



Selling your business to the management team – filling the funding gap

Q: I want to retire and my management team want to buy my business. How can the transaction be funded?

A: For some time now we have seen a common theme of business owners thinking about stepping off the treadmill.

Increasingly we find that these owners would be happy to sell their business to their management team for a fair price if they could work out how the transaction can be funded. They don't necessarily want the management team to be burdened with bank debt when for years it may have been debt free. In a lot of cases they also think the management team cannot afford to raise personal money, so they shy away from such a deal entirely.

But the business owner could step in the place of the bank by filling the gap between an agreed price and what the management team can afford. Most often the business owner has made sufficient money already so the proceeds from a sale is 'the icing on the cake'.

Often management teams put their money into the transaction either using money they have saved or by taking on personal debt against their property. Quite often there is some surplus cash already in the business over and above the working capital that is required to fund its ongoing operations and this can be used to assist in funding the transaction.

The final bit is the "gap" and provided it is structured properly, this can be paid to the business owner over time, funded by the ongoing trade of the business.

Security over the outstanding balance needs to be carefully considered and would, amongst other things, form part of the legal documentation required. The tax treatment also needs to be looked at to ensure the right capital gains tax reliefs are achieved. But all of this is "doable".

This does not necessarily rule out bank finance to help fill the "gap". Bank funding may well be available if there are assets on which the bank can take security. This could be through invoice finance where there is a good trade debtor book and the business sector sits comfortably with the bank. Where the business is profitable but is unable to provide security, the bank may look at providing a term loan but will want personal guarantees standing behind the loan.

To talk this topic through further please contact Nigel Kimber, or email shirley.caddock@mcbridesllp.com to receive details of McBrides' next 'Who's stepping into your shoes?' breakfast briefing.

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