



MULBERRY BOW



DEBRETTS
LONDON 1769

Zen and the Art of the Founder-Led Exit





Contents

1.

Founder

1a. Founders be different p7

1b. Funded contentment p12

1c. Regret minimisation p21

2.

Family

2a. Framed photos of your bank manager p26

2b. Impacting your family in the right way p31

2c. The team (like Tony Soprano, you have two families) p42

3.

Fair value

3a. Do not forget the ‘why’ (hint: it was NOT to ‘get rich’) p48

3b. Dressing your business for sale p50

3c. ‘How’ and ‘when’ trumps ‘what’ p56

Closing remarks

Please note that this document does not constitute financial, tax or legal advice. Any rules or tax allowances referred to are subject to change. The effects and benefits of a particular tax treatment will be dependent on your individual circumstances and we recommend that you seek professional advice before taking any action related to any of the subjects covered in this white paper.



A word from the author

In the book *Zen and the Art of Motorcycle Maintenance*, philosopher Robert Pirsig draws parallels between fixing, maintaining and riding a classic motorcycle (one of his great loves) and his philosophy of life (a professional obsession that takes him close to insanity).

At the heart of his philosophy is the idea of *quality* as the fundamental characteristic of all things. He makes the case that most people are presented with a choice between two contrasting visions for how to live their lives. On the one hand is the path of science, with its emphasis on logic, rationality and reverence for man-made objects (such as a cool motorbike!) On the other, a life focusing on creativity, the natural world and the indescribable ‘zen’ feeling of being human. He sees this choice as false and argues that making the most of what life has to offer involves embracing, balancing and assimilating both the rational and the intuitive. Science *and* nature. Machines *and* people.

When a founder builds, and then exits a business, a similar analogy can be drawn. Yes, the mechanics and numbers are important, of course, but founders do not start businesses because of spreadsheets. They do it to change the world. It is about improving something, expressing yourself and how you think things *should be* in a particular context. That is what drives founders. There is something fundamentally ‘human’ about it all. It’s a creative act.

That said, as Michael Gerber points out in *The E-Myth*, while starting a business is normally driven by a ‘calling’ rather than money or a desire to take a systematic approach to something, a founder who underestimates the importance of money or process is unlikely to fully realise his or her vision. Their business will probably fail to scale, it will likely become a ‘lifestyle business’ and if an exit is achieved, it will probably disappoint.

The founder-led exit is about the fulfilment of a vision. The coming together of first principles thinking and the art of relationships. An appreciation of the importance of both money and people (including the founder). It is the crystallisation of a financial reward for the founder and other shareholders; the end of one thing and the start of something different, for both the founder and the

business they created. Naturally, this transition will impact the founder’s family, the people who work in the business and the customers that are the *raison d’être* of any business. In short, how it is done matters!

The purpose of this white paper

This white paper has been written *by* a founder *for* founders. I am a financial planner with 30 years’ experience advising business owners and entrepreneurs; before, during and post-exit. I have had the privilege of being an ‘insider’ during plenty of soul-searching conversations, as founders wrestled with how to exit, in *the right way*. I have also had the opportunity to observe how their choices panned out, well and not so well, when the dust settled.

My aim is to combine technical insights into areas such as tax planning with common sense observations ‘from the coal face’. The latter is mostly an art, the former a bit more scientific. Each entrepreneurial journey is, of course, unique, but there are nevertheless several areas where I believe my insights regarding ‘what good looks like’ (and, therefore, what dumb might look like!) will be helpful to you.

The decisions you make (or ignore/are not aware of) pre-sale, can have a significant impact on your post-sale position, choices and level of contentment. This paper helps you address this by providing a framework for you to identify where you want to get to, and which stops you need to make as you navigate along your preferred course. Awareness of all the key questions you should consider is critical, alongside a focus on three areas: your journey as a founder, the people (your family and team), and your business. Much like having newborn twins (as my wife and I did, less than a year before founding Mulberry Bow), it is not recommended to go into a business sale casually and simply hope for the best!

In short, this paper will help you maximise the reward, in more than just financial terms, for years of ingenuity, hard work and courage. Do you want a balanced, zen, founder-led exit? Good, let’s get to it!

Simon Bullock

*Founder & Executive Chair
of Mulberry Bow and Non-Executive
Director of Debrett’s*

Founders tend to be driven and that can sometimes make them a teeny bit impatient! If you prefer to jump to specific subjects rather than read this paper chronologically, go for it:



I just want to learn about ‘dressing my business for sale’

Go to Page 50



How do I find the right personal advisers, pre-exit?

Go to Page 47



I’d like to think about my team, how an exit might impact them

Go to Page 42



I want to focus on sensibly passing some capital to loved ones

Go to Page 37



My family are the most important thing to me, how do I protect them?

Go to Page 26



How might I work out ‘how much is enough?’

Go to Page 17



I want to understand more about corporate financiers and other advisers to the business

Go to Page 49

“

*Life shrinks or expands
according to one's courage.*

Anaïs Nin, writer



1.

Founder

1a. Founders be different

Most founders say that getting a business to a point where they might even think about some form of exit is the most challenging thing they have ever done. With this in mind, it seems crazy that so many allow an event that represents the culmination of all that effort, and is potentially life-changing, to happen to them rather than making sure it is mindfully *founder-led*.

It might be a once in a lifetime exit or one of several that mark out a 'serial entrepreneur' (is there any other kind? Surely, the rest of us are simply business owners!) Either way, most founders can explain the business goals for which their firm is relentlessly striving better than they can articulate what they want the resulting financial windfall to 'do' for them and their family. Fixing that starts with you.

Know thyself

A good start is exploring your personal 'wealth philosophy' i.e. what money means to you. This is the first step to shaping your exit and post-exit reality. To borrow from fellow financial planner Brian Portnoy, the aim is *funded contentment*. Note that we are not talking about 'retirement'. In my experience that is an outmoded concept and one that very few business owners care for or think much about.

If it's not about retirement, what is it about? Financial security? Freedom? I think it is about control over what kind of work you do and when, how and *with whom* you do it. It's about **TIME**. Enough money spitting out sufficient passive income, such that you have complete control over how you spend your time, is the one true luxury, much more important than accumulating more 'stuff'.

Second, think about how you might feel when you are in that rooftop bar, posh restaurant or in that beach club, sipping a glass of something cold and over-priced with colleagues, loved ones or friends, toasting the deal and looking to the future. What has the potential to keep you awake at night, before, during or after that happens? How might your personal journey relate to that of your family and friends? How might your team and customers feel about it all? These are all questions to reflect on as part of the pre-exit planning process.

We will explore all of these areas in this section, but first, let us look at what makes founders different, so that you can make good exit-related decisions on foundations of self-awareness and self-reflection.

Characteristics common to founders

Coaches speak of successful professional athletes possessing two key traits, sustainable drive and exceptional self-awareness. Every strength and weakness, every bias or tendency, be it physical or psychological, is assessed and informs their training and decision-making. Having worked with financially successful people for 30 years, I would say that the sustainable drive is almost always present, whether they are 'C-suite executives', high-flying city professionals or business owners, but the self-awareness sometimes struggles to keep up with that drive (not least because they are simply too busy for self-reflection).

Negotiating a successful business exit and deploying the proceeds to achieve financial freedom does not require Olympic levels of awareness of your particular personality traits, but spending some time reflecting on them will be helpful, if you want to make intelligent, informed and rational decisions.

Clearly, no two founders are the same, but research suggests that certain characteristics are more common amongst entrepreneurs and business owners than people in general. Taking a few moments to explore these with a friend, loved one or trusted adviser might be worthwhile, as you may just find some of them resonate when you reflect on your own personality.

Standing out from the crowd

If you have spent a good chunk of your life in personal discovery therapy, or wake up at dawn to complete your daily meditation session, you may be able to skip this part. Alternatively, if your self-awareness is not quite on a par with a Buddhist monk, it is worth spending a little time exploring some of the characteristics that separate entrepreneurs and owner-managers from comparable ‘senior managers’. It will help you be more mindful of the psychological traits that you might have in common with your fellow entrepreneurs, so that you are better equipped to guard against some of the common traps you might fall into pre/post exit.

Some of the more interesting academic research into entrepreneurs focusses on personality and its relationship with the likelihood of both starting your own business and succeeding in that enterprise. The ‘big five’ of personality traits (neuroticism, openness, agreeableness, conscientiousness, extraversion) are often the focus, they are regarded by many psychologists as being particularly telling in determining decision-making and behaviour. Before we get into it, how would you score yourself, on a scale of 1 to 10?

Neuroticism
/10

Conscientiousness
/10

Extraversion
/10

Openness
/10

Agreeableness
/10

While not all studies agree on all the fine points, scientific research has found a clear pattern of entrepreneurs exhibiting greater *openness* (to experience) and *conscientiousness*, along with lower *neuroticism* than ‘managers’ i.e. professionals who implement business plans more than shape them^{1, 2}. Not only is *conscientiousness* associated with the likelihood of setting up a business, but also with higher chances of its long-term survival. This often, though not always, equates with the kind of success that leads to an exit³.

Researchers have also hypothesised that business owners are likely to be attracted to constantly changing environments and the novelty of new challenges⁴. They excel in creativity and come up with new business models, services and products, in contrast to managers, who are often selected for their ability to execute and deliver results based on success criteria set by others; creativity is less important or even unwelcome. This is important when you think about a business exit, because the loss of novelty can be a key challenge for an entrepreneur, post-sale.

Other studies focused on achievement motivation and suggested that a higher need for achievement is the most significant difference between business owners and managers, or individuals who pursue more ‘regular’ careers^{5, 6, 7}.

Studies hypothesise that achievement-focused people are more likely to set goals, value high standards and have a stronger sense of ‘ownership’.

A word or two about a couple of other traits commonly associated with business owners that you might exhibit, before we move on. Higher *extraversion* is commonly noted in the media or by members of the public, but the academic evidence is conflicting. The public’s perception may be somewhat influenced by associating entrepreneurship with particularly high-profile individuals who are good at ‘putting on a show’ (Sir Richard Branson for example). Business owners self-reporting in studies is also a challenge here. Confusing extraversion for other traits such as confidence or showmanship is common. While anyone reading Walter Isaacson’s biography of Elon Musk is left with a distinct impression of an introvert, by the psychological definition, it does not mean he lacks self-belief and he certainly has a tendency towards creating drama in his work and personal life!

My personal experience of entrepreneurs, based on my 30-year career working with them, and reading about others that I have not met, is that true entrepreneurs thrive on innovation (Musk, Dyson, Bezos, Zuckerberg) and have a tendency to be *introverts*, while successful *business owners* are more likely to be extroverts.

1 Meta-analysis conducted by Zhao and Seibert (2006)
2 Kang, Guzman and Malvaso (2023).
3 Ciavarella et al. (2004)
4 Kerr et al., (2018).
5 Zhao and Seibert (2006)
6 Stewart and Roth (2007)
7 Collins et al. (2004)



It is also worth noting that where a business has two primary founders, I have often found that they possess complementary skill sets and traits, with one co-founder acting as the salesperson or ‘front man’ (regardless of their sex) with the other co-founder, often an engineer or accountant by training, background and mindset, leading the operational side of the enterprise.

Finally, it is important to mention *neural divergence* before we move on. Research found that UK entrepreneurs are five times more likely to be dyslexic than the national average (20% vs 4%)⁸. One proposed explanation is that, similarly to being an immigrant, dyslexia can make someone an ‘outsider’. As such, it can help the founder step outside of conventional thinking and see things clearly, encouraging creative solutions to real life problems customers face. It can also mean that more traditional professional careers are less open to you, forcing you to find your own road less travelled.

A common example of this neural divergence is ADHD (attention deficit hyperactive disorder) and this has also been specifically linked to entrepreneurship. Researchers have hypothesised that a difficulty operating within a more structured, formal working environment, with lower autonomy, may be the reason why those with ADHD are three times more likely to start their own firm⁹.

Rally drivers and co-drivers

Let us move on from the world of academia and briefly speak of the change of ‘role’ that comes with an exit. When moving from running a business to investing in

financial assets, business owners sometimes resemble rally drivers who are comfortable doing 100mph+ down a country lane when behind the wheel, but then experience risk very differently when throwing the keys to someone else and climbing into the ‘co-driver’ seat. You can shout out instructions, but you are no longer in control.

Having achieved stellar results with a business, where considerable risk is offset by at least a *feeling* of being in control (most of the time at least!), founder expectations of engagement with, and returns from, diversified and liquid investments can be wildly unrealistic. The feeling of not being in the driver’s seat might also be difficult to assimilate. Of course, risk and control are both ethereal concepts in many ways, but they have a real world impact and are essentially about experience and perception. To summarise, taking advice on how to invest the proceeds can leave a business owner turned private investor feeling somewhat alienated; a sense that it no longer feels like ‘your’ money in the same way as it was ‘your’ business.

Some find that the flexibility, liquidity and relative predictability of a diversified portfolio of investments does not adequately compensate, initially at least, for these downsides. Many clients I have worked with needed a period of adjustment, reflection and non-patronising education. Even if only a portion of the cash is to be invested, your advisory team are key to helping you find your own zen balance, an approach that works for you.

8 American Management Association (January 2019)
9 Research by LinkedIn (2026)

CASE STUDY #1

Biting off more than you can chew

Tech-come-social media entrepreneur Jamie (not his real name) sold his business for a seven-figure sum and by the time Mulberry Bow was introduced to him in 2021, he had already invested all of the net proceeds (£10M) in a stock market portfolio with a private bank.

Background

It was clear from the get-go that Jamie was a big-time risk taker and a natural entrepreneur (you know the type, started out buying out the ‘tuck shop’ and selling the sweets individually in the playground at a profit!) He was also in his early 30s and with time on his side felt that even an allocation of 100% to equities was not sufficient. The target returns the private banker was (sensibly) preparing him to expect did not float his boat, so he borrowed as much as he could against the portfolio (around £6M) and used the proceeds to increase his allocation to equities to 160%. To her credit, the private banker pressed him as to whether he was sure he wanted to do this, but he was adamant and she acceded.

The problem

Two things then happened. First, it was clear that by engaging a private bank and investing *before* sitting down with an independent financial planner, the ‘big picture’ conversations had been short-changed; there was no overall plan. As a result, he had invested too much, setting insufficient capital to one side for both personal expenditure needs and the next entrepreneurial project (there was always likely to be one, and so it proved that a year later, when he set up a new firm.)

Second, Russia invaded Ukraine. Inflation spiked and interest rates followed, which impacted both his borrowing costs and the stock market valuations (particularly growth-orientated ‘tech firms’). The interaction of those two factors led to a ‘meltdown’ in both his investment strategy and his emotional relationship with the whole exercise. This was exacerbated by the fact that he had no experience as a private investor and, in short, he panicked.

He sold down the entire portfolio, at a loss of several million pounds and spent his days telling anyone who would listen what a terrible job the private bank had done, how it was all their fault and so on. In reality, if he’d invested the appropriate amount of time before deciding how to proceed, the amount of money he invested might have also been appropriate, and the level of risk sensible. He might also have understood enough to realise that borrowing against the portfolio, at least to that level, was not smart. He would surely now be sitting on a healthy capital gain (markets have recovered strongly since that tough 2022) and feeling very differently about life. Without a financial plan, however, he was making decisions in a vacuum, the proper context was completely absent.

Solution

Naturally, guessing at the ‘counter-factual’ is always tricky, but I am confident that if Jamie had started with a ‘big picture’ discussion with a financial planning firm like Mulberry Bow, he would have had a very different experience and outcome.

Jamie never considered setting aside 20% of the proceeds for future projects, or whether borrowing a more sensible amount (or nil) might make more sense. He also failed to consider or take advantage of several tax-efficient opportunities both sides of the exit. Spending time to properly understand expectations and risk, and formulate a long-term financial plan, is critical to making decisions more aligned with what is important to you.

