

# Payment Scenarios For Business Sellers



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**Intro:**

Kerry Boulton is Australia's most respected exit strategy advisor and CEO of The Exit Strategy Group. Welcome to this week's segment.

**Dale Beaumont:**

What are the terms that we should be looking for, you know, as well? Because I know sometimes you actually get paid in cash, sometimes you get paid in stock, sometimes you have to stay on for a year or two. There are so many variables. What are some of the best-case scenarios that you should aim for?

**Kerry Boulton:**

Well, the best-case scenario is, "Here's the cash, and I'm out of here!"

**Dale Beaumont:**

Walk out the door, correct?

**Kerry Boulton:**

Yes, if you can. That's the least risky option for you as the seller. But nine times out of 10, that isn't going to happen, because a lot of the intellectual property in the business is tied up with you, the owner. Even though you may have done your best to systemise everything, there's still a perception from the buyer that they need you around for a while. That may change after two or three months, but there are different scenarios. There could be an earn-out, where a portion of your payout is tied to the future profits of the business.

**Dale Beaumont:**

So, we're paying you a million dollars. Here's \$500,000 now, and we'll pay you the rest if the business hits these goals, correct?

**Kerry Boulton:**

Right, and then you've got to stay connected to the business, coach the people to get the results, and ultimately get your own money out.

**Dale Beaumont:**

You've still got skin in the game.

**Kerry Boulton:**

Exactly, that's called an earn-out. And it could be any combination of high or low upfront payments, over any period of time—six months, two years, five years. All negotiable.

**Dale Beaumont:**

What else? Are there other things buyers may throw in there? And then it's up to you to decide. Are you going to negotiate on price to get the terms you want?

**Kerry Boulton:**

Well, it depends on the business that's buying you. You could get stock, for instance—shares—if you're being bought out by a listed company. They may give you some cash and some shares, so

you're betting on the value of those shares increasing, or at least not going down.

**Dale Beaumont:**

Now, can you sell those shares instantly, or are they sort of escrowed or put on ice for maybe a year? So you can't actually just take it straight to the bank.

**Kerry Boulton:**

Usually, they'll be on ice for a little while. Again, the term is negotiable. They might say, "Here are the shares, but you can't sell them for a year." That way, you want the company to grow so you can increase the value of your shares.

**Dale Beaumont:**

So they still want your skin in the game.

**Kerry Boulton:**

Exactly. On the other hand, they might suggest holding on to a small bit of equity in the business. For instance, if you're selling to a private equity group—which we haven't talked about yet—they usually have a short timeframe. They see great potential in your business, plan to grow it three to five times in the next three to five years, and then sell it. That's how private equity works.

**Dale Beaumont:**

So part of their deal might be that you retain a small percentage?

**Kerry Boulton:**

Yes, and that's a great outcome for you. You unlock the wealth you've created with the cash payout, but you still have some skin in the game for the future. Private equity often doesn't want you around, though, because they bring in a different management style and key people to grow the business exponentially.

**Dale Beaumont:**

And they don't want you influencing the staff or hanging around.

**Kerry Boulton:**

Exactly. In an earn-out situation, it's tough. You've been the boss, calling the shots, and suddenly you're answering to someone else. You've got to start doing management reports that you're not used to doing, and they've got to be done by Friday—chop, chop!

**Dale Beaumont:**

Otherwise, it will be chop, chop.

**Kerry Boulton:**

Yes, exactly. It's a difficult position to be in, often.

If you don't have a copy of Kerry's new book, *The Uncensored Truth About Exit Strategy*, please visit [freeexitstrategybook.com.au](http://freeexitstrategybook.com.au).