The Art Of Selling Your Company

A guide

Contents

Introduction

Selling a business is hugely exciting, but there are some fundamentals to consider and the earlier you start putting your plan together, the better.

We've covered off the most common ways to sell your company, the key things that you need to think about, and we've even included some handy checklists to help you get things sorted.

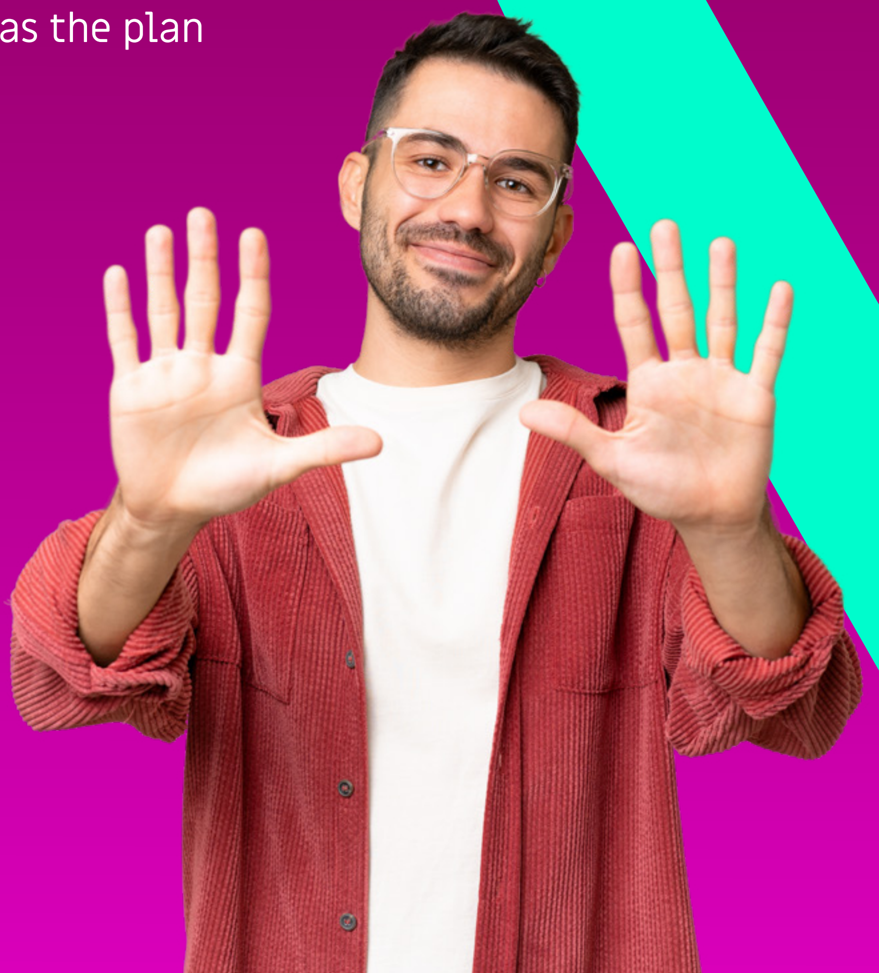
Good luck with your plans, and don't forget, if you need any support with cleaning up your cap table or share scheme ahead of your exit, we'd be happy to help.
[Get in touch!]

Ifty Nasir
Founder & CEO of [Vestd]

The ten types of exit

There are several good reasons to move on from a company (£11.8bn's worth of reasons according to this article). You might want the business to evolve in a different direction, you might want to retire, or perhaps exiting was the plan all along.

Whatever the case, here are ten ways to head towards that door.



01. Trade Sale

(Acquisition)

A trade sale is perhaps the most common form of exit. It's a straightforward case of another business buying yours.

The buyer might be a larger competitor, a related business in your industry, or even a company looking to enter your market.

Trade sales can offer the chance for a clean and quick exit.

Key success factors

- **Due diligence**
  Having all financials, contracts, and intellectual property in order will speed things up and remove roadblocks.
- **Valuation**
  A realistic, data-backed valuation will be attractive to potential buyers.
- **Strategic fit**
  Buyers with business models or product lines that align with your own will often be willing to pay more.
- **Legal compliance**
  Make sure all regulatory requirements are met to prevent snags.