Blurred lines

The line between one’s personal and business lives does not really exist for founders. First, business ideas are often born of the personality of those who found the firm and their ideas about the world. Second, most founders view their financial world as a melange of business and personal assets. Third, the ‘intangibles’, in the early years of the business at least, go across personal and business:

Brand – the founder’s personal brand and that of the firm are intertwined, particularly in the early years.

Goodwill – the value of ‘goodwill’ (an accounting term) is normally the totality of the client relationships and these are often as much with the founder as with the firm (though a sensible founder aims to reduce this over time.) If some clients become friends of the founder, that can further blur the lines.

Network – on day one, the founder’s network *is* the firm’s network, although this reliance dissipates over time, this is another area where there can be considerable overlap for some years. Personal friendships can often intermingle with business relationships.

For some, there is a fourth element, family. Family members being part of the business further blurs the picture.

It is crucial, therefore, that during the 12 to 24-month period before an exit, if not before, you start to think a little about yourself as a founder, as a person distinct from your business, and build your self-awareness as an investor in liquid assets not controlled by you, detangling the two ‘worlds’ wherever possible. In the next part of this section, I will put some ‘meat on the bones’ of what that might look like.

NOTES #1

Founders be different

My personality traits

Potential impact of those traits on judgment calls, during the deal process and post-exit

Other hopes and fears for my post-exit life

How might I avoid experiencing a post-exit ‘low’ that can come from a loss of purpose/structure

1b. Funded contentment

In his book *The Geometry of Wealth*, financial planner Brian Portnoy talks about the difference between being rich and being wealthy. He describes ‘rich’ and its pursuit as being about *wanting more*, about the obsession with ‘a number’ (generally, a number that keep rising, and therefore remains forever elusive). Brian contrasts this with true wealth:

“

It’s about funded contentment; the ability to underwrite a life that is meaningful to you.

Brian Portnoy,
American financial planner

In this section I unpack this idea because it helpfully leads us to many of the themes I recommend you focus upon, as you begin to lay the foundations for a financial plan that will underpin your post-exit choices and, hopefully, financial freedom!

Establishing your wealth philosophy

The cycle of a business (see figure 2 on page 22) in some ways mirrors the human journey of childhood. Start-ups are like kids. They need to be. They are disruptive; anything is possible and success is about taking risk, being creative, learning fast and adapting. As a business grows and matures, managing risk and embracing a bit of discipline becomes important. By the time you are ‘pre-exit’, it is time to be a grown up!

In my experience, this explains why very few business owners have been asked, or asked themselves, the question “*What’s the money for?*” As mentioned above, few start a business because they want to become wealthy, they do it because they want to fulfil a vision and perhaps change the world, in however large or small a way. Later on, as the business matures, most founders are often too busy and focused on not making a mistake to step back and reflect.

That means, in part, an awareness of what is (and is not) important to you, can be lacking. It is important to address this pre-exit. It will help guide you, either side of the sale, and it will help you achieve three things:

1. Enter into negotiations knowing how much you need out of the deal, many a deal has fallen over from founders pushing for more, unaware the extra would have no real impact
2. Focus on the desired post-sale position, so your ‘preferred future’ informs (be it consciously or sub-consciously) decisions made during the busy pre-sale period
3. Prepare, both practically and emotionally, for the broader opportunities and challenges likely to be faced after the deal is done

If you can find the time, pre-exit, to work with a professional adviser to shape a detailed and tailored plan, all the better, but at the very least I would encourage you to sketch out some high-level priorities and thoughts (what I think of as your ‘wealth philosophy’.) This is a useful exercise in its own right, but it also encourages you to look at key opportunities available pre-sale, some of these will be lost once the ink is dry on the deal. Here are a few questions to ask yourself, to begin that process:

- How do I plan to spend my time, post-sale? Am I a ‘serial entrepreneur’ or is this a one-off?
- How is my required lifestyle expenditure going to be funded, how much do I need?
- Is there capital expenditure to allow for, over the next three years? Are there any ‘bucket list’ items I want to do, such a big trip with the family?
- Should 10% or 20% of the proceeds be set aside for re-investment into entrepreneurial projects or private investments?

“
Money is a tool, not a goal. It’s resource, not a reason.

Andrew Doust, wealth adviser





- Do I/we want to pass significant capital to my children or grandchildren? If so, when? How? Do I/we want some of the value of selling the business to go into trust to help family in the future?
- Once I have more time, do I see giving back becoming a bigger part of how I spend my time?
- Am I interested in angel investing, business coaching or non-executive directorships?
- If I knew for certain that I would look back on this exit with regret, in three years' time, what are the two or three things most likely to be the cause of that regret?
- Who do I know who has been through this before and might share 'Things I wish I'd known before I sold'?

The financial 'lifecycle' of a business owner

As noted in figure 1 opposite, business owners tend to go through three stages. In the early stages of a business, many owners are not financially comfortable, their time and money (either in the form of capital or foregone earnings) tend to get 'sucked up' by the business, which in its nascent period is more about potential than actual, realisable value.

Once the business matures, salary, dividends, company contributions into the owner's pension and possibly other forms of 'profit extraction' often increase. The early 'blood, sweat and tears' start to pay off (assuming the business has not failed of course!)

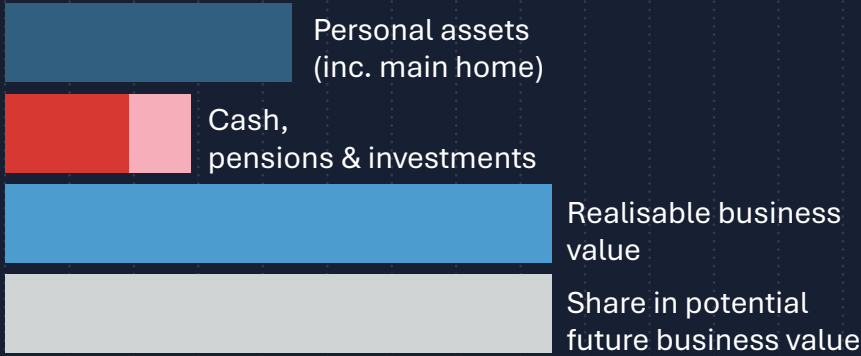
Upon an exit, the flow of 'earned' income stops (or significantly reduces, in the case of most 'earnouts'), but expenditure continues and often increases (more time to spend money doing things you enjoy!) As such, while 'attitude to risk' is normally fairly consistent, the relationship between cashflow and risk capacity is transformed; good advice and careful 'handholding' is required.

Figure 1 – The Shifting Balance

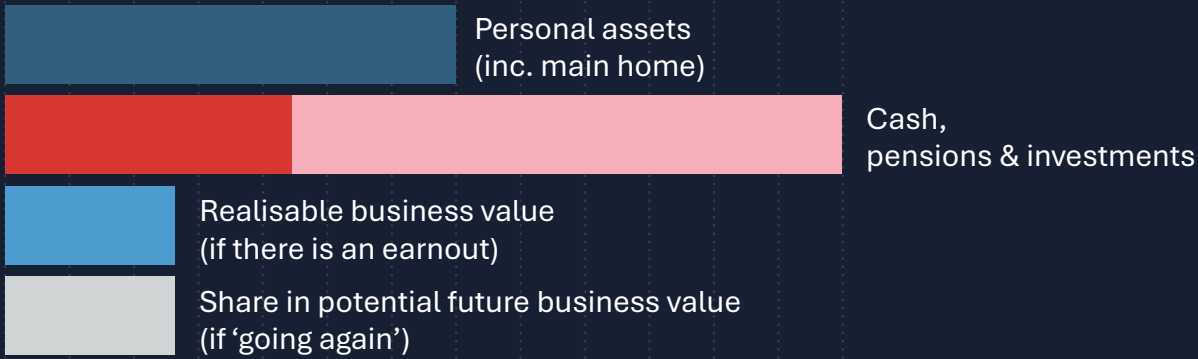
EARLY STAGE/START-UP



MATURE/PRE-EXIT



POST-EXIT



- Cash
- Pensions & investments

NOTES #2

Funded contentment

Which three things do you want to achieve, financially?

- 1.
- 2.
- 3.

Why are those things important?

When would you like to achieve them by?

2. Which financial area has the most potential to keep you awake at night?

3. How important (very/mildly/not at all) is each of the following tax planning areas?

- a) Reclaiming tax on income
- b) Investing tax-efficiently
- c) Mitigating UK inheritance tax (IHT)

4. Do you have a coherent estate plan in place? If so, could you outline it in a sentence or two?

5. What represents a ‘job well done’ by advisers, if you were looking back 10 years from now?

6. What springs to mind when you ask yourself: ‘What’s the money for?’



What’s your number?

Many business owners considering an exit ask us the (multi) million-dollar question: *how much is enough?*

Making decisions about personal assets like the main home or perhaps a second home, figuring out how much might go into riskier private investments and making a start on legacy planning are all difficult areas if you do not know how much you need to support your lifestyle without needing to work forever. Nobody wants to own two homes if it means they cannot afford to go out for a mid-week bite to eat when they fancy it.

The important thing is to secure your ‘lifestyle number’, the amount of capital needed to provide the income you need to support your lifestyle, regardless of what you earn post-sale. Invested tax-efficiently, this money underpins your financial security and freedom.

A good start is to think about how much you spend each month, i.e. all ongoing spending. Then set aside any spending that you expect to outlive, things like school fees or insurance premiums that cover debt, as these can be budgeted by earmarking a lump sum. What you are left with is lifestyle expenditure; things like travel, running your home(s), eating out, clothes, subscriptions, health & wellbeing, private medical insurance and so on.

Once you have a figure, multiply it by 12 to give you your annual lifestyle expenditure and then multiply that number by:

- 33x, if you want to aim for your capital to maintain its real value (i.e. in line with inflation)
- 25x if you simply want to have an extremely good chance that your money will outlive you

In other words, you are assuming that 3% (in the more conservative model) or 4% (in the sensible but less ‘capital preservation’ focused model) is a sustainable

‘draw down’ on a tax-efficient investment portfolio. The latter is often called the ‘Bengen Rate’, after financial planner William Bengen, who published a research report in 1994 on sustaining a passive income for at least 30 years. Of course, nobody can foresee the future, these are just useful guidelines to consider.

As an aside, 90% of the financially successful clients I have worked with spend between £10,000 and £20,000 net of tax per month to cover their lifestyle, depending on whether they have a second home, how expensive their hobbies are, costs relating to children and so on. Therefore, lifestyle numbers tend to be between £4M and £8M, using the conservative 3% drawdown assumption.

As noted above, it is common for founders to do something related to early-stage businesses after an exit. They might start a new thing themselves or support other founders (be it with time, money or both). Few, however, want to recycle all of their hard-earned exit proceeds into another highly concentrated, risky and illiquid asset. For most, achieving a bit of ‘zen’ balance is about earmarking a capital amount they need to underpin their lifestyle (funded contentment) for the rest of their life – on a net of tax and inflation basis – and then allocating the rest to personal projects (e.g. a second home), helping others (like family or good causes) and in many cases, investing in one or more owner-managed enterprises.

In simple terms, as figure 1 shows, as a result of an exit, the value of your shares in the business is (fully or partially) replaced with cash on your personal balance sheet. If you review Notes #2 & #3 (your ‘wealth philosophy’ and your current ‘one page financial plan’), you are well placed to begin thinking about how that cash could be allocated, matching resources to goals, and sense checking the balance between illiquid assets (like property or investments in other unquoted trading businesses) on the one hand, and liquid, managed investments on the other.

Risky business

Risk capacity can vary from one pot to another, of course, and will be driven by the size of the pot, the associated timescale, the relative importance of access/flexibility and what the pot is *for* (i.e. the anticipated cash flow need in the future it relates to, sometimes called ‘liability matching’). This brings us back to the question I pose again and again to clients I work with: “*What’s the money for?*”

As you work with a planner to build out the architecture, you can look forward to spending your post-deal income with a ‘clear conscience’, avoiding that nagging feeling of discomfort that can come from watching a cash pile steadily reduce in value. Equally, having a clear financial plan will reduce the likelihood that in the future, you will look back and think “*If only we’d opened up the taps a bit, when we were young enough to do more.*”

Much like building a house, getting the design right and establishing solid foundations are the two critical things that ensure that utility – what it *does* for you and your family – is at the heart of every decision.

GOALS



LIFESTYLE

- Net income p.m to be financially secure
- Lifestyle number
- Current income



FAMILY

- £££s needed to see children through to adulthood
- £££s needed to get children into property ladder



CAREER

- Timescale to exit
- Earnout period
- Next phase



PROPERTY

- Any plans to move or downside
- Second home?

CURRENT FINANCIAL POSITION

PERSONAL ASSETS	SELF-DIRECTED	TAX-EFFICIENT SAVINGS	LEGACY
Home = £	Business = £	Pensions = £	Wills dated
Preferred cash = £	Buy to lets = £	ISAs = £	LPAs dated
Current cash = £	Other debt = £	Insurance bonds = £	Life cover = £
Mortgage = £	Earnout = £	GIA/Other = £	IHT exposure = £

NOTES #3

Your one-page financial plan

Goals

Lifestyle

Family

Career

Property

Resources

Personal assets

Self-directed

Tax-efficient savings

Legacy

Other thoughts and considerations

CASE STUDY #2

Retirement is an outmoded concept, it is now all about control & flexibility

I want to share with you, at a high-level, my own financial plan as a ‘worked example’ of why the previously held ideas about retirement planning belong in the bin in most instances. I hope it is useful for you and if nothing else, at least it shows I ‘eat my own cooking’!

Background

A financial plan is not about ‘retirement ‘ and it is not about ‘pension planning’, it is about financial freedom. Like most of the clients of Mulberry Bow, I care about working if, when and how I wish. That said, pensions have a key role to play. The state pension was introduced in 1909, but personal pensions only came about in 1988 (following the Financial Services Act of 1986). In less than 50 years, they have gone from not existing to being the cornerstone of most financial plans.

Another change since 1988 is life expectancy. On average, it is up six years, and like most people blessed with some financial success I hope to live to see 90, making planning for the ‘third phase’ of life much more nuanced. Life expectancy for a man retiring in the UK in 1988 was seven years – a retirement period of seven years is a very different proposition than the one I and most clients I have worked with are planning for.

Pensions as a cornerstone of planning

Cue the mission impossible music...can I make pensions interesting, or at least compelling? All I will say is that my pension is at the cornerstone of my financial plan. If my wife and I can get our pensions to c.£2M in today’s terms by the time I turn 60, then (assuming a 3% draw down) that combines with state pensions to provide roughly half of our income requirement.

That can be achieved much easier than building to £2M outside of pension, considering that HMRC matches our contributions virtually 1 for 1 with tax relief, and given that all growth in the pensions is tax-free. I will not go into further detail here, but believe me, whenever we model pension saving against other options for clients, it is not even close, so I would encourage any client to include them in the structuring mix.

Flexibility and control

Having a clear vision of what we need as a family takes away a lot of the guesswork and anxiety and means we have clear goalposts to strive towards. My plan is all about flexibility and control. I plan to be fairly ‘full on’ with work until 60 (when our twins turn 18) and then part-time (call it two to three days per week, with more time on holiday) until 70, before switching gears again and just doing unpaid things like mentoring or coaching, maybe helping a charity, things like that, assuming I am still in good health.

Though I would not rule it out from age 70, I have no plans to completely stop, and if I live to age 90, that means planning for 10 years of ‘top up’ income (60-70) and a further 20 years or ‘drawing down’ (70-90). What might it all cost?

