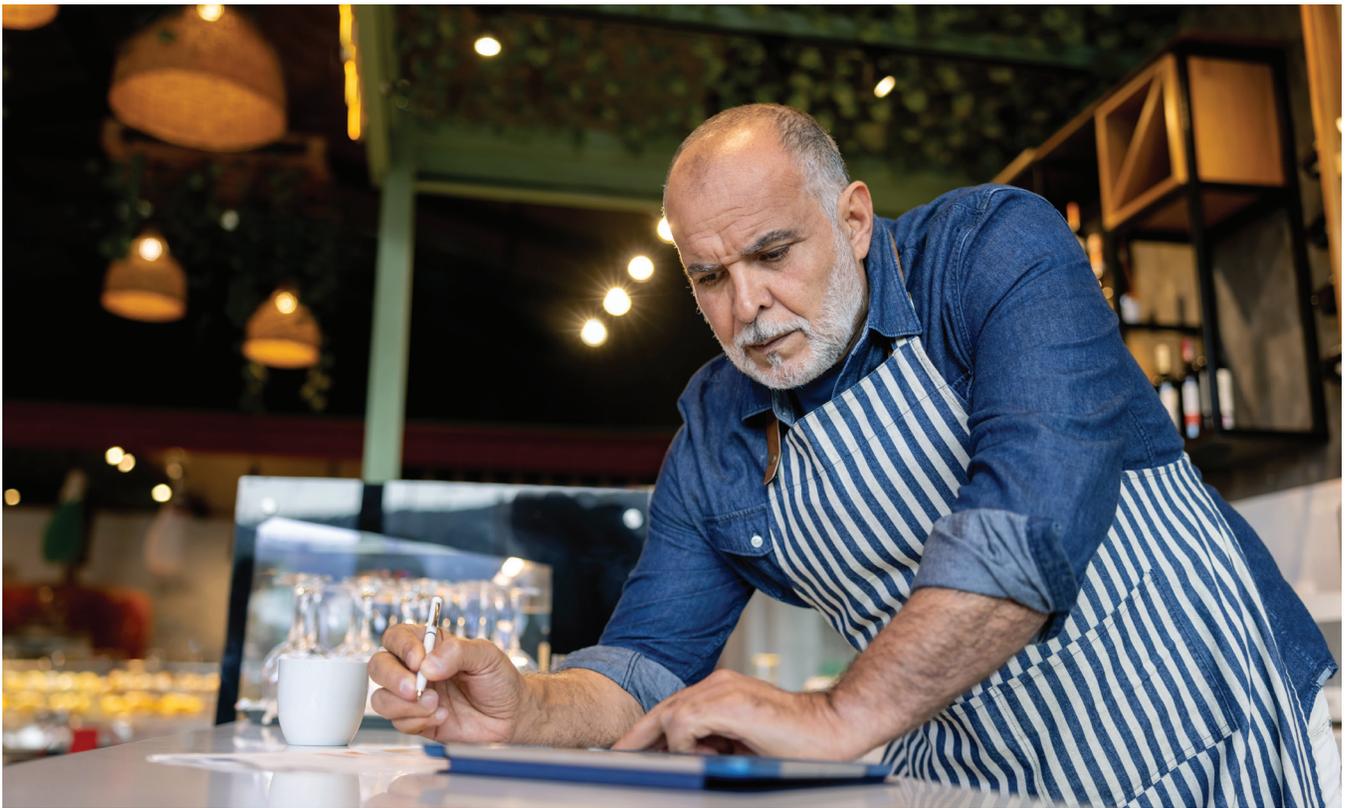


Key Family Wealth — Business Advisory Services (BAS)

You Just Got an LOI – Now What? How to Protect Value Before You Sign



Imagine this:

After years — maybe decades — of building your business, a buyer offers to take it off your hands. You feel relief, excitement ... and maybe even a little pressure. The buyer sends you a document called a Letter of Intent (LOI). It looks straightforward. A few pages. A rough outline of the deal. You're tempted to skim, sign, and move on to the next phase.

Hold up.

