

Why do it?

Shareholder exits are becoming increasingly common in the current economic climate. Issues that may have remained in the background in a buoyant market can be highlighted by the strains brought about by a reduction in profitability or the deferral of a planned sale of the business. Often it is no longer feasible for the business to “carry” shareholders whose contribution and role in the business have diminished, or where there is a difference of opinion on future strategy. Leaving the issue to fester only fosters unhappiness and results in de-motivation across the rest of the management team.

We have successfully negotiated a number of shareholder exits, generally acting as ‘honest broker’ to both parties, and have developed a proven cost-effective methodology. This minimises management team distraction whilst sensitively handling the more emotional aspects. We effectively take the role of an impartial adviser who oversees the process and balances the different expectations of the parties involved.

What does it entail?

If a valuation methodology is not determined in the company’s Articles or in a Shareholder Agreement, a fair valuation needs to be undertaken in respect of the shareholding being purchased. We prepare and discuss this valuation with the respective parties and also discuss, and agree, the other commercial elements of the exit, e.g. notice period, client handover (if appropriate), non-compete and restrictive covenants. As one would expect, there tends to be some negotiation across a number of different areas, subsequently reaching a fair compromise.

What documentation is involved?

- Memorandum of Understanding - details the agreement reached between the parties
- Tax Clearance - ensures the optimum Capital Gains Tax treatment is achieved
- Buy Back Agreement - the legal contract signed by the parties, derived from the MoU
- Compromise Agreement - details any loss of office payment, restrictive covenants, non-compete and other employment points
- Board Minutes - approving and recording the transaction

How long does it take?

Obviously, this depends on the attitude of each party, but as a rule of thumb a period of three months should be allowed for the complete process.