Our current outgoings as a family total around £150,000 p.a. and while some of our expenditure is finite (servicing the gargantuan mortgage and supporting the children will run to around age 62), my 30 years of working with families not dissimilar to us makes me think that the additional time we will have after I turn 62 will lead to higher expenditure on travel, eating out and (hopefully, in time) grandchildren – balancing out the money saved from clearing the mortgage and the children being (largely!) off the payroll. So, my working assumption is £150,000 p.a. is sensible for long-term expenditure, until at least 75. I am really keen we do not spend too little and have regrets.

Until 60, I hope to support that from earned income, but from 60 I want the financial freedom of not needing to work (not for money, at least). That is not about expecting to not earn, it is about not selecting what I do, when I do it and who I do it with based on money.

1c. Regret minimisation

Psychologist Daniel Kahneman has commented that the key to being good with money is minimising future regret. With that in mind, have you done the initial pre-exit groundwork? Have you spent a bit of time on self-reflection, considered your personal biases and tendencies? Have you drawn up an assessment of your current circumstances and discussed with family, trusted advisers or close friends some of your goals post-sale?

You have? Great! Let us try to pull it all together in the final part of this section, before we discuss your family, your team and some of the specific planning threats and opportunities, in Section 2.

This quote is clearly intended to be funny, but it also speaks to something deeper. If you can avoid the ‘bear traps’, your chances of success greatly increase. There is an argument to be made that too much time spent on searching for opportunities and not enough managing threats is at the heart of many a failed business, financial plan and even personal relationship. Let us spend a few moments thinking about things that might lead to regret.

“

All I want to know is where I’m going to die, so I’ll never go there.

Charlie Munger, investor

This isn’t business, it’s personal

The extent to which business owners worry about personal liability tends to vary depending on the business. An owner of residential care homes, for example, might be concerned about the family of a resident suing, should some kind of accident occur, while an owner of petrol stations might worry about environmental issues relating to what lies under the forecourt. There are some businesses, for example, including tech and media, where such risks are not an issue, but which carry different risks, such as cyber-attacks or something impacting your personal reputation.

Legal advice and careful thought around ownership structures are therefore important, if this is something that could ‘derail the train’. There may also be corporate insurance (for example cyber insurance) that can give you a degree of peace of mind around some of those threats. Step into an imaginary time machine, which takes you forward a few years and allows you to see the ruin of your business before an exit completes. What is the most likely cause and what can you do to reduce the likelihood of that dystopian vision becoming reality?

Time and timing

Much of regret minimisation is about getting good advice and getting it early. In figure 3 on page 46, I outline some of the different advisers who may be well placed to help you. The right advice is not just about the opportunities that we miss because we are bundling along in blissful ignorance; missing threats is also all too common.

Another area where timing is important is the period immediately following the exit. Do you want a clean exit or are you okay with having a boss, of sorts, i.e. continuing to work for the business after you sell (or at least sell enough equity to relinquish control.)

An entrepreneur once told me that if he could turn back the clock, he would have accepted at least 30% less money (equivalent to c.£1.5M) for the second business he sold, in exchange for having no earnout period (he was locked in, working for the company post-sale, for at least two years). Remember, you are essentially marrying the buyer, with a pre-agreed divorce option two or three years after the sale. In the meantime, you have to accept that they ‘wear the trousers’ (and when you do split up, they will keep the kids!)

A final word on time. When I ask my older clients to share the one thing they would tell their younger selves if they could, one of the most common threads relates to underestimating the value of time. In one way, you can put a pounds and pence value on it, in terms of paying people to do things that save you

time. On that basis, it is easy to undervalue time; it’s a trap that founders often fall into when allocating their post-sale resources. Similarly, we tend to underestimate the value of simplicity and peace of mind that come with good advice.

Red lines

What are your red lines? The entrepreneur I mentioned above has just started another business. I can guarantee you that, if he sells it a few years from now, not having an earnout period will be a red line for him.

Thought experiments can be very useful if you want to minimise regret; go forward in time, in your mind, and consider what regrets you are most likely to have, three or five years after the exit. What are the things you would more than likely shrug off and what are the things that would really irritate or concern you? Once you have noted down three or four things that are the wrong side of your ‘red line’, consider how they can a) be made less likely to happen and b) be mitigated, in terms of impact if they do.

An alternative method is ‘Yes, if...’ i.e. “*Am I ready to exit this business? Yes, if...*”. There are often several ‘Yes ifs’ and they tend to be different for every founder. What are yours?

My ‘Yes Ifs’:

-

-

-

-

-

Figure 2 – Phases of a Private Business



Each of the four phases of the cycle will generate unique challenges. Since I established Mulberry Bow in 2015, we have developed specific solutions and relationships with other professional advisers, such that we can respond to the needs prevalent at each phase. It is a team effort, we work alongside our client’s other advisers (and/or introduce people who can help) to provide comprehensive support.

During the start-up phase, the focus tends to be on fundraising, insurance to protect the owner’s dependants, networking with related businesses and help with getting a shareholder agreement in place. The growth phase tends to be a continuation of the start-up phase, often the period where need for professional advice is at its lowest ebb (unless it is an acquisitive business). Much of the focus is building out the management team and, perhaps, engagement with one or two consultants or non-executive directors, to expand the leadership resources and professionalise the running of the firm, reflecting its increased size and complexity.

Around 24 months out from an exit, it is sensible for business owners to review the advice team and spend a bit more time (re)shaping their personal financial plan. Some questions that tend to become ‘front of mind’ include:

How much is enough?

How do I put in place a financial safety net, so I can ‘go again’ post-exit?

How am I going to replace the income lost upon sale?

How do I use part of the proceeds to help my children, without taking away their agency?

For many entrepreneurs, the pre-exit phase is the most intense, hectic few months they will ever experience. If you are under-prepared, it can be overwhelming. It is helpful to be mindful of the fact that occasionally founders suffer some form of burnout or breakdown, be it physical, psychological or both. It can also damage relationships with colleagues or marriages, or lead to neglect of long-term friendships. Hopefully, before you reach the pre-exit phase, you will have enough ‘brownie points’ that you are in credit when it comes to the key relationships in your life, you may need to ‘buy’ some goodwill and patience, if you do get temporarily swallowed into the vortex of prep, work and negotiations!

Fortunately, with a clear sense of purpose, preparation *before* you hit the final few months before an exit, and the right support team (good professional advice and personally), it will be challenging, but mostly in a stimulating and positive way. You may later reflect on it as one of the most exhilarating periods of your life.

For many serial entrepreneurs, their identity is not tied to one business so much as tied to their own sense of being an entrepreneur. For them, the post-exit phase tends to be more straightforward. It is often about setting aside some of the proceeds (typically 50% to 75%), and ‘going again’ with the rest.

For business owners, the post-exit phase can be a tricky one to navigate. It involves a significant shift. Many feel a sense of bereavement, a sense that they have lost a business they were proud of, their identity as ‘Founder of ABC Ltd’ and the sense of purpose that comes with the day-to-day (and year-to-year) challenges of leading a group of people.

It is also worth noting that, whether they are entrepreneurs or business owners, founders often find that the ‘personal’ side of their life ‘merges’ with their business interests, at least to some extent. This is not just psychologically speaking, but practically too. Assets are often mixed. Perhaps there is personal ownership of the business premises, the founder’s car may be provided by the firm and so on. Some – or in some cases most – close friendships may be with people who are also business associates of some kind.

Those who are not in the ‘serial entrepreneur’ category may nevertheless have appetite for further involvement in an unquoted business, either in the next phase of the business that they are partly or wholly exiting, and/or a new project. **Still, make no mistake, your life will be different.** The post-exit phase represents a challenging transition. The best professional advisers can help prepare you for this transition, as can mentors, trusted friends or family members who are willing to act as neutral ‘sounding boards’ for you. The key is to address these issues pre-exit, as much as possible, so that you already have a plan for dealing with the post-exit period and avoid any ‘cliff edge’ changes in your life, the impact of which can blindside you.

What follows should help with that. It starts with getting a good personal advisory team around you (see Section 2c), and then beginning to shape a vision of your post-sale future, to help you inform decisions in the present.



THE COUNTDOWN TO AN EXIT

Below is a summary of what to expect and think about, as a founder, during stages leading up to a business exit. This Framework provides an approximate countdown alongside some details considered in the section we will now draw to a close.

4. WHAT IS IMPORTANT TO ME? ≈ 18-24 months out

Contemplating important questions relating to the four key areas (see Notes #3):

- Lifestyle – how do I want to spend my time, post-exit? Any causes that are meaningful to me?
- Family (and friends) – how is an exit going to impact my relationships?
- Career – what would I do if I could do whatever I wanted, regardless of money?
- Property – do I want to move or buy a second home?

3. GET ORGANISED ≈ 12 months

- What planning, pre-exit, do I want to focus on?
- Who is in my advisory team, do I have the right firms/individuals in the right seats?
- Focus on cashflow modelling

2. IN THE THICK OF IT ≈ Six months

- Lean into the work already done, particularly with your advisory team
- Final chance, pre-exit, for tax-efficient cash extraction, review of pension planning, wills and other good housekeeping (if not already done)
- Stay calm. This is going to be an intense period, but it too will pass and you will ‘get your life back’

1. REFLECTION & ADJUSTMENT ≈ Post-exit

- Take some time to reflect, post-exit before making any big decisions
- It normally takes six or even 12 months to adjust
- Depending on what was agreed on earnout, this can be a good time to settle into a new routine before making any significant decisions on the next phase

2. Family

2a. Framed photos of your bank manager

Coming into finance when I graduated in 1997, my first boss told me a story of a notorious insurance salesman he worked with in the late 1980s. Back then, most sales happened in the client's home and this chap used to admire the pictures of family on the mantelpiece before asking why the client did not have framed pictures of their bank manager. Confused, the clients would say something like *"Why do you ask?"* and he would reply along the lines of *"Well, you've got life insurance covering the mortgage, to make sure your bank manager is all sorted if something happens to you, but you're completely under-protected in terms of looking out for all these loved ones you've got nice pictures of"*.

The first section of this white paper focused on the most important element of an exit, you, the founder. Self-awareness is the foundation for all sound decisions, including those relating to family, your team and the business. Having reflected upon your position pre-exit and mapped out your post-exit plans, it then makes sense to spend a bit of time thinking about your loved ones and your team. If there is nobody financially reliant on you, you may wish to skip this section, but I nevertheless recommend you take a few moments to look at the guidance on shareholder protection and pensions, as these areas are relevant to all business owners.

Let me 'put the case' as it were. The family of a 'high-flying' employed individual typically enjoys a decent measure of financial security, right? Even if the person concerned is unable to work for a prolonged period due to illness or injury, or dies prematurely, there is commonly at least 4x salary provided as life cover and if they are unable to work due to illness or injury, they often receive 'income protection' for at least 12 months. Many such individuals may be somewhat under-insured, especially if they have significant debt such as a large mortgage, but at least there is a significant financial 'underpin'.

The financial future of the families of entrepreneurs, in contrast, tends to largely rely on the value of the equity in the business. In the start-up and growth phases, this value is normally low or even zero. While this often means there is inadequate provision in place, the iceberg is at least in plain sight! The founder is also likely to have more appetite to 'go again' if they fail quickly.

The pre-exit period presents a subtly different challenge, for three reasons. First, getting a business to that stage takes an awful lot out of you, your desire (and possibly capacity) to 'go again' is likely to be somewhat diminished, unless you are an 'entrepreneur' rather than a business owner. Second, the 'pre-sale' period can easily stretch out to a much longer timeframe than you might initially anticipate, especially if you are not in a 'sell at all costs' situation. Finally, there is often a clear sense during that period of there being significant value in the equity you hold in the business, and with that sense, a feeling of being able to 'self-insure'. That feeling is dangerous.

Until that money is received in a bank account, it is only *on paper* and the post-tax value can vary dramatically, especially if something happens to you before the ink is dry on the deal (or even during the 'earnout' period, if that represents significant value).

Know thyself

We previously explored some of characteristics founders tend to have in common, but I would like to briefly revisit three characteristics of business owners that are specifically relevant to protecting your family.

1. Optimistic by nature
2. More willing to take risks
3. Susceptible to 'attribution bias' (my successes are down to me, any failures are due to bad luck...)

Optimism and a willingness to take risks can, of course, be positive, especially if the risks are calculated and the optimism is backed up by talent and hard work. One might also argue they are necessary for someone to set up a business in the first place, but talent and hard work need time to deliver financial security, so threats to them in the meantime are worthy of consideration. You might tell yourself "I have a successful business, I am free of that period where my family is financially vulnerable" but in reality, there is still risk there.

Turning to attribution bias, this is arguably a natural side-effect of the control founders enjoy over the path they take, compared to those who are employed. Entrepreneurs in particular, tend to be mercurial and can fall foul of an illusion of control over elements (in both business and life in general) that in fact involve a lot of chance.

Clearly, the main threats to any business tend to be competitive, legal or security related (e.g. cyber) and many are specific to the country or countries and sector in which that firm operates. They vary from one business to another, and as an adviser, I start from an assumption that founder knows more about them than I do. With this in mind, below I focus instead on threats to your family's financial security that are *not* related to the commercial success of the business and in particular, those that can come to the fore when you are within 24 months of an exit.

“ In order to succeed you must first survive.”

Warren Buffet, investor





Let us be honest, insurance often feels like pouring money down the drain. Recalling clients I have worked with who have had unfortunate circumstances ameliorated by insurance payouts, however, puts me in mind of professional poker; smart clients understand that we all lose a hand once in a while. For those with a winning system, success is about being able to stay at the table long enough to win. It is worth keeping in mind, as you read on, that the same is true in investing the proceeds!

A Smith & Wesson beats four aces

Staying with the poker analogy, if a great business is four aces, all but guaranteeing you win a pot of money, an unforeseen illness or premature death is like your Wild West opponent pulling out the Smith & Wesson. It does not matter how much your business might have been worth, if it is heavily reliant on you and you are either dead or not able to work, there is a very real risk it trends to zero. Quickly.

Some years ago, I met a relatively young founder with a highly successful music management business, a nice house and a Porsche in the driveway. He was 'living the life' for sure, but had not taken the time to get the right provisions in place, in terms of both personal insurance and making the business less reliant on him.

When he was subsequently diagnosed with 'chronic fatigue syndrome' and barely left his house for 24 months, things got away from him fairly quickly. The business started to lose significant value almost immediately, such was the personal nature of the service he was providing to clients, and how reliant the business was on him. He was soon facing a very different financial position to the one he had previously built for himself and his family, the Porsche was the first thing to be sold to make ends meet.

Interestingly, partners of professional services firms tend to be much more aware of the importance of protecting their family against something stopping them from earning. The reason is that they often know a fellow fee-earner, either from within their firm or at another, that has been affected by such an event at a relatively young age. They often share an anecdote that might be readily summed up as some variation of '*Heart attack. Sat at his desk. And he was only 40!*' Being a founder, however, tends to be a more solitary endeavour, with little or no interaction with peers. As a result, protection tends to be a major blind spot for many founders. Most of the threats insurance protects against are not really on their radar. This combines with natural risk-taking, optimism and attribution bias, such that it is the most *under-insured* client segment I encounter in my role as a financial planner.

With this in mind, let us consider two main risks. First, key members of staff. Communicating effectively with them, perhaps combined with share incentive schemes and non-compete clauses, may mitigate the risk of losing them to a competitor either side of a deal. Such measures will not help, however, if they are lost to illness, injury or death - this is where key person cover might fit into your planning. This is a 'catch all' term; it means insurance taken out by a business on a key employee (see Jargon Debunked #1 for more information).

Second, as touched on above, consider the reliance your family has on your equity in the business. The families of founders are perhaps more vulnerable than most to unforeseen events as a result of this. Below, we briefly touch upon some of the provisions that can be vital to your family's financial wellbeing, should something unforeseen happen to you. If you would like to look into this area further, I recommend you get independent, expert advice. What follows is simply a summary for information purposes only.