If you're a business owner preparing for a transition, this is your moment of greatest leverage. Yet it's also the moment many sellers rush through. The LOI may seem like just a precursor to the "real" deal — the purchase agreement — but in reality, it sets the tone, terms, and trajectory of your entire transaction.

Let's break it down and make sure you don't miss the forest for the trees.

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So, what exactly is a Letter of Intent?

Think of the LOI as a blueprint for your deal. It typically includes:

- Proposed purchase price and payment terms
- Which assets and liabilities are included (or excluded)
- Key conditions to closing
- Due diligence timelines
- Confidentiality and exclusivity clauses

The LOI is not usually legally binding (with some exceptions), but it's the psychological handshake that kicks off the serious part of the sale. And here's the catch: Most of your negotiation power is spent at this stage, not later.

Why this document matters more than you think

Here's what often happens

The seller is eager to move forward and signs an LOI quickly — especially if it looks “good enough.” But once the LOI is signed, the dynamics shift.

Suddenly, the buyer has an exclusivity clause in hand — meaning you've agreed to stop talking to other interested parties. The market goes quiet, and all eyes are on this one buyer. Meanwhile, due diligence begins, and the buyer gets to peek under the hood of your business. That's when things start to get ... complicated.

And costly.

Here's the pattern we've seen time and again: Buyers invest time and money into diligence, then come back with “discoveries” that “require” them to renegotiate price or terms. You're deep into the process, maybe tens of thousands into legal and accounting fees, and you just want to close.

That's when leverage disappears.

Don't skip the details

The biggest mistake we see? Sellers treating the LOI like a formality instead of what it really is — a negotiation tool.

If a term isn't defined in the LOI, it will almost certainly be defined in the buyer's favor in the purchase agreement. Let's look at a few critical areas that deserve close attention:

Working capital adjustments

If the LOI doesn't state whether working capital is included in the purchase price — or how it's calculated — you could be in for a nasty surprise. Buyers often include aggressive working capital targets, reducing the final payout by hundreds of thousands (if not millions) of dollars.

Exclusivity period

Most LOIs include a clause preventing you from negotiating with other buyers. But how long does that exclusivity last? Smart sellers cap it at 30 to 60 days, tops. Without a defined timeline, a buyer can drag things out indefinitely while your business sits off the market.

Transition expectations

Will you be expected to stay on for three months? Twelve months? Full time? Part time? If the LOI is vague, expect the buyer to push for more of your time — on their terms.

Holdbacks and escrows

If these aren't discussed in the LOI, they'll show up later. You might find a significant chunk of your sale price tied up in escrow for 12–24 months to cover potential post-closing claims.

Purchase price clarity

Watch out for phrases like “\$6 million to \$8 million, depending on due diligence.” Spoiler alert: You're getting \$6 million. If the buyer won't commit to a specific number, that's a red flag.

Financing and earnouts

How is the buyer funding the deal? Are they asking you to finance part of it? Is there an earnout tied to future performance? If those terms are missing or vague, odds are good they'll be structured to benefit the buyer.

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The psychology of the LOI

Buyers know that sellers are emotionally invested in the process. Once you've signed the LOI, told your spouse, and maybe even imagined your retirement plans — you're committed. That's when a slow erosion of terms begins. A delay here, a new request there. Bit by bit, the original terms get chipped away.

Buyers also know that sellers rarely walk away at this point. After all, what's the alternative? Start over? Most sellers don't have the stomach for that — especially after investing so much time and money in the deal.

So, what should you do?

Take your time. Seriously. You have the most power before signing the LOI. Once it's signed, you're playing defense. Bring your advisors in early. Have your wealth advisor, mergers and acquisitions attorney, and CPA weigh in before you sign. Don't let momentum or pressure dictate your decision.

Here's your mindset:

If it's not in the LOI, it's not real.

The best LOIs are crystal clear on major deal terms, timelines, and expectations. That clarity will protect your value and will make for a smoother, faster transaction down the road.

The bottom line

The Letter of Intent may only be a few pages, but don't be fooled — it may be one of the most impactful documents in your entire sale process. Treat it like a serious negotiation because it is.

You only sell your business once. Make it count.

For more information, please contact your KeyBank Relationship Manager.

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