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02. Initial Public Offering
(IPO)

Going public is another option, although it's often reserved for companies with significant revenue and strong growth prospects.

IPOs allow shareholders to sell their shares to the public but this model does come with added scrutiny, regulation, and costs.

Key success factors

- **Financial health**
  Strong balance sheets and cash flows make the business attractive for buyers.
- **Market timing**
  Going public during favourable market conditions maximises your return.
- **Strong management**
  Investors look for competent leadership as a sign of stability.
- **Regulatory compliance**
  Meeting all stock exchange and securities commission requirements is crucial.

03. Management Buy-Out
(MBO)

In an MBO, the existing management team buys the business.

If the management team is strong, this can be an excellent option.

Key success factors

- **Skilled management team**
  The team taking over must be capable of running the business effectively.
- **Financial planning**
  To secure financing, detailed financial future planning will be necessary.
- **Seller financing**
  Often, the current owner may need to provide some form of financing.
- **Transparency**
  Open communication between sellers and the management team can facilitate a smooth transition.

04. Management Buy-In
(MBI)

This is similar to an MBO, but in this case, an external management team buys into the company and takes over its operation.

Key success factors

- **Due diligence**
  The incoming team must fully understand all aspects of the business.
- **Cultural fit**
  There should be alignment in vision and culture between the new management and existing team.
- **Financing**
  MBIs often require a combination of private and seller financing.
- **Transition management**
  A well-planned handover period will help maintain business continuity.

05. Employee Ownership

(normally via an ‘EOT’)

Some businesses transition ownership to the employees. This is generally via an [Employee Ownership Trust].

There are generous tax reliefs for the founders who sell their shares into an EOT.

So long as the EOT holds more than 50% of the company’s share capital for example, you won’t pay any Capital Gains Tax. It’s a total win-win!

Key success factors

- **Legal structuring**
  The ownership model must be clearly structured and legally compliant.
- **Funding mechanism**
  A plan for funding the share transfer will be necessary, usually out of future earnings.
- **Management transition**
  Clear succession and governance plans are crucial for stability.
- **A leadership plan**
  The future leaders will need to be clearly identified and incentivised.

06. Merger

Less commonly, some companies opt for a merger with another company as an exit strategy.

In such a deal, the shareholders of both companies get shares in a new, combined company.

Key success factors

- **Synergy**
  The merged companies should have complementary assets, skills, or market access.
- **Due diligence**
  Both companies must understand each other's finances and operations.
- **Integration planning**
  A detailed plan can prevent post-merger issues.
- **Regulatory approval**
  Compliance with competition law and other regulations is essential.

07. Asset sale

This is not a sale of the business per se but a sale of its individual assets, such as intellectual property, real estate, and equipment.

This is a good option for companies with limited future prospects.

Key success factors

- **Asset valuation**
  Each asset must be accurately valued for a fair transaction.
- **Clean contracts**
  Assets should be free of legal entanglements. Make things simple for buyers.
- **Buyer identification**
  Finding a buyer who specifically needs the assets can maximise value.
- **Regulatory compliance**
  The sale of certain assets may require regulatory approvals.

08. Franchising

Although not an exit in the traditional sense, franchising allows you to scale back your involvement in the day-to-day operations of the business while still maintaining an income stream.

Key success factors

- **Standardisation**
  Business operations must be standardised for franchisees.
- **Strong brand**
  Recognisable brands work best in the franchise space.
- **Training programs**
  Effective training is crucial for maintaining quality across franchises.
- **Legal framework**
  Comprehensive franchise agreements protect both parties and ensure consistency.

09. Family succession

For some family-run businesses, the exit strategy might involve handing the business down to the next generation.

This typically involves extensive planning and training.

Key success factors

- **Succession planning**
  A well-documented plan clarifies roles and expectations.
- **Training**
  The next generation should be prepared through experience and education.
- **Financial structuring**
  The financial aspects of the transition need to be carefully planned.
- **Legal formalities**
  Inheritance and tax laws must be considered in the handover.