Oversharing vs. under-sharing

At the fundamental level, being a business owner is rarely a team sport; being an entrepreneur even less so. Talking to your team, even senior members of it, can be tricky, how open should you be? Engaging with family about the vision, and what it might mean for them, is therefore a critical area for two reasons. First, it can help you get a more clear-eyed perspective on the business and what a founder-led exit might look like. Second, it can help them 'go on the journey' with you, and feel included in not only the building of the business, but also the post-exit rewards.

Despite its importance, engaging the family is often neglected in the lead up to a sale. How much to tell family is of course a personal choice, most founders who have been through it suggest involving them to some extent, though some also note that sharing 'every up and down' may not be the best approach either. Living through a rollercoaster ride of risks, challenges and, at times, contradictions, is difficult without a holistic understanding of the business' situation.

Overall, I recommend people share with their family what they are trying to achieve with the business, at a high level; not just the main financials, but also the product or service, and where they would like the team to get to. Alongside that, discussing with them some of the mistakes you have made and some of your concerns is also surprisingly helpful, for you and for them. Finally, outlining your main hopes and any fears for the post-exit future, means they feel included, can often lead to useful insights (who knows you better than your family?) and can encourage you to be more 'deliberate' in the choices you make.

If family members are involved in the business, such discussions will of course happen naturally. Nevertheless, it's worth paying attention to their double role, as family member and staff member. After all, if your family members are actively working for the business, the sale may have a significant impact on their own professional lives and financial position, issues that should not be overlooked as you start considering how best to engage with staff pre-sale.

“Aligning everything is key, and that includes your family.”

Ashley MacKenzie,
founder of Base79

Jargon Debunked #1 Insurance - what are we talking about?

Some insurance requires medical and financial underwriting, and the figures below are simply a broad indication of cost based on an ‘office based’ non-smoker, age 45, who goes through underwriting ‘clean’. They offer a general idea of what some of these policies can cost on an annual basis and what they typically cover:

Income protection

Income protection insurance pays an income on the insured being prevented by illness or injury to do their job (policies covering ‘any job’ are not a good idea). If the company pays the premiums, they can normally be offset against corporation tax, but any payout will be taxable on the recipient. Personal policies tend to offer no tax relief on premiums, but payouts are then tax-free.

- Income protection of £8,333 per month, tax-free, after a ‘deferment’ period of six months and payable until you return to work or turn 65 might cost c.£1,320 p.a. (£110/month) on an ‘own occupation’ basis

Level Term Assurance (LTA)

Straightforward life cover that pays out if the insured person dies during the pre-agreed time period. The delivery mechanism is normally an ‘off-the-shelf’ trust provided by the insurance company, but you can nominate your own trust. The key is to avoid the payout getting caught in probate and IHT calculations. Personal policies offer no tax relief on premiums, but payouts are generally tax-free.

- Single life LTA of £1M lump sum, tax-free, for a 10-year term, might cost c.£761 p.a. (£63/month)

Relevant Life

This is essentially level term assurance, and costs are comparable, but the company pays the premiums even though the beneficiary is personal (e.g. your spouse or family). Companies can normally claim corporation tax relief on premiums, but in an exception to the usual rule on such things, payouts are normally still tax-free. Relevant Life policies cannot extend beyond age 75.

Critical Illness Cover (CIC)

CIC policies cover specified illnesses and conditions (typically things like cancer, loss of a limb, heart attack and so on). It is therefore even more important than usual to read the terms and exclusions for these policies.

- CIC of £1M standalone lump sum, tax-free, for a 10-year term, with total permanent disability cover based on own occupation, might cost c.£5,016 p.a. (£418/month)

Guaranteed Whole of Life

As the name suggests, there is no term limit. That means you get guaranteed cover rate for life, but the downside is you also have to maintain the premiums for life or the beneficiaries get nothing. These policies are almost always used as part of an estate plan, rather than ‘protection’ of family.

- Guaranteed Whole of Life cover of £1M tax-free might cost £9,693 p.a. (£808/month)

Key Person

Key person cover is normally renewable term assurance, taken out on any employees who are key to the success of the business, whether they are the founders or not. Typically, the mechanism is a ‘renewable term’ policy for five years, with the option to then renew without medical underwriting, but there are a few different options.

- For an indication of costs, see the rates for LTA above

Shareholder Protection

The purpose of shareholder protection is to provide liquidity to help the remaining shareholder(s) buy out the shares of a deceased shareholder. Imagine two founders, each with 50% of the business. If one dies prematurely, the other one is unlikely to want his/her co-founder’s spouse sat at the boardroom table, making decisions about the business on an equal footing. Similarly, that spouse is rarely keen to take up the mantle. Much better, in most instances, that there is an injection of capital to facilitate the surviving founder to buy out that 50% of the firm and continue on, while the spouse gets the cash to help them rebuild their financial life.

- For an indication of costs, see the rates for LTA above

2b. Impacting your family in the right way

There is an old saying that the best and worst businesses are family businesses. Whether that is true or not, involving family in business certainly brings some unique challenges. Even if the opposite is the case, however, and your loved ones have no interest in the business whatsoever (except for how much of your time and energy it takes up perhaps), when and how you exit will nevertheless impact them. Involved or not, almost all families of founders have one thing in common; their financial wellbeing is reliant on the success of the business, the continued health of the founder and how intelligently that founder deploys the proceeds of an exit.

Before we focus on your team and how to best ‘dress your business for sale’, let us move to a more positive aspect of that; thinking about how you might deploy the proceeds to best benefit you and your family.

Tax-efficient structuring

You may decide to wait until after the deal is done to do any of this work. You may want to focus on agreeing an exit, or a partial exit, and getting the best possible price and terms. You can, of course, do that; you can consider how you might populate the four areas described on page 18 *after* the deal is done.

That is completely reasonable and, to be frank, it is how most people do it. But, it is not *optimal*. If you can make a start before the deal, you will be in a much better position to make good decisions. It might be during the 12-24 month period leading up to an exit (when drawings from the business can sometimes be relatively high) or ideally, even earlier than that. When asked ‘*When should I begin thinking about it?*’ my answer is normally ‘*Yesterday.*’

“ An investor once told me the main thing is to keep the main thing the main thing!

Michael Acton-Smith, Founder of Mind Candy

This sentiment, which is also in Stephen Covey’s best-selling book ‘Seven Habits’, holds true not only in business, but also with regards to your personal financial affairs post-sale. Securing your lifestyle number (see 1b) is *the main thing*. If you have done the work on your ‘big picture’ goal setting and established the amount of capital you need to draw a sustainable income covering your lifestyle needs, you may wish to complete the final step: thinking about how you might sensibly structure that capital sum. Doing so gives you financial freedom.

To provide some context, there are three ‘non-controversial’ UK planning areas worth at least being aware of, as they might play a part in providing a financial underpinning in the pre-sale period, and securing the income that will tax efficiently fuel your lifestyle, post-sale.

Annual tax allowances

Few countries have as many non-controversial tax-efficient allowances and ‘wrappers’ available to private investors as the UK, for the 2026/27 tax year they include:

- ISA & CGT**
£20,000 and £3,000 per adult per annum respectively, £9,000 and £3,000 per child (from birth)
- Pensions**
£60,000 Annual Allowance¹⁰, with potential ‘carry forward’ of unused allowance from up to three previous tax years
- Enterprise Investment Schemes & Venture Capital Trusts (EIS & VCT funds are high risk)**
£1M p.a. & £200,000 respectively, with a one tax year ‘look back’ for EIS (though you can only claim the 30% income tax reduction to the extent that you have income tax paid/payable)

Many business owners can also consider using the allowances that their loved ones are eligible for, though control of the capital may be lost. Owning your own business means that alongside a ‘SIPP’ (Self-Invested Personal Pension – misnamed if you have an adviser looking after your investment approach), you can also consider establishing a ‘SSAS’ (Small Self-Administered Scheme), which offers superior flexibility to a SIPP, but requires a ‘sponsoring company’. See ‘FICs’ below and Case Study #3 for more on SSASs.

Is cash really king?

Pre-sale, some entrepreneurs take quite a conservative approach to cash, which they often think of as a ‘lifeboat’, given the risk associated with running your business. In many cases, having some cash is a relief after living month to month in the early stages of the business. Post-sale, this often becomes a problem, with too much cash held for too long (see Figure 1).

As noted above, setting aside some cash for new projects and/or investing in private companies may make sense, but unless you are going to put all the chips back on the table and roll the dice again, it tends to be best to resist the temptation to sit with large amounts in cash for a prolonged period. That said, rushing decisions about reinvestment of the proceeds is not a good idea either. I always encourage someone to take some time post-exit, perhaps six months of discussion and reflection (during which they can focus on ‘quick wins’ and easier decisions), especially if they did not get the chance to do much thinking or planning pre-exit.

Finally, and I appreciate this is not for everyone, it is worth keeping in mind that you can borrow against not only property assets, but investment portfolios also, if you need access to short-term cashflow. If the borrowing is for investment into a private business, you may also be eligible for tax relief on the interest.

10 If your total income/remuneration is over £260,000 p.a. the ‘tapered’ annual allowance may apply. There is also a lower cap for tax relief on personal contributions if your ‘net relevant earnings’ are below £60,000 p.a.

My business is my pension

You may have held to the ‘*my business is my pension*’ view throughout your entrepreneurial journey and have little or no money in pensions. Alternatively, you may have used your pension as part of your business planning, owning the premises within it, extending loans to the business, or simply using it for tax-efficient cash extraction.

Most people have a pension, and it is common for clients I meet to have several, be it a ‘DB’ or a ‘DC’, a ‘SIPP’ or a ‘SSAS’, a ‘PPP’ or ‘GPP’ - pensions come in all shapes and acronyms! They may have also produced enough paperwork over the years to require an extension on your home. Pre-exit is an opportune time to review those arrangements and consider consolidation.

Just a few of the questions worth asking yourself and/or your advisory team:

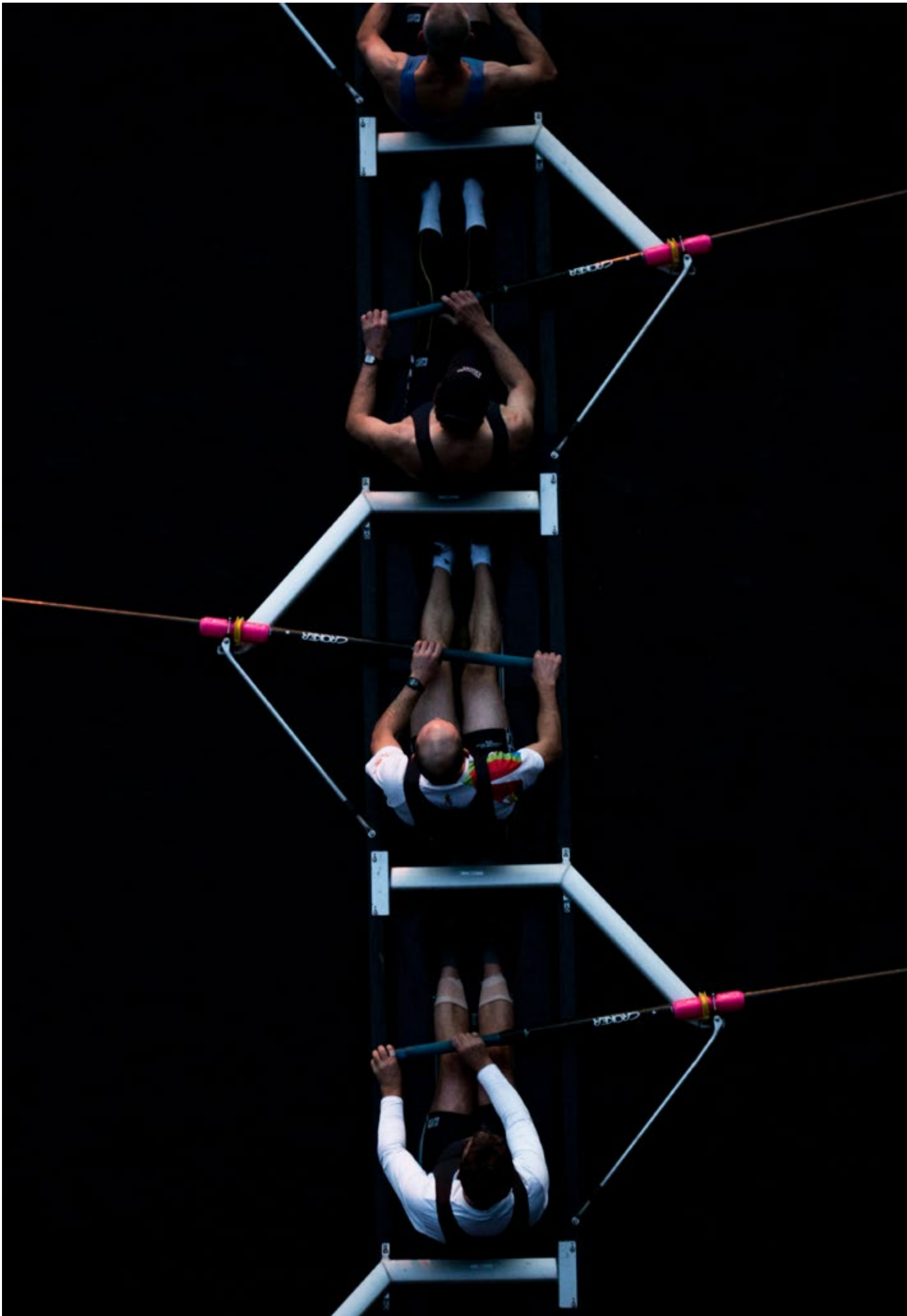
- Have I completed an Expression of Wish for my pension? Is it current?
- Should a large employer contribution be made to the pension, pre-sale?
- Are there any assets that should go *into*, or be transferred *out of* the pension? In other words ‘right asset, right wrapper’ (an *in specie* transfer may be possible, if you prefer not to sell the asset)
- What are the implications of the business sale for firm’s pension arrangements?

Deals fall over for the strangest of reasons

I once saw a sale almost fall over because the US based acquirer was spooked by the directors being members of a SSAS pension; they viewed it as an occupational pension scheme’ and thought it carried some open-ended liability. It is, technically, an occupational pension scheme, but does not necessarily offer the defined benefits of a ‘final salary’ scheme that might concern a buyer and I was able to reassure the buyer such that the deal still happened. Similarly, another deal wobbled because the foreign buyer thought the ‘bike to work’ scheme was an occupation pension scheme!

Before we move on, a few words on the argument for extracting some value from the business, if possible, *before* a sale draws close.

Naturally, it depends on the circumstances, and you do not want to put the sale at risk or unduly diminish the value, but there is often value other than equity in the business that can provide some measure of financial security for you and your family. There may be cash not needed for working capital or you may own assets personally that have value to the business. An element of sustainable debt within the business may also be worth considering. All this is particularly important given that, as noted above, the pre-exit timescale is often a moveable goalpost, and it is not unusual for founders to decide to step back from the process and spend a further three to five years building the business before revisiting the possibility of selling.



CASE STUDY #3

My business and my pension. Is it worth aligning them for c.£1.24M in tax savings?

As touched on above, many founders say ‘my business is my pension’. However understandable this approach might be, it is an opportunity missed, because business owners are uniquely placed to take advantage of the most tax-efficient vehicle available to UK resident individuals (outside of EIS/VCT, which - as discussed above - come with significant risks and investment restrictions).

The problem

Graham and Susan owned their own business and were a few years away from an exit. Graham wanted to take dividends to avoid a cash build up in the company, which after a tough first few years was becoming quite profitable, but the £110,000 p.a. rental income from the commercial premises (which he owned personally) carried him into higher rate tax. Even splitting the ownership of the property between him and Susan would not be sufficient to get their income below the threshold.

