

Briefing note

Initial Consideration

If you are selling your business one of the primary areas that you will be focussed on will be your sale price, often referred to as the consideration. You are unlikely to receive 100% of the consideration on day one.

- Payments are typically split between initial and deferred consideration.
- Deferring a portion of the consideration is a useful tool to align interests between buyer and seller, manage risk and ensure an organised handover.
- Initial is most commonly cash, but it could be equity in the purchasers' business (or one of their group entities).
- If equity is offered, understand which entity you are being offered stock in and what rights the stock has attaching to it. You want tangible value from these shares so be wary of offers where you have little or no control over the entity, as this may affect your ability to extract value in the future.
- Purchasers consider the market and rarely offer more initial consideration than that which is deemed 'competitive' in the marketplace.
- To date, it has been rare to receive more than 50% of the consideration at completion. An initial consideration between 20% and 33% has been the norm in consolidators acquisition deals.
- Lower initial payments normally indicate a higher level of uncertainty (contingent on certain outcomes for the buyer), or they indicate the buyers lack of access to capital.

Do

- Make it a meaningful capital event for yourself. Ask for more cash upfront if you don't think you are being offered enough.
- Ask for the consideration payments to be cash in favour of equity if you prefer more certainty.
- Picture the post-deal proposition from the clients' perspective. If it is in their interests, you will minimise disruption for them and contingency for you.

Don't

- Ignore the impact that the sale will have on your clients and staff, as this will affect your ultimate consideration received.
- Blindly accept equity as a substitute for cash, without carefully considering the case for investing in the purchaser's equity. If you weren't doing the deal with this firm, would you still want to acquire this much of their stock at this price, or any at all?

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