10. Liquidation

If you need to sort things out quickly, winding up the business and selling off its assets can make sense.

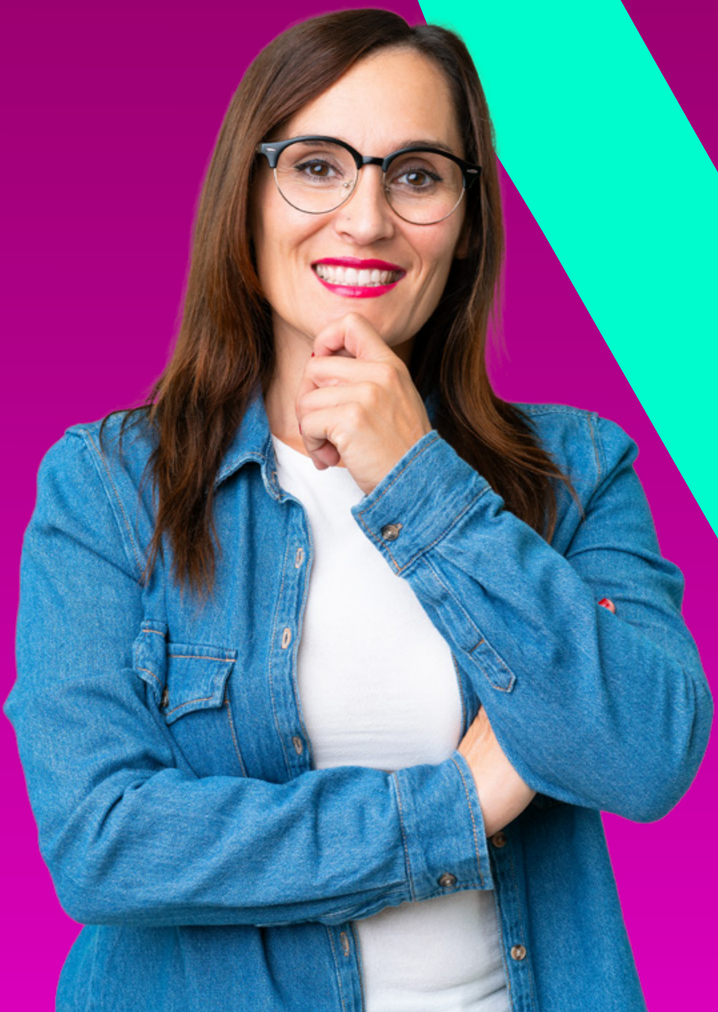
However, this is the least favourable option in terms of financial return and legacy so it's generally regarded as a last resort.

Key success factors

- **Asset valuation**
  Fair and accurate valuation of assets = maximum returns.
- **Legal compliance**
  Liquidation must meet all legal requirements, including payments to creditors.
- **Efficient execution**
  Quick and efficient sale of assets prevents depreciation in value.
- **Creditor communication**
  Open and transparent communication with creditors can make the process smoother.

A few (suggested) dos and don'ts

You've decided how you're going to exit, but now what?



Maximising your valuation

Not everything is within your control but if you understand the factors that can lift or lower a valuation, you can put your best foot forward for your company.

Things that (generally) maximise valuations:

- **Robust/proven management.** Get your house in order!
- **Consistent earnings.** Can you show a steady stream?
- **Intellectual property.** What can you copyright or ringfence?
- **An engaged workforce.** If there's time, a share scheme works wonders.

Things that (generally) lower valuations:

- **Stagnant sector.** Can you diversify?
- **Over-reliance on founders.** With you gone, will the business evolve?
- **Reliance on one or two contracts.** Spread the risk.
- **Business easily replicated.** How can you secure your company against imitation?

If you're planning your exit...

...but it's a few years in the future, you might want to consider getting a share scheme.

Companies that share ownership report growth of **10.2%, vs the UK average of 7.7%.**

Additionally, **93% of founders said their share scheme helped their company grow and 95% said shares improve employee loyalty.**

Plus, there are big tax efficiencies to be had.