The solution, part one

Susan often helped out with the business but did not have a formal role. Their adult children were at University, but also pitched in during the holidays, particularly the summer. We started by working with Graham’s accountant to make Susan a Director. It made sense from an estate planning perspective anyway, if anything happened to Graham, Susan would be in control. It also allowed employer pension contributions for Susan and Graham, offsetable against corporation tax¹.

Using the three-year ‘carry forward’ option to mop up unused pension contributions we helped them move £500,000 of c.£760,000 in cash within the business into pensions over time, in addition to the £120,000 p.a. ongoing contributions across Graham and Susan. Over the five years it took for an exit to complete, extracting £1.1M helped prevent cash build up in the company that might have impacted its trading status (HMRC guidance suggests cash in a business beyond what is needed as ‘working capital’ can compromise its status as a trading business¹).

It also meant c.£275,000 of corporation tax relief¹, no national insurance or income tax payable and £1.1M growing tax-free in the pension, potentially saving Graham and Susan a further £963,806² in tax on investment returns over the next 25 years. In addition, Graham’s accountant confirmed the company could make pension contributions for the children, in lieu of pay for the work they were doing during time off from their studies.

The solution, part two

When we met Graham, he and the children all had ‘online SIPPs’, while Susan had several pensions from before she gave up work to be a full-time mother (in addition to being a part-time ‘co-founder’!) Nobody in the family was overly confident in their investment approach and monitoring it was a pain.

We brought all of the pensions together into one SSAS pension covering the whole family, making administration and monitoring easier, and encouraging communication around money and how to invest. We also helped Graham facilitate the pension purchasing the commercial property from him, freeing up just over £2M into his personal funds, with lower tax rates than would have applied if he had taken a large dividend (Graham paid c.£200,000 capital gains tax vs. c.£787,000 income tax).

Footnote – In the following years, the rent from the premises built up a cash balance in the SSAS that proved a helpful source of funds when the opportunity arose to make a valuation boosting pre-exit acquisition. The SSAS lent the company the money, for 10% p.a. interest (tax-free to the SSAS but offsetable against corporation tax for the company¹). When the exit happened, the loan was repaid and the family decided to keep the commercial property within the SSAS, as part of a broader investment strategy.

¹Mulberry Bow and Debrett’s do not offer tax advice, we work with a client’s existing advisers or if there are gaps in the team, recommend suitable advisers to fill those seats, if clients feel that would be helpful

²Assumes a 5% p.a. return and an average tax drag of 25% p.a. for monies held outside a pension

2. Tax deferral and control vehicles

In addition to tax-efficient allowances, you may also consider investment vehicles or ‘wrappers’ that offer the opportunity for tax deferral and control. Not an exhaustive list, but in 2026/27 they include:

- **International investments bonds**
International investment bonds (offshore insurance bonds) are vehicles that some investors use to invest in managed funds or ETFs (exchange traded funds, sometimes called ‘trackers’) over the long-term. Because the insurance company is the legal and beneficial owner of the underlying assets, a different structure of taxation applies, with the potential to defer all tax until a ‘chargeable event’ is triggered (e.g. selling the investment bond). Shares in a single company, be it quoted or unquoted, and ‘real assets’ such as properties, cannot be held except under very specific circumstances. Investment bonds are an area where advice from a financial planner and an accountant/tax adviser is recommended.
- **Family investment companies (FICs)**
Sometimes used to ‘wrap’ long-term investment portfolios, FICs can suit entrepreneurs well, given they are normally very familiar with how companies work. It should be noted that although tax can be deferred, it is not avoided and some ongoing tax may be payable (e.g. corporation tax). These vehicles can also play a part in your legacy planning, in that shares can be gifted without relinquishing all control.

Structurally, FICs are simply limited companies used as investment vehicles (rather than as trading entities), and where some or all of the shareholders are family members. Some entrepreneurs use them post-sale, as part of their tax deferral approach and/or for succession planning. Others run them alongside a trading company pre-sale. While you can set up a regular investment company and turn it into a FIC later by adding family members as shareholders, it is important to understand the pros and cons of not including family at outset.

3. Discretionary trusts

If you wish to remove value from your estate, but retain some control over the assets, a discretionary trust is worth considering. The motivation may relate to the age of the beneficiaries, the value of the assets or a concern that value might leave the family if a beneficiary goes through bankruptcy or divorce proceedings. More details on discretionary trusts can be found in the ‘Jargon Debunked’ section below. Please note that I look at estate planning in more detail below.

N.B. No matter what tax-efficient planning you may put in place, the investments within the different ‘tax wrappers’ can nevertheless fall in value and it is rarely, if ever, sensible to invest for tax reasons alone.

CASE STUDY #4

Second time lucky

I worked with an entrepreneur (‘James’) ahead of the sale of his business and the case was memorable for two reasons. First, he had previously begun the process of selling the business, but discussions had not come to fruition. The interesting bit was he had not told his staff he was considering selling, but they had found out anyway. Second, he had not really engaged in any pre-exit planning conversations on that occasion. Second time around, he learned from both mistakes.

The past

As is common on the eve of an exit, we began by understanding James’s story. What emerged from that discussion was something of a bombshell for him. A few years ago, he had restructured the firm, to get some shares into the hands of several key staff members. The impact of that restructuring was that neither he nor his wife retained 5% of the voting shares, so they did not currently qualify for BADR (business asset disposal relief – formerly called entrepreneurs relief). A mistake that could cost them *millions*.

There were also other smaller issues, involving tidying up some minority shareholders who were no longer involved with the business, the pension owning some of the business assets and the business owning some assets that our client wished to retain beyond the deal completing (and which buyers were unlikely to want – as ever, the line between business and personal was blurry!)

The future

Having touched on the past, and likely timescales for the sale, we started to look forward and explored James’s post-sale aspirations, which led us to agree three priorities:

- Keeping aside £1M in cash, to allow him to set up a new business, plus a further £1M for ‘fun & flexibility’
- Building up an Inheritance Tax efficient foundation for his family to draw upon in times of need, either during his and his wife’s lifetime or, more likely, earmarked for their children & grandchildren
- Constructing an investment portfolio, incorporating his and his wife’s existing pensions, and taking advantage of other tax

allowances to underpin the income needed to support their lifestyle for the rest of their life, net of tax, charges and inflation (his ‘Lifestyle Number’ was £4.75M as they spent £12,000 p.m. – see page 17 for a reminder of how you calculate how much capital you need)

The solution

In addressing the BADR problem, it emerged their tax adviser had not been kept in the loop with developments. We do not give tax advice, so we helped the client re-engage him and join it all up.

It also emerged that two adult children worked for the business and no thought had been given to giving them sufficient share ownership to qualify for BADR. When we explored this option, James felt that if this could be done with him retaining an element of control, it was a path he and his wife wished to go down. We explored the options with his tax advisers and found a solution.

Finally, wills were not current, and there were no LPAs (lasting powers of attorney) so as part of helping him build his advisory team, we introduced him to a private client lawyer who could help.

The outcome

- The sale completed and the first £4M of the proceeds received was taxed at 10% (the sale was before 5th April 2025) rather than 24%, saving the family £560,000 in tax
- The planning undertaken was not considered ‘aggressive’ by their tax advisers and the assets ended up in the ‘right’ place; personal assets outside the business and business assets inside
- Succession planning, the vision of the business with the children continuing to be involved beyond the earn-out period, became as much a driving force in the discussions as tax
- Because the founder approached us 12+ months ahead of the exit, we had time to help him bring together his advisory team and take some pre-sale steps that had a big impact post-sale
- He noted after the exit that he was very pleased with the exit and now the deal is done, the children are leading the way. He took some time to feel re-energised and joked that he now feels busier than ever (though it should be noted, he did have a healthy tan!)

The estate planning gap

Some subjects are not particularly enjoyable for any of us to talk or think about and to be frank, our own mortality is one of them. It is also a fairly dry subject, peppered with jargon and legalese that intentionally or not, can make even highly intelligent people feel clueless!

Contentious estates on the rise

Law firm Browne Jacobsen have noted that factors such as longevity, second marriages, rising wealth levels and greater awareness of the ability to challenge wills and trusts have led to a significant increase in disputed estates. They note that in the decade from 2012 to 2022 ‘Inheritance Act’ cases issued in the High Court in London rose by c.140%. The pattern was similar though less dramatic for ‘Will Challenge’ claims, they rose c.50% in the seven years from 2016 to 2023. This excludes cases issued in the various district registries of the High Court ¹¹.

All of these factors have led to a significant gap between the amount of estate planning undertaken by most financially successful people and what is probably sensible. My own experience of working with clients suggests to me that a further reason is most people simply do not know where to start. This all plays out in the data. For example, research suggests it is more common in the UK for people to *not* have a will than to have one, and the number who have a properly written and witnessed will, in line with their current wishes and circumstances, and updated in the last five years, is even lower.

This gap needs to be set in its proper context, that of the ‘great wealth transfer’. Across developed countries, the ‘Silent Generation’ and ‘Baby Boomers’ are reaching later life and passing significant property, investment and pension assets down (both during the latter stage of their life and on death). Estimates vary, but all suggest that inherited wealth passing down one or two generations will result in huge sums changing hands.

It is important to note that large sums of money being passed down is not just about the money itself, or tax considerations, it is also about the impact on the individual. Do you want your children and grandchildren to thrive in the wild? Then do not create a zoo! Putting it another way, some families are unintentionally creating their own welfare system, and like any welfare system, people can become dependent on it.

Equally, you want to avoid going too far towards ‘sink or swim’, as it often creates resentment and it goes against a fundamental human instinct of protecting our loved ones. Again we return to the idea of balance; scientific and process-driven tax-efficiency planning on the one hand, and something of an art, the human side, on the other.

With all this in mind, it is worth turning your attention to your current plans and considering the following questions (particularly if, like many of your peers, there is a shortfall in this part of your financial plan).



NOTES #4
Your estate plan

Big picture

- What impact, good and bad, might your financial success have on your loved ones?

- If you foresee any negatives, what planning have you undertaken and what has stopped you from doing more?

- How much do you wish to help your loved ones financially? When/how would you like to do this?

- Do you anticipate philanthropy playing a part in your plans, either now or in the future? How?

- Most families think of ‘resources’ as being about financial capital, what other kinds of resources and capital do you have that could be used to help your family live well?

- Have you considered the difference between a ‘strong glass’ (the family’s financial structures, advisers and intra-family ‘working’ relationships) and how much liquid (the money) is in it?

Practical

- Does your equity in the business qualify for business relief (BR) that will be lost on sale? Have you explored gifting some or all of your equity to a trust before sale?

- Do you have a will? Is it current (i.e. within the last five years and updated since the last significant change, such as birth of a child or grandchild, marriage, divorce, relocation etc)?

- How about Lasting Power of Attorneys (health & financial)? Would your inability (be it physical, mental or legal) to make decisions lead to significant value erosion for the business?

- Is there a partnership/shareholder agreement in place? If so, what does it say about the control in the event partners/shareholders fall out, die prematurely or suffer an illness?



Business relief

Shares in unquoted trading businesses, owned for at least two years and upon death, generally qualify for an IHT exemption. A cap introduced in April 2026 caps this at £2.5M per person, with a reduced IHT saving of 50% (i.e. a rate of 20% applies instead of 40%) above that level. There is a similar 50% reduction for assets owned by the individual but used by a qualifying business. This is one area the accountant in your advisory team should be able to help with, in terms of investments you may have made, or are considering making, in private businesses. Interestingly, replacement relief can mean that where someone exits a trading business and invests some of the proceeds in either another qualifying business or a managed BR fund, they might enjoy an instant exemption i.e. no two-year delay.

Independent financial planning firms are best placed to advise on whether you might consider managed BR funds as part of your portfolio mix, though I would estimate only around 20% of firms have the expertise to do so properly (a similar percentage offer advice on EIS/VCT funds, a decent indicator of the level of expertise available in that firm). BR funds invest in and create from scratch businesses that qualify for BR, but aim to mitigate some of the risk you might normally associate with investing in a private businesses. As a result, target returns (not guaranteed, of course) tend to be in the 3-5% p.a. range. Examples of types of trade include solar & wind energy and asset backing lending, for example leasing specialist vehicles like rubbish collection trucks to local councils.

One final thing to mention regarding BR before we move on. Pre-exit, there may be an option to put part or all of the equity in the business into a trust over the value of the nil rate band (currently £325,000) that is normally transferrable without any upfront tax charge. This will not be right for every founder, but once the equity turns to cash upon sale and BR is lost, there could be a prohibitive tax charges moving that cash into a discretionary trust (see Jargon Debunked #2), so failing to at least explore this option during the pre-sale period could mean a unique opportunity is lost.

A word or two on complexity

One of the phrases I repeat again and again when working with clients is ‘*Simplicity is its own reward*’. Complexity can be a threat to financial wellbeing either side a business sale. Unless you are happy to pay more tax than you need to and/or unduly limit the diversification of your investment portfolio, some degree of complexity is inevitable, but it is important to think carefully about how much you are comfortable with, and how you might hand off ongoing ‘maintenance’ of your financial plan as much as possible.

Practicality is key, with due consideration given to potential ‘people problems’. What might work when you are in control of both business and personal spheres, may become problematic once the business is sold. These considerations are particularly important where estate planning is concerned, not least because of its long-term nature.

JARGON DEBUNKED #2
Business Asset Disposal Relief (BADR) & Discretionary Trusts

BADR

Entrepreneurs’ Relief was introduced to the UK in the Finance Act 2008 and took effect on 6th April 2008. It was renamed Business Asset Disposal Relief (BADR) from 6th April 2020. Initially, if the qualifying criteria was met, the rate was 10%, but the current tax rates are as follows:

- 14% for disposals on or after 6th April 2025 (versus a normal CGT of up to 24%)
- 18% for disposals on or after 6th April 2026

N.B. Since 11th March 2020, the relief has been subject to a lifetime limit of £1M of gains per person

Discretionary Trusts

There are three areas of planning where even financially sophisticated clients tend to eventually wave the metaphorical white flag in terms of technical complexity: pensions, EISs and trusts.

It is often an opportunity missed, however, if that leads them to not at least consider the role each might play in their long-term plan, because a) firms like Mulberry Bow have the technical expertise to help and b) while they are complex, technically, they need not be so in terms of implementation.

Let us get back to that in a moment. First, I will try to explain the rules, keeping it fairly high-level and focussed on the practical planning opportunities. Discretionary trusts enable assets to be owned outside of anybody’s estate for IHT purposes, but with the trustees controlling them for the benefit (now or in the future) of beneficiaries. They are taxed similarly to additional rate taxpayers (45% on income).

Once every 10 years there is a ‘periodic charge’ test, to see if the assets exceed the nil rate band at that point (a similar ‘exit charge’ can apply when assets are transferred out.) The tax rate is 6%.

Planning opportunity #1

If you are UK resident, you get a ‘nil rate band’ of £325,000 – essentially an amount of value you can pass down that is ‘nil rated’ for IHT. A discretionary trust enables you to use that band multiple times (every seven years) during your lifetime and when you pass away, rather than just once.

The impact can be huge. Imagine a 65 year old couple who settle £650,000 into a discretionary trust at ages 65, 72 & 79 and eventually pass away aged 87. They have not only removed £1.95M (£650,000 x3) from their estate, but all the growth on that £1.95M from the point of each settlement into trust. Assuming 5% p.a. return that would remove £4M from the estate, saving £1.6M of IHT.

Planning opportunity #2

Most business owners I have worked with reach a limit on how much direct gifting they are comfortable making. They often partially fund children/grandchildren’s tax allowances and top that up when children reach an age (typically 25-30) where they are ready to buy a first property, but beyond that, most wish to retain some control.

