.

Budget for the clean-up as deal preparation. Reconciliation, file completion, waterfall modelling: this is work, and it is worth funding properly once rather than negotiating around forever.

FOR CFOS AND MANAGEMENT TEAMS

Run the diligence test on yourself. Pick three participants, one of them a leaver, and try to produce their complete story from the file in a day. What you cannot produce is your work list.

Complete the leaver files first. They are the most common gap, the hardest to reconstruct, and the first place experienced advisers look.

Know your own waterfall before anyone else does. The management team should never learn what the plan pays from the buyer's model. Build it, test it, and understand it while there is still time to fix what it reveals.

One last thought

There is a version of this article that simply says: keep the record properly for five years and exit readiness takes care of itself. That is true, and it is the whole argument of this series. But it is not much use to the programme that is three years in and knows, quietly, that the record would not survive contact with a diligence team.

For that programme the message is more hopeful: readiness is recoverable. The gaps are findable, most of them are fixable, and the ones that are not are at least disclosable, on your terms, in your words. What is not recoverable is time. The repair that starts eighteen months out is a project; the one that starts with the process is a fire drill the other side gets to watch. Start early. That is the discipline, and it is the work we do at MIP Desk.