Getting a share scheme can **get your company in the shape of its life, ready to realise its full potential.**

Keeping a clean cap table

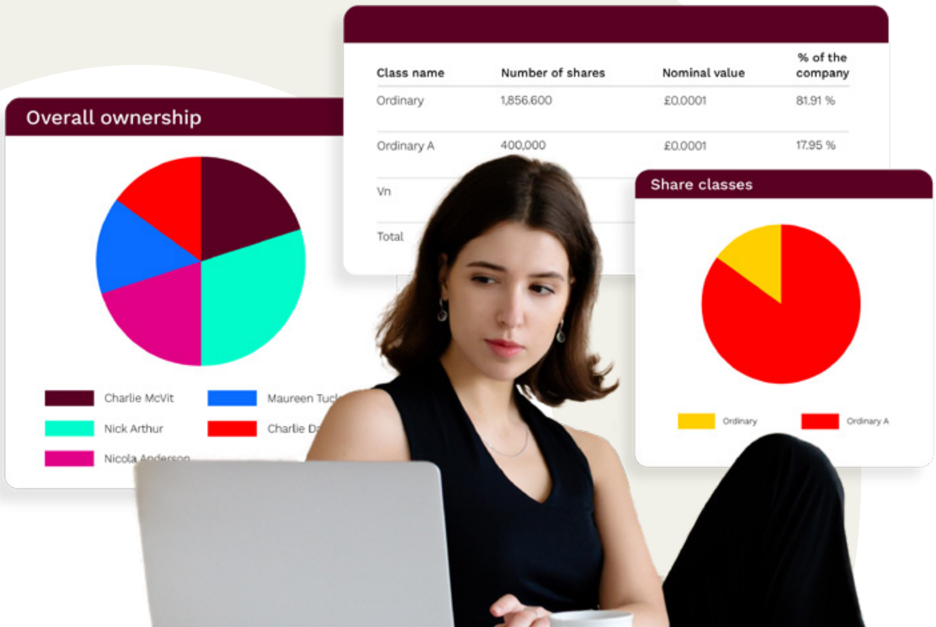
When kept clean and tidy, a cap table provides a clear view of company ownership.

This clarity is essential ahead of an exit.

If you have any outstanding equity liabilities or promises (like issuing options or shares), make sure that they have been completed properly well ahead of time.

And keep all of the authorisation documentation and final form agreements in one place, preferably online, to maximise ease of due diligence for anyone.

Getting all the above right can be a real headache, but it **really** matters to buyers.