Discretionary trusts allow you to give without losing control. What you lose, generally speaking, is access. As you can be a trustee and the beneficiaries are typically ‘classes’ (children, siblings, future grandchildren and so on) rather than individuals, they offer not perfect but very strong protection and control. There are also flexible options like loaning money or assets to the trust.

Complex made simple

Some of the complexity hinted at above may be off-putting, particularly for those entrepreneurs who are very ‘big picture’ in their approach to life, but there are ways to implement that are extremely simple. For example, you can use an investment bond within the trust, so there is no ongoing tax (and no tax return required). You can also pass the value out to beneficiaries after nine years, before the first 10th anniversary periodic charge test (generally, if there is no value in excess of the nil rate band on entry, there is no exit charge before the first 10th anniversary).

2c. The team
(like Tony Soprano, you have two families)

As noted above, being a founder is often a solo pursuit, or if not, it involves at the most one or two trusted business partners. In another sense, however, owner-managed enterprises often have a ‘family feel’ to them, even when no family members are involved. As such, concerns about what the sale might mean for staff, and in particular the long-standing members of staff, can be a tricky part of pre-sale planning.

You may feel there are some people in the team whom you view as trusted lieutenants and this group might play a part in your pre-sale thought process. You may decide to bring them into your confidence, at least at a high level. With this in mind, perhaps think about the pre-sale phase in terms of how it might affect three types of team member:

- 1. Trusted lieutenants
- 2. Core/long-standing team members
- 3. Other members of staff

Within this framework, think about, and perhaps discuss with your advisory team, the potential staff-related issues that might arise, and which require attention *before* the deal is imminent. As part of that, also consider what promises, if any, have been made to any of the three groups, explicitly or implicitly. The aim of any such exercise is to treat staff fairly, of course, but it is also important not to lose sight of your priorities as an owner of the business i.e. serving customers, continued commercial success and the value creation that goes with it.

Promises, promises, promises

As touched on above, the initial focus regarding staff may be what was promised to whom, when and so on. Thoughts might then turn to post-sale scenarios and the likely impact on different members of team. If you have not assessed the main issues that could affect each group once the deal is done, it could make weighing up different types of exit difficult.

Some business owners, for example, lean towards an MBO (Management Buy-Out) because they like the exciting opportunities it offers for trusted lieutenants, but that path could mean accepting a period of consolidation that is less appealing to the other two groups. The trusted lieutenants will also need the appetite for risk that an MBO demands.

Some team members are likely to see future growth and avoiding redundancies as the most desirable considerations in any deal, for example a trade buyer looking to build a presence in your region might appeal to them. While this might benefit the broader pool of staff, it could of course involve a change of culture that might be most deeply felt by trusted lieutenants and long-standing team members.

If founders fail to address expectations and concerns of team members pre-sale, then one outcome I have often seen is they end up ‘paying out’ key members of staff from net proceeds, based on promises made previously. This is clearly a highly tax-inefficient approach, but sometimes a lack of pre-exit planning - for example, putting in place an EMI (Enterprise Management Incentive) scheme - leaves them with no choice.

“Entrepreneurship is about a killer team, not a killer app.”

Peter Hiscox, Judge Business School

Pre-sale comms

In case study #4, we looked at a previous attempt to sell a business that was aborted by the entrepreneur concerned, because a ‘procession of suits’ led to a concerned member of staff ‘leaking’ the news of a possible sale to the wider team.

Years out from a target sale date (it is always worth having one, even though it will almost certainly move), the ‘comms strategy’ can be pretty straightforward, essentially nobody needs to know that sale is being considered unless you feel it is motivational to mention it.

Two or three years out, you may be at the point of discussing the idea of an exit with other significant shareholders only, and perhaps briefing one or two key members of your advisory team, and 12-18 months out, other shareholders and the further members of the advisory teams might be brought ‘into the tent’ as it were.

By that time, there are some key questions worth considering:

- At what point during the pre-sale period do I plan to inform each person who eventually needs to know? Who are those people and when/how will I tell them?
- Have I properly considered an EMI scheme to meet promises to key members of staff? It can sometimes prove possible to establish one quite late in the process (e.g. 12 months out from an exit)
- If the potential buyer has been identified, do their owners or management team have a view on comms? Who knows at their end, and how significant is the potential for leaks getting back to my team?
- Are the buyers (if known) likely to be ‘spooked’ if the possibility of a deal becomes public knowledge?
- If a trade sale is likely, and the expected buyer is a competitor, has the management team spent the last few years describing them in unfavourably terms to clients and colleagues? If so, what can be done about that pre-sale?

Share incentive schemes

If there is a share incentive scheme in place, it is important to consider the impact of the deal. Is the buyer willing/able to continue with the scheme? Depending on how many/which staff members will be impacted, this might be one of the factors that can be taken into consideration when looking at different ways to structure an exit.

Sometimes the business has raised finance previously, and the amount of capital loaned by investors (including the business owner themselves) may be close to/higher than the current business value. If so, an equity stake in the business is ‘worthless’ in a sale, and key staff may not be motivated to drive a sale that only benefits others. One way to align management incentives with investors in such circumstances is to use an incentive plan linked to specific criteria that mirror the owner’s objectives. Such incentives can also be structured as ‘exit only’.

It is important to consider who might advise you on all of the issues raised to this point, and we will do that in Figure 3 (personal team) and Figure 4 (corporate team). Before we do, let us spend a moment rounding up the previous two parts of this section by touching on a bit of ‘corporate housekeeping’ pre-sale. Just as the ‘protection’ we talked about above becomes *more* relevant, not less, during the high-pressure period leading up to an exit, taking some time to think about your equity in the business and measures you can take to protect against a fallout among shareholders likewise becomes more important, not less.

When I raise these issues with business owners, many are quick to tell me how well they and their fellow shareholders get along, and I am sure this is true. However, it is one of those things in life that is ‘fine until it isn’t’. Given how life-changingly important such things could prove to be, having a bit of insurance (both literally and metaphorically speaking) is simply the smart way to play it.

Business protection trusts and shareholder agreements

Should the partners/shareholders fall out, fall ill, suffer a serious injury, die prematurely or otherwise decide to leave the business, a business protection trust or shareholder agreement provides a crucial fallback to encourage the continued function of your firm. One of the significant shareholders deciding to move abroad is also becoming increasingly common and in my experience, ‘leftfield’ events like that increase rather than decrease in the 2-3 year period before a planned exit.

“A poorly written shareholder agreement, or worse, not having one at all, can lead to chaos.”

Jonathon Gunn, lawyer

Business succession arrangements are an important consideration in all this, of course, and particularly applicable for founder-led firms. Often informally referred to as ‘business wills’, these documents should set out clearly what would happen in certain circumstances, so that you do not find yourself across the boardroom table from a co-owner’s spouse or children and/or find that paralysis engulfs your business. They can also set out the ‘rules of the road’ for disposing of equity in the firm.

Typically, a well-drafted agreement will include provisions allowing, or even requiring, the remaining owners to buy, or the loved ones of the affected owner to sell, the equity belonging to the affected owner in the event that they die or cannot (or will not) fulfil their duties. These arrangements may be structured as options exercisable by either party, helping to avoid forced co-ownership situations and any ‘marriages of inconvenience’.

Learning from the mistakes of others

One cautionary tale demonstrates the importance of shareholder agreements and clear plans for leadership succession in the event of a premature death or serious illness/injury. In *Brand v Harding*¹², the Harding sisters inherited a business due to the sudden death of their father. It was a founder-led business where the founder (the father) had done little or no planning. The resulting dispute between them eventually led to a judge winding up the company because it couldn’t function properly, surely not the fate their father would have wished for the business he built.

In the event of death of an owner, a shareholder protection (insurance) policy can provide the injection of liquidity needed to allow the remaining owners to exercise their rights under a partnership/ shareholder agreement to buy the relevant equity. If there is no policy in place, or the event concerned does not trigger a payout, refinancing or an externally sourced investment may be required to acquire the equity of the party that has suffered a misfortune.

As the drafting and implementation of these arrangements involve complex legal and financial considerations, I encourage you to seek professional legal advice. It is essential to ensure that the terms of any agreement are carefully aligned with the provisions of any associated insurance policies, so that the intended outcomes can be achieved without practical (or legal) obstacles.

Rounding off this important, if slightly ‘dark’ area - a Lasting Power of Attorney should sit alongside all this, to set out who should represent the interests of an owner, should they lose physical or mental capacity. After all, the

Court of Protection is not many entrepreneurs’ idea of the perfect business partner!

Advice

Business owners who are approaching, or have just had a successful exit, rarely want for willing advisers, but the quality and/or ‘fit’ often falls short and alignment of incentives is rarely thought about much. I have touched on the positive impact of advisers being limited by engaging them too late in the process, but it is worth also spending some time thinking about how you approach getting a good personal advice team in place, regardless of when you do it (the corporate advice team is addressed in section 3).

Why does this matter? Let us think about the classic ‘mate in the pub’ scenario for a moment. He has a ‘cannot fail’ business or investment idea and wants you to put in some money (and perhaps some time/ expertise too). Which adviser would you run the idea past? The answer to that question is a guide to who your trusted adviser is and if nobody is springing to mind, you have a gap to fill.

Below, I explore the different ‘seats around the table’, but let us first consider how much we might spend on our personal advice team. I think it is broadly useful to consider where your net worth is headed in the next three to five years and take 0.1% of that figure as a starting point for the minimum you might spend on tax, legal and fixed-fee financial planning advice each year. If you are worth £10M, spending *at least* £10,000 per annum on accountancy/tax services, legal advice such as updating your will and financial planning advice on areas such as cashflow modelling and pensions is likely to save you much more than that in the long run. It is not just about saving tax (though that is helpful), it is also about peace of mind, avoiding bear traps that could prove much more costly than any advice and not finding yourself in a situation where you spend your precious time trying to be a ‘part-time *insert type of adviser*’.

The journey

The final bit of context, before we get into the different types of adviser, is to think about your journey in terms of moving from a human asset (an idea) to a financial asset (cash), with four distinct phases along the way: start-up, growth, pre-exit and post-exit (see Figure 2). It is important to acknowledge that as one phase ends, another tends to begin. For most of us, it is linear, post-exit means engaging in personal passions or philanthropic pursuits, possibly investing in others, but not ‘starting again’ in the fuller sense. For entrepreneurs, however, it is a loop; the sale is a platform for investing in another business, bringing them back to the beginning of the cycle:

The suits

Before we move onto looking at how you get ‘fair value’ for your business, it is worth spending a few moments thinking about what your personal advice team might look like. I say ‘personal’ advice team, because I address some of the seats in the ‘corporate’ advisory team in Figure 3.

This quote, taken from a commencement speech, features on the website of the firm I founded, chartered financial planning boutique Mulberry Bow, and it hints at something that is very important. Your advisers might struggle to get your full attention until you have completed the deal and have more breathing space, but it is important to spend a bit of time during the pre-sale phase at least getting the right people in the right seats (see figure 3) and once you have done that, it is vital that you listen to them.

It is also worth noting that engaging a personal advice team first, and asking them to recommend the members of the corporate advice team (see figure 4), can work well, but is fairly rare. It is more often the case that existing personal advisers (who the founder has often, but not always, outgrown by the time an exit comes around) are not well placed to introduce people who might be a good fit for the corporate advice team. As a result, many founders find themselves asking business owners they know for recommendations. Not a bad idea, but rarely leads to a ‘joined-up’ approach, unless you are open to those corporate advisers recommending replacements for any members of the personal advice team who are no longer a good fit.

However you get there, I would observe that clients I have met over the years have rarely benefited from being an outlier (at either end) in an adviser’s or firm’s ‘book’ of clients. It is important to consider fit, both in terms of the firm you engage and the adviser, do they advise businesses or individuals like you all the time? The bear trap you want to avoid is:

- a) Being treated as a number/forgotten about (too small)
- b) Cross-subsidising smaller clients (too big)

With a) you are likely to left feeling somewhat ‘cold’, you may get a sense that you are being corralled into a standard solution lacking personal focus, with planning advice that is more product-led than tailored to your situation. With b) you miss out on the all-important ‘cross fertilisation’ of planning ideas that comes from working with an adviser who sees what works/does not work for clients in a comparable financial position to yours.

There is a seemingly endless list of different banks, professional advisory firms and wealth managers in the UK who are in business to get you as a client, but broadly speaking there are four seats around the table that will need filling.

“Be careful whose advice you buy, but be patient with those who supply it.”

Mary Schmich, Pulitzer Prize-winning journalist

“It is all about trust. You build that trust by understanding what is important to me and demonstrating you understand. Educate me, but as equals.”

James Spinella, Tech founder

12 Full case reference ‘2014 EWHC 247 Ch’

Figure 3 – The Personal Advice Team

1. Financial Planner

When – As early as possible!

Who – Search for a firm that focuses on the big picture and uses cashflow modelling software, open questions and other tools to help you pull together a framework for financial decision-making. You want your adviser to be Chartered and independent, and used to dealing with people like you.

What – Financial Planners are uniquely placed to advise on areas including include pensions, insurance and EISs/VCTs.

How – If you have less than £3M to invest, you may wish to ask the planning firm to also advise on investment strategy. Like puppies, a financial planner is hopefully for life, so choose carefully and then let them help you. If you have £3M+ consider combining them with #3.

2. Accountant/Tax Adviser

When – Pre-exit and six months out at the latest, but ideally earlier.

Who – There are two distinct needs: strategic tax advice and tax compliance, one person might be able to handle both bits or you might end up with two people, either within a firm or across two distinct firms. Either way, make sure they communicate with your other advisers, are well qualified, have capacity for additional client work and are suited to the size/complexity of your situation.

What – Compliance is handled by an accountant, facilitating prompt and correct filing of your tax returns. Tax advice is a specialist area focusing on different ways of structuring your business and/or the sale, and your post-sale affairs, with a view to being tax-efficient (but also aligned with what is important to you).

How – While the tax adviser may be engaged in an *ad hoc* fashion, when needed, the accountant is ideally a long-term relationship. Linking them up with your financial planner is worthwhile.

3. Private Banker/Portfolio Manager

When – Can be post or pre-exit, but best engaged within the context of a strategic financial plan.

Who – Clients with <£3M investible often keep banking arrangements fairly straightforward, using regular high street banks or online banking services such as Wise, Monzo or Marcus. Those with >£3M to invest may consider a private bank doing their banking and/or managing some or all of the investments. There are also specialist investment firms and ‘multi-family offices’ that manage portfolios for private clients alongside financial planners, but do not offer banking services.

What – It is important to first distinguish between the management of investment portfolios on the one hand and banking services on the other. Banking services include a relationship management team who know you/your voice, can facilitate transfers of large sums without fuss and offer access to flexible lending arrangements and multi-currency accounts (in the UK and offshore.)

How – You can engage direct, and some private banks are good at taking a consultative, ‘big picture’ approach, but most of the clients I have seen achieve a good outcome engaging a private bank, have first filled the financial planner and accountant seats (or at least at the same time).

4. Private Client Lawyer

When – Pre-exit, 12 months out at the latest.

Who – As with the other advisers, a suitable size of firm is important, and you want to find a lawyer who understands the challenges you face and specialises in clients like you/the relevant areas.

What - Of the four, this area is often more ‘need-specific’ than ongoing, but for clients with substantial assets, it is more common to see a lawyer being part of the ongoing advice team. They can help with wills, lasting power of attorney documents and trusts. The level of fee and sophistication needs to match the circumstances, you do not want to over-pay, but many clients fall foul of the ‘poor person trapped in a rich person’s body’ feeling and cut corners on this area.

How – Helpful sounding boards regarding advice offered by other members of the personal advice team, in my experience some lawyers are nevertheless better at pointing out what could go wrong than the potential opportunity cost of not doing something! Still valuable, just worth keeping that in mind!



3. Fair Value

3a. Do not forget the ‘why’
(hint: it was NOT to ‘get rich’)

In the final section of this white paper, we look at getting the business in the right shape for sale. Such preparation involves addressing factors that can have an impact on the price, and lays the groundwork for as smooth a ride as possible, both during the period leading up to the completion of the deal and in the 12-18 months afterwards.

Sensible planning does not rule out surprises, of course, and you should be ready to ‘pitch and roll’ as issues arise. Nevertheless, giving some thought to the corporate advisory team and ‘dressing the business for sale’, enables you to build on the previous, foundational work:

- Building self-awareness
- Thinking about what you want from the exit
- Planning how to secure your financial freedom
- Getting the communication piece right, with both the team and your family

All of this makes the achievement of your desired post-sale outcome far more likely, but how do you match the answers that this foundation work led to with a clear, desired post-sale outcome? This is a good moment to reflect on the ‘why’ that led you to set up the business in the first place, your fundamental motivation. One of the traps I have seen founders fall into, during the pre-exit phase, is obsession with getting the maximum price for their business and losing sight of the bigger picture.

Let me give you an example. Earlier, I touched on an entrepreneur who regretted not taking less for a business he built in exchange for a ‘clean break’. That is a good example of the importance of ‘why’. He had seen something he thought could be done better, built a business to address that need, and reached a valuation level for that business that meant a very decent windfall for him. These objectives were hit regardless of whether he took the higher offer, with the earnout, or the lower offer, with the clean break. His ‘why’ had got lost, rediscovered only once he had chosen the wrong option. It had now become about taking a few months’ break as soon as possible and then getting onto the next idea (which he has since done, but having ‘wasted’, as he says, two years trapped in an earnout.) In short, it was *not* a founder-led exit!

Your corporate advisory team

The direction your personal advisory team pulls in should be, at least partly, driven more by your financial goals and philosophy, and should focus on securing your position pre-sale and planning for your post-sale future. The timing of getting the right people in the right seats is therefore ‘the sooner the better’. As the sale draws

closer, however, you are likely to focus a bit more on the corporate advisory team. During the pre-exit period, it is corporate advisers rather than your personal advisory team, who are likely to increasingly take the initiative.

The team of deal advisers is led by, perhaps unsurprisingly, the lead adviser (sometimes called the ‘Corporate Finance Adviser’ or ‘M&A adviser’). They are the conductor of the orchestra and steer the overall deal for you (including finding a buyer or investor) and project manage things through to completion, involving other, more specialist advisers when appropriate (e.g. tax).

While your ‘why’ is at the forefront of your mind, let us look at the different seats around the corporate advisory table. It is really important that you carry what is important to you into these conversations for two reasons. First, the most important factor in selecting who you work with is trust. Do you trust them and do they ‘get’ you, as a business owner and as a person? Second, it will help you avoid a situation where corporate advisers accidentally or deliberately take you in a direction that is not aligned to your values or priorities. However well-intentioned, most professional advisers, and perhaps corporate ones in particular, tend towards a very ‘left brain’ approach i.e. focused on the numbers, the data room, the legals, the valuation metrics and so on.

Effective teams often need someone co-ordinating and leading. Whilst some business owners feel that it is their role, our experience suggests it is better to identify (even if it is just in your own mind) someone who sits in one of the advisory teams to fulfil that role across both teams. The firm I founded, Mulberry Bow, specialises in acting as this ‘glue that draws all the threads together’, but for some founders, the accountant, private banker or one of the lawyers might be a better fit; what matters is their ability to create a collaborative ethos, but nevertheless encourage different advisers in the team to respectfully challenge each other. Overall, you want a proficient ‘crew’, pulling in the same direction, but you want that direction dictated by what is most important to you.

Although there are a number of different types of advisers identified in Figures 3&4, some will only be engaged to do a specific ‘job’ relating to the sale and others can be ‘grouped’ into mini-teams. For example, the accountancy firm you work with may be able to handle both personal and corporate requirements, and may also work ‘hand in glove’ with your financial planner and/or corporate finance adviser. Similarly, your personal and corporate banking may be under the same roof, and some or all of your investments may also be with that bank.

Figure 4 – The corporate advice team

1. Corporate Finance Adviser

- When** – It is prudent to engage a corporate financier at least 12 months before a desired sale, ideally earlier. Good ones add as much value helping you get the business in the right shape for a successful sale as they do in identifying buyers and guiding the negotiation.
- Who** – There are typically three types: investment bankers, private equity/corporate finance advisers or specialists attached to a professional services firm (usually an accountancy firm).
- What** – Their principal role is to find the right buyer and help you negotiate the deal, but as noted above, the better ones do more than that, guiding you through to a founder-led exit.
- How** – In terms of helping you sell the business, corporate finance advisers normally rely on two things: their network and research. Even if they do not specialise in your sector, they may have analysts and partners who do.

2. Specialist tax adviser (deal)

- When** – Should be engaged pre-exit and six months out at the latest, but ideally earlier. Post-sale, they are unlikely to remain a good fit, so your personal tax adviser can retake the reins (see page 46).
- Who** – You want someone who specialises in deals, ideally similar in size to yours. They may also have a good working knowledge of personal taxation too, or colleagues who do, but retaining a personal tax adviser alongside them works best for most founders.
- What** – ‘It’s not what you make, it’s what you keep’, perhaps that maxim explains why this adviser tends to be a founder’s ‘best friend’ and well placed to help with pre-exit discussions. Ideally, they will offer a perspective that transcends any divide, imagined or real, between your personal position and business affairs.
- How** – A good tax adviser does more than deal structure; they are a sounding board and proactively help you organise all relevant tax affairs and maintain a good understanding of the numbers pre and post (important if you are a ‘big picture’ person).

3. Corporate Lawyer

- When** – The corporate legal adviser tends to be one of the last seats in the advisory team to be filled, but it is a mistake to engage them too late. Typically, I would say at least 12 months before the sale works well.
- Who** – Perhaps the most important thing to consider is the size of the firm and their sector specialisation. The good ones also offer helpful perspectives on commercial considerations.
- What** – Normally, due diligence is paid for by the potential buyer, so once negotiations begin in earnest, your lawyer tends to focus on you having a clear understanding of the deal and ensuring that the small print, pertaining to areas such as earnouts or post-sale liabilities, are acceptable to you.
- How** – A lot of the action starts with the ‘Heads of Terms’ and if matters progress from there, the SPA (sale & purchase agreement) will be important, including ‘reasonable’ restricted covenants, a tax deed (historical liabilities normally stay with the vendor), disclosure letter and settlement agreements.

4. Business Banker & Corporate Financial Planner

- When** – During the growth and pre-exit phases of the business, possibly beyond, depending on the deal shape.
- Who** – In the past, most business owners had one bank for personal and business banking, but that is less common these days, with challenger banks offering alternative options (some high-street and private banks also offer both). On financial planning, large consultancies have depth of expertise, but many business owners find that an IFA firm specialising in employee benefits is a better fit.
- What** – Corporate banking is perhaps self-explanatory: savings interest, transactions, direct debits, supporting payroll and sometimes lending. The role of the corporate financial planner is two-fold: advising on pensions and other group benefits for staff and helping with areas applicable to director or key staff, such as key person insurance, shareholder protection and relevant life (see section 2a).
- How** – Both of these relationships tend to be fairly arm’s length, the functionality is increasingly via an online platform, though a corporate financial planner may come in to present to staff periodically.



3b. Dressing the business for sale

Maximising sales proceeds

While ‘getting rich’ was probably not your primary motivation for establishing the business, at least I expect not (there is always an exception to every rule, after all!), part of what a ‘founder-led exit is about is ‘getting paid’. Please forgive my candour, but the first and most important threat to that is...you.

Founders are often so focused on making their business a success that any ideas not directly related to this goal are put on the backburner. Behavioural Finance academics talk about psychological tunnelling. This is the process where the business takes so much attention that everything else is outside the ‘tunnel’ and therefore blocked out.

If this psychological ‘tunnelling’ resonates with you, bear in mind that while it may be necessary to succeed, especially in the early years of the business, it inevitably leads to important issues being missed, especially as the exit approaches. Counter-intuitively, there may also be important issues that are ‘too close’ to be noticed.

One of the objectives of this paper is to counter the danger of key areas failing to receive the attention they need and below we focus on how perspective is critical to both getting the right price for your business and of achieving a deal on terms that you can live with.

Pre-sale due diligence

Business owners know their business better than anyone else, right? In many ways, yes, but ‘tunnelling’ and being ‘too close’, both lead to blind spots here too. Ahead of a sale negotiation, a broader perspective on what makes the business valuable may be required. It is also important to be self-aware enough to understand whether you are a ‘big picture’ person or into the detail. Either way, lean on your advisory team to counteract your inclination. The fewer concerns that arise with the accounts, record keeping, contracts or business structure, the less likely that offer will be reduced,

made more dependent on ongoing results or fall apart altogether. Contrarily, if you are a detail person but not a natural salesperson, then ask yourself: who is going to ‘front’ the sale?

Carrying out some internal due diligence (DD), or if the business is of a reasonable size, perhaps paying for an external exercise, offers an opportunity to see what someone else sees when they look at your business. This DD might focus on legal, financial and commercial aspects of the business and for some industries, specialist areas such as patents.

The analogy I would use is if you are selling your house, ask a (brave enough to be honest) friend to come and take a look at your house before it goes on the market. With fresh eyes, they are likely to point out all the little idiosyncrasies that the owner has stopped noticing, but which could put off a potential buyer.

Your advisory team taking a look at areas such as tax reliefs, trading status and so forth could cost £5,000 to £10,000 in fees, but save hundreds of thousands in tax. However, an exercise that mirrors a buyer’s DD, with a view to identifying any ‘skeletons’, as well as doing a ‘health check’ on all potential legal or tax issues (e.g. contracts with key customers), might cost a bit more, depending on the size and complexity of the business, but if you are targeting a £10M+ sale, this could be even more impactful, in terms of the net proceeds you end up receiving.

As for formal DD, the buyer normally pays, but if the likely buyer is already known, sometimes DD costs are shared. This can make sense if it covers the buyer’s DD requirements if the sale proceeds, but also makes the business more saleable to others if it does not. Of course, there is a potential ‘conflict of interest’ issue here.

For £100M+ enterprise value (EV) deals, DD tends to involve an in-depth process with a ‘big four’ accountancy firm (for it to carry credibility with the buyer and, if required, alternative buyers) and the fees can get into six figures. For businesses selling for £10M to £100M, a good quality mid-tier accountancy firm can be well placed to help; fees can be anywhere from £30,000 to £100,000 or more.

CASE STUDY #5
Timing is everything

Background

A long-standing client of Debrett’s acquired the company he ran (an MBO). At that time profits were modest yet cash was plentiful and the MBO was largely funded through this surplus cash and ‘leverage’ (debt). Two years later the cash generated by the business had largely paid off the debt and the client owned 70% of a £2M profit company with no borrowings. Debrett’s helped secure funding on the best possible terms and negotiated the optimal deal with the seller.

The decision

The client’s intention was to hold the company and, in time, allow his son and other members of the management team to assume ownership. However, two years post MBO (shortly after paying off the debt), our client received an offer from a large European company to buy the company for £12m. This created a dilemma. Continue with the plan or sell?

Conclusion

The client decided to sell.

Whilst owning and running the company was fun and rewarding, it was clear the client had materially all their wealth tied up in one asset. A former croupier, he concluded he was visiting the casino every day and gambling all his winnings. Debrett’s therefore helped him to sell the business. This involved a thorough negotiation with the European company (whilst checking the value could not be bettered elsewhere) and, swift preparation for - and navigation through - the due diligence and legal process.

Both clichés, but a familiar scenario where the following are true:

- 1. “Bought well is half sold”
- 2. “Your first exit is your best exit”

Many thanks to James England, Managing Partner of Debrett’s for this case study.



Tapping free resources

Did you know that there are considerable ‘free-to-access’ resources available to early-stage businesses in the UK?

One example is the **Business & IP Centre**: www.bl.uk/bipc

Free to join, and open to everyone, BIPC supports over 40,000 people every year in starting and growing their business. It is based in the British Library, but has a presence in over 70 libraries across the UK.

According to its website, businesses who start with the support of the BIPC are more likely to succeed, with over 90% still trading after three years (compared to a UK average of 50%).

The structure of the deal

Echoing some of the ideas mentioned earlier, before engaging a potential buyer and sketching out the preferred deal structure, it is worth thinking about motivation. Something as simple as writing down the three main reasons for selling/not selling, and then likewise considering what are the main drivers for each potential buyer, can help focus the mind on what the ‘deal breakers’ might be on either side, and help you/your team negotiate more effectively.

Desired value is also worth considering before addressing the structure of the deal. Most business owners have some idea of the value of the business, by the time they enter the pre-exit phase. It is worth bearing in mind, however, that focusing too much on that figure, rather than weighing up all pros and cons of a potential deal (including its shape), could cause the importance of some factors to be ignored or underestimated.

A good place to start is to think about three things:

1. What would be the best type of deal for my team?
2. What kind of deal would lead to the best outcome for my customers?
3. Where am I at in terms of my ‘lifestyle number’ vs. valuation?

Then you might think about the following:

- Share sale vs asset sale? Will you sell the entire company or just specific assets or subsidiaries? Share sales are often more tax efficient for the seller, while buyers may prefer asset sales to avoid historical liabilities
- Exit or remain. Are you exiting fully or staying involved post-sale?
- Payment terms. Will it be an upfront cash payment, an earn out, or deferred consideration? Do you need to consider security for any outstanding consideration?
- Tax. How will the proceeds be taxed?
- Warranties and indemnities. Will you stand behind the warranties or is a warranty and indemnity policy more appropriate?

Legal, tax and financial advisors play a crucial role in ensuring the structure works for the seller’s financial and personal goals. It’s essential that you have a good working relationship with your advisers from the outset.

Value your business realistically

A realistic valuation helps you set expectations and negotiate based on an informed position. Common methods of valuation include:

- Revenue or discounted cash flows (projecting cash flow on a forward-looking basis and discounting them to present value)
- EBITDA multiple (essentially applying a sector-relevant multiple to your level of profitability)
- Market value (benchmark your business against similar companies in your sector)
- Net asset value (for businesses that are basically worth the ‘sum of their parts’)

It is crucial the valuation is realistic as overvaluing might lead to potential buyers losing interest fast (of course, under-valuing is also not a great idea!)

As explained in section 1b, your ‘lifestyle number’ is the amount of capital you need to underpin your lifestyle. Not every founder is looking to achieve financial freedom with an exit, of course, but many are. Either way, the

relationship between this number and the expected value of a sale is likely to have a big impact on how flexible you are prepared to be. If the value of your shares in the business is way over what you need to be financially secure, you are already financially secure or that is simply not important to you at this point in your life, why not hold out for exactly the *shape* of deal that suits you in other areas such as the length and type of earnout or how advantageous the deal is likely to be for your team and clients?

Every deal is different, but before you get drawn into negotiations, give some thought to some of the key questions you might discuss with your advisory team:

- To what extent is ‘jam today’ preferable to ‘jam tomorrow’? What if delaying receipt of a small or even large part of the proceeds means a more generous overall buy-out price?
- Is a clean exit or an ‘earnout’ the preferred option? Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) tends to drive both overall valuations and earnouts, but sometimes that leads to tensions emerging during an earnout, as incentives might not align perfectly (or even well)
- Is continued exposure to the company via loan notes acceptable? Is the coupon (typically 8-12%) fair compensation for the credit risk?
- Is a continued exposure to the business desirable, for example in the form of ‘sweet equity’ (the equity participation of the leadership/management team of a company on preferential terms)?
- What to include in the Heads of Terms document? (As much as it tends not to be binding, it sets the direction of travel and radically moving away from it later in the process can be difficult)

Who do I sell to?