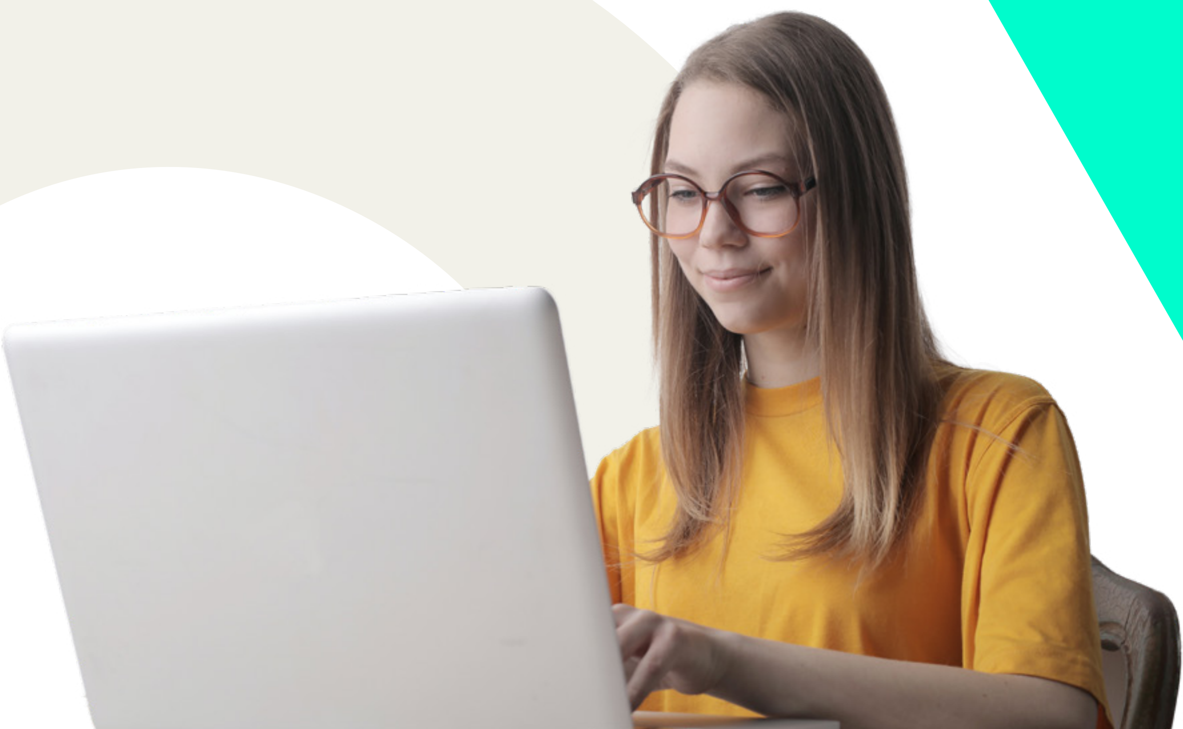
Preparing employees

Preparing employees

Preparing your employees for a company exit is a delicate process that demands transparency, clear communication, and thoughtful planning.

Any sale or merger will likely cause concerns throughout the business as individuals might worry about their job security, or how they will adapt to a new company culture.

You can help to make the process as painless as possible by considering the following...



Open Communication

As soon as it's appropriate, openly communicate the likelihood and potential timeline of an exit. A comms vacuum will often open the door to rumour and panic, so keep people informed.

You might think about appointing a go-to person (usually from the HR or leadership team) to field questions from employees about the exit process, and to keep everybody informed about milestones or delays.

Training and Skill Development

Develop a program that allows employees to acquire new skills that will either be crucial after the exit or enhance their marketability.

You might also think about training team members in different roles to make them more attractive to prospective buyers.

Financial Transparency

Consider implementing a retention bonus to incentivise key employees to stay through the exit process.

And if applicable, make sure your team members understand what will happen to their stocks and shares during the exit process.

Emotional and Psychological Support

You might consider making professional counselling services available to employees to help them to manage their concerns related to the exit.

Additionally, personal meetings can help you to gauge the mood and concerns of individual team members. This also gives you a chance to correct any misunderstandings that might've cropped up.

Legal and Contractual Clarity

Make sure employees understand any NDAs or non-compete agreements that are in place, especially in relation to how they might be impacted by the exit.

This is also a good time to update the employee handbook to include protocols and procedures specifically related to the exit.

Future Opportunities and Career Support

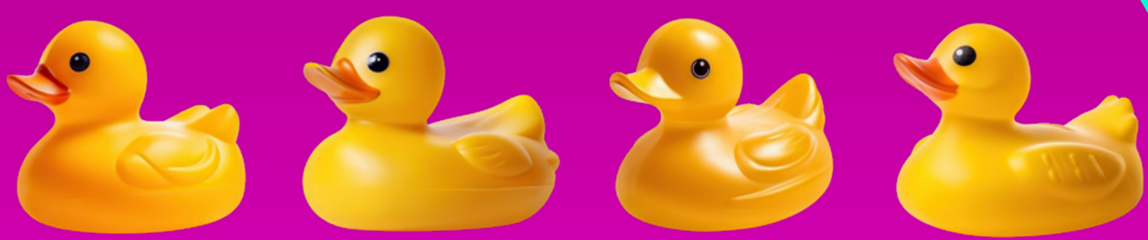
If layoffs are expected, offering outplacement services can help departing employees find new opportunities.

If the company is being closed or downsized, consider hosting an internal career fair with prospective employers in the industry. You might also want to establish an alumni network to maintain relationships with employees post-exit. This benefits both parties in terms of future opportunities and industry connections.

Bring on the checklists

Due diligence is a necessary evil of the exit process.

But here's some handy checklists to help you get your ducks in a row.