If you’ve not been involved in a business sale before, it is worth considering for a moment the different types of buyer you might market your business to:

- Private Equity (PE) and Venture Capital (VC) remain highly popular methods of founders exiting UK businesses
- Trade sale (sale to a competitor in your sector, this tends to lead to a capped earnout)
- ‘Angel’ or ‘Super Angel’ networks and individuals (tend to take a long-term view, but unusual to see this much beyond a £5M valuation)
- Stock market floats (the US term ‘IPO’ or initial public offering is often used these days) are rare below the £100M level. Businesses too small for FTSE All Share Index might consider AIM (the alternative investment market), though it has had a difficult 10-15yrs and many feel it brings many of the downsides of the FTSE (in terms of reporting, level costs etc.) without the liquidity
- MBO (management buy-out), MBI (management buy-in) or a BIMBO (combination of the two, often with a bank or private equity firm helping to finance the deal)
- Family office/multi-family office (the larger ones operate in a similar way to private equity houses, but have a reputation for being ‘patient capital’ – i.e. investing with a 10+ year time horizon)

Deferred consideration

A word of caution about deferred consideration, which can take many forms, from an insecure ‘performance target’ related deal on the one hand, to reasonably secure loan stock on the other, and various shades of grey in between (including loan notes with conditions or bad leaver clauses attached to them). All of this should be approached with considerable caution. Things founders agree to when everyone is in the ‘honeymoon period’ of agreeing a deal may come back to bite them later. Your advisory team can check the terms carefully and offer you an informed view.

Clearly, there are two sides to any negotiation and the buyer will also have figures, timings and possibly a deal shape in mind too. The reality is that the final size and structure of the deal is likely to be shaped by the buyer if they want the business less than the owner wants to sell it, but when the reverse is true, for instance when the buyer views the purchase as a strategic imperative, the founder should be able to dictate terms (within reason).

Regardless of who wants it more, if issues arise during the negotiation or DD process, one generally finds that PE/VC buyers negotiate the price down, or shift value from initial cash to an earn-out based on performance, while ‘patient capital’ such as a family office is more likely to simply walk away.

Dressing your business for sale

A summary of the key considerations, for readers with a short attention span!

Taking time to consider who owns the business, and what the business itself actually owns, is a good start in terms of ‘dressing your business for sale’, much like doing an inventory of a house before you sell it.

The buyer wants peace of mind every bit as much as you do. The due diligence process involves looking into every nook and cranny of the firm, including:

Financials - ensure the accounts are accurate, up to date, and show strong, sustainable performance

Structure & contracts - is the company structure complicated? Could it be simplified, pre-sale, without creating any significant tax issues? Is it possible to ‘lock down’ all of the major contracts, so that the buyer will feel confident that they are transferable and should continue, post-deal?

Intellectual property - is all IP (branding, domain names, trademarks, patents etc.) properly registered?

Compliance & litigation - any outstanding litigation or regulatory/compliance issues? Resolve anything outstanding in this area if possible, as they can be a major red flag for a buyer

Employment - ensure all employees, consultants and any outsourcing/contractors are on the appropriate contracts and are not a reputational risk

Liabilities & cash - are liabilities a potential issue, given uncertainty spooks most buyers? High levels of cash in the business can also appear strange/inefficient to a buyer? Extracting cash tends to come with tax, so they may not pay you £1 for £1 as it were (are pension contributions a potential solution?)

Data protection & privacy - check that all data retained on employees and customers is properly managed and stored (in accordance with the legislation)

Concentration risk - does the business carry concentration risk in terms of customers, suppliers, products or management? Is there time to do much about it? Will some type of buyer be less worried than others?

The premises & ‘non-trading’ assets - are investment properties or other non-trading assets owned by the business? Are business premises owned by the business or the owner’s pension? If a buyer has been identified, do they see owning the premises as a positive or negative? Are there other tenants to consider? Do any non-trading assets affect tax reliefs on sale?

Corporate taxes - at a time when there could be a ‘multiplier’ on profits, is the company claiming all reliefs (e.g. R&D tax credits)? The business that approaches a sale with no tax ‘skeletons’ in its closet is a more appealing target; is there any remediation or clarification needed on payroll, VAT or other areas?

Shareholders - even if the buyer is comfortable with what the company owns, are they comfortable with who owns the company? Are there minority shareholders who could prove challenging to include in a sale negotiation? Is some pre-sale ‘tidying up’ worth considering? Are there ‘drag along’ provisions in the shareholder agreement? Have all shareholders signed the agreement?

Crowdfunding is an increasingly popular approach to funding ventures, and can work well, but as with all elements during the start-up phase, it is worth thinking about the implications pre-sale. Might your shareholder register discourage potential buyers because it has ended up with more names than the waiting list for MCC membership at Lord’s?!

In conclusion, your aim is to positively but fairly present a well-run and predictable business, ideally with a future even brighter than its past. An intelligent approach to the areas above should improve the valuation and make the buyer’s due diligence faster/more straightforward.

3c. ‘How’ and ‘when’ trumps ‘what’

Well done on making it to the final (and you will be pleased to learn, the shortest!) of the nine sub-sections of this white paper.

Hopefully, you now have some understanding of, and have at least started to think about, the following:

- ☐ Your personal style, preferences and personality traits
- ☐ Your wealth philosophy i.e. what you want a financial windfall to ‘do’ for you and your family
- ☐ The transitions from potential value, to real value, to money in the bank
- ☐ Some of the risks along that journey and how you might approach mitigating them
- ☐ Your lifestyle number and how you might approach structuring it, so you are financially free
- ☐ How you might protect your family pre-exit and plan for them (and inheritance tax), post-exit
- ☐ The impact of the deal on your team, before it is too late to do much about it
- ☐ Populating seats in the two advice teams to encourage a ‘collaborative but challenging’ ethos
- ☐ DD considerations and dressing the business for sale

My hope is that this white paper is a ‘working document’ that you can dip back into as little or as much as you need to, ahead of an exit and beyond. On the back page, I have laid out a broad picture of the timing and sequencing of a typical deal, that will hopefully act as a useful framework to keep in mind.



“ We’re the original nation of entrepreneurs and investors. We’ve done it for so long, do it so naturally, I think we’ve got it in our DNA.”

Richard Reed,
Innocent co-founder

Concluding Remarks

Why does it matter if founders achieve founder-led exits? For me, it is about fair reward. Founders build, shape and lead small and medium-sized enterprises (SMEs). Those SMEs pay a lot of tax (they generated £2.8trillion of revenue in 2025¹³) and c.60% of people employed in the private sector in the UK are employed by SMEs (which, apart from giving people a job, also means more tax i.e. schools and hospitals).

But they do more than pay tax and employ people. They disrupt. They are the ‘horizon scanners’ of capitalism. They are what stops the system rusting up, from becoming oligarchic and monopolistic. What stands between those founders and fair reward is the detailed and jargonistic world of tax planning and investing, which leaves them cold. As a result, too many end up not achieving a founder-led exit and too many, post-exit, end up holding too much cash and/or investing in familiar assets like property, not because they really want to, but because they have no confidence in the alternatives.

Our clients are in the other half

On the website landing page of the firm I founded, Mulberry Bow, there is a quote from an insightful piece of research into financial contentment that goes to the heart of what I describe above. When interviewing ‘high net-worth individuals’ (defined as those who had more than \$5M of investible wealth), it found that only around half, 45-54% depending on the country they lived in, “*felt positive about their personal finances*”.

Would that surprise people who do not have that level of wealth? Possibly. I suspect it would not surprise those who do. While it is, of course, a blessing to enjoy financial success, it also brings challenges (as Notorious B.I.G. put it in his 1997 hit song, *mo’ money means mo’ problems!*)

My experience and that of my colleagues, both in the financial planning team at Mulberry Bow and the corporate finance advisory team at Debrett’s, is that founders are often ‘under-advised’. Ironically, one of the consequences is that many reinvest little or no money in the very ecosystem that enabled them to be successful. Perhaps more importantly, many find it challenging to establish a positive, stress-free relationship with money, lacking a clear plan for their own financial freedom and for passing down wealth to children or grandchildren, sensibly and tax-efficiently.

All this reflects poorly on the ‘wealth management industry’, of which I am a part. I have noted that founders establish businesses to solve a problem, not to get rich (whatever that means). What led me to set up Mulberry Bow was a vision of offering an alternative financial planning solution for those seeking high quality advice that does not come with the downsides of accessing financial planning via a large institution (such as steering advice towards own products and the risk of the client *becoming a number*). It is also the motivation in writing this white paper. Allow me to share one example. The US is generally viewed as leading the world in terms of the sophistication of investment and financial planning advice, but the research mentioned above noted that just 26% of US participants reported their adviser as “*having knowledge of all of my goals*”.

Is part of the problem too much chatter about ‘markets’ and not enough real discussion about what is important to the client? Perhaps.

I also reflect on whether founders speak a ‘different language’ to many of the advisers they meet. Jargon and unnecessary Latin phrases, common in finance and law “*fall upon the facts like soft snow, blurring the outlines and covering up the details.*”, as George Orwell acutely observed.

Each founder will face different challenges, so clear communication needs to be combined with advice that is both independent and bespoke to your personal circumstances; driven by what is important to you. That said, there are common themes that I have seen arise again and again, during my 30 years advising business owners and high-flying professionals:

- Where do I start, in terms of a financial plan and a sensible approach to investing?
- Am I missing planning opportunities because I’m busy with work and family commitments?
- What are the ‘bear traps’ I need to avoid?
- How much financial support do I give my children, to support them without taking away their agency?
- Are the advisers I currently have the right fit for my wealth profile and communication style?
- Am I under-advised? Or am I over-advised or at least, over-paying for advice?

I hope that this white paper has helped you address at least some of these.

A final thought before I close this white paper out. In my experience, it is sometimes only when a founder involves their spouse or partner in the discussions that you really get to the heart of the matter. After all, while an exit is a business transaction, it also represents the culmination of a personal journey and for many that journey, and the transition that an exit implies, has a far wider impact than just the financial proceeds. Everything, from where the income comes from that puts food on the table, to how much time there is available to spend with family and for many, even your sense of yourself.

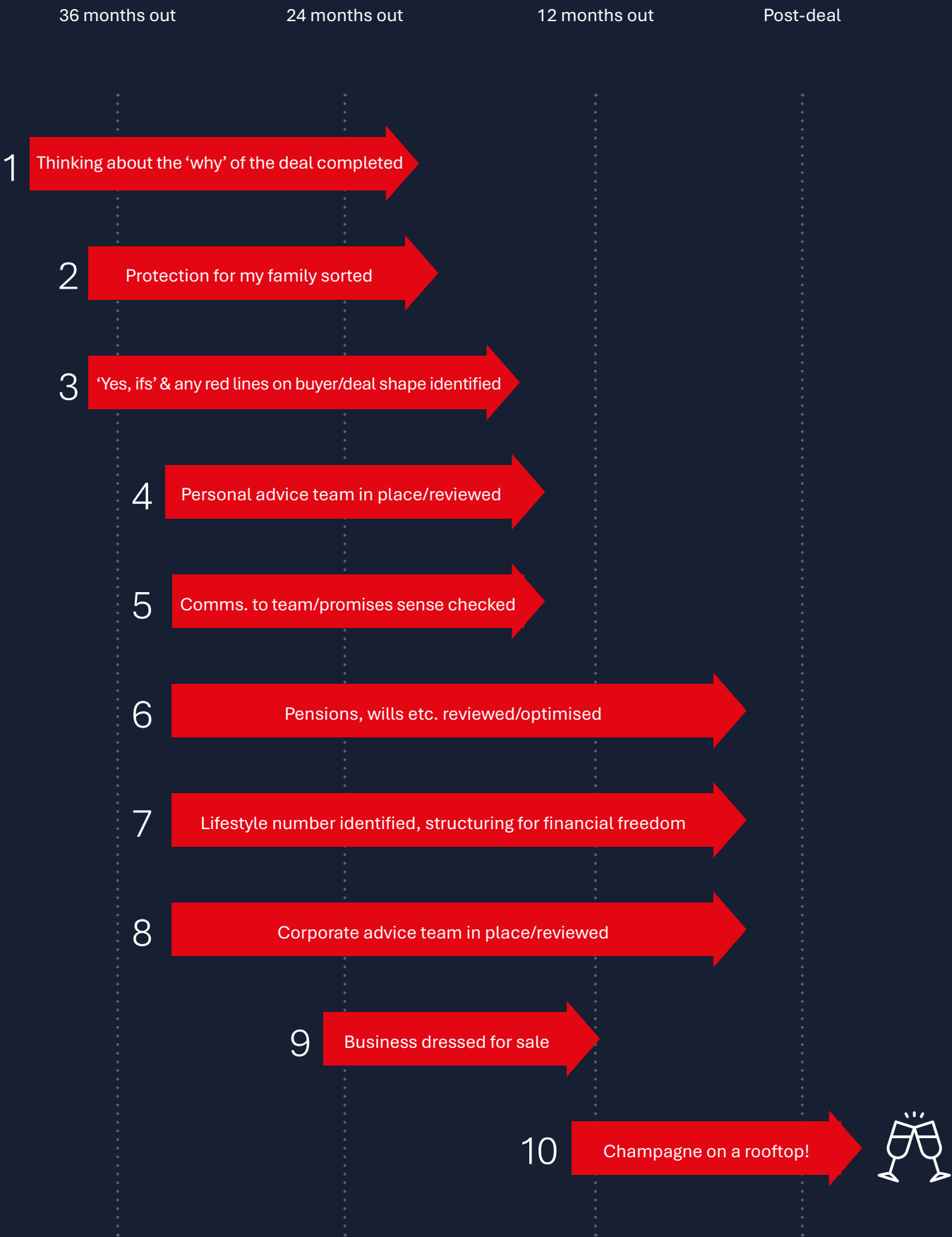
Good luck

Be under no illusions about how busy your life will be, not only during the 12 months before the deal is done, but the 12 months following it. It is perhaps because of how hectic it gets that people say it is never too early to plan for exit, but in reality, planning early is rare and some choices (for example choosing certain advisers) can be tricky more than 36 months out.

If you are approaching an exit, you have already overcome huge challenges and are close to realising your original business vision. It would be a real pity not to secure the full value of that effort, or to let this final phase turn into a time of unnecessary pressure or lingering regrets.

As noted in this paper, the time before and after an exit brings significant adjustment, but sticking to a clear framework and avoiding over-fretting on minor details can make it an enjoyable and thrilling period. It closes one chapter and opens another; less intense perhaps, but hopefully still richly rewarding.

Hopefully, this white paper can help you achieve a zen balance of financial fulfilment, a sense of personal achievement and a post-exit life that is meaningful to you. I wish you every success with your journey.





About Mulberry Bow & Debrett's

Founded in London in 2015, Mulberry Bow is an independent and chartered financial planning boutique that is now establishing a national presence. The practice was built on referrals, from existing clients and leading professional advisers in the legal, accountancy and investment management sectors.

Debrett's was established in 1769 and for more than 250 years has chronicled the lineage, customs and courtesies that help shape British society. In recent years, Debrett's has broadened its advisory services and increasingly focuses on providing corporate finance advice, as well as offering its clients access to opportunities to co-invest alongside its senior team into profitable, growing, unquoted businesses in the UK.

In 2025, the two firms entered into a strategic partnership, the aim of which is to offer entrepreneurs and business owners world-class, independent advice. This white paper was the first child of that nascent marriage!

Bibliography

Zen and the Art of Motorcycle Maintenance by Robert Pirsig

The E-Myth by Michael Gerber

Elon Musk by Walter Isaacson

The Geometry of Wealth by Brian Portnoy

Seven Habits of Highly Successful People by Stephen Covey

This white paper was designed by Steven Bannister.

sbannister.co.uk