Financial Documents

- ☐ **Profit and loss statements:** these provide an overview of revenues, costs, and expenses.
- ☐ **Balance sheets:** these show the company's assets, liabilities, and shareholders' equity.
- ☐ **Cash flow statements:** tracks cash inflow and outflow.
- ☐ **Financial projections:** estimates of future financial performance.
- ☐ **Debt schedule:** this details all debts, loans, and repayment schedules.

Legal Documents

- ☐ **Articles of incorporation:** legal documents that establish the company.
- ☐ **Bylaws:** rules governing the operation of the company.
- ☐ **Shareholders' Agreements:** these specify the rights and obligations of shareholders.
- ☐ **Contracts with suppliers:** these outline your terms with vendors and suppliers.
- ☐ **Customer contracts:** agreements in place with your customer base.
- ☐ **Employment contracts:** contracts with current employees, including executives.
- ☐ **Intellectual property rights:** patents, trademarks, copyrights, etc.
- ☐ **Estate agreements:** leases, property deeds, etc.
- ☐ **Litigation history:** details of any past or ongoing legal issues.

Operational Documents

- [ ] **Business plan:** your company's mission, vision, and strategic plans.
- [ ] **Org chart:** hierarchy and roles within the company.
- [ ] **Founder, leadership and key employees:** backgrounds, endorsements.
- [ ] **Employee Handbook:** policies and procedures for staff.
- [ ] **Inventory list:** details of physical inventory, if applicable.
- [ ] **Software licences:** List of all software and relevant licences. And passwords!
- [ ] **Insurance policies:** coverage for liability, property, etc.
- [ ] **Regulatory compliance:** documents proving compliance with applicable laws.
- [ ] **Health and safety records:** compliance with workplace safety laws.
- [ ] **Data security protocols:** measures in place to protect sensitive data.

Technology and intellectual property

- [ ] **Source code repositories:** access to or copies of source code for software products.
- [ ] **Architecture diagrams:** overview of the technology stack and systems architecture.
- [ ] **Development plans:** roadmap for future tech developments.
- [ ] **IP valuation reports:** third-party assessments of intellectual property value.
- [ ] **User feedback:** what's the general flavour?
- [ ] **Traction, business stage and product-market fit:** where are you?

Marketing and Sales

- ▢ **Marketing strategy:** plans and results of marketing efforts.
- ▢ **Customer lists:** database of customers and key relationships.
- ▢ **Sales records:** historic and current sales data.
- ▢ **Market research:** insights into market trends and customer needs.
- ▢ **Social proof:** reviews, press and award wins.
- ▢ **Audience:** website, social, attention metrics.
- ▢ **Database and pipeline:** what can you provide?
- ▢ **Story/narrative:** what problem are you solving?
- ▢ **Brand/mission:** what are you all about?
- ▢ **Moonshot aim:** where do you see it going?

Miscellaneous

- [ ] **Tax returns:** past tax filings for transparency.
- [ ] **Board meeting minutes:** records of board decisions and plans.
- [ ] **Cap table:** list of company ownership and equity distribution.
- [ ] **References:** letters of recommendation or references from business partners.
- [ ] **Audit reports:** any internal or external financial audits.
- [ ] **Economic indicators: metrics such as Customer Lifetime Value (CLV) and Customer Acquisition Cost (CAC).**
- [ ] **Product or service documentation:** manuals, specs, or other material related to products or services.
- [ ] **Quality certificates:** any certifications relating to product quality or business processes.
- [ ] **Exit strategy:** A document detailing how the business is being positioned for an exit, to provide context to the prospective buyer.

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InVestd in YOUR success

Simple share schemes and easy equity management is our thing.

So if you're looking to get a share scheme in place or you need to sort your cap table out, talk to us.

Vestd is the UK's most powerful equity management platform and makes light work of share schemes.

Our easy-to-use FCA-regulated platform helps businesses manage their shares and options in real time, and with direct integration to Companies House, Vestd creates and maintains your single source of truth.

Book a call here.

And that’s it.

Hopefully, this guide has made life planning for your exit a bit easier.

Don’t be a stranger if we can help with getting your equity sorted.

Good luck, and here’s to your exit success!