R O C K - S H O R E   A D V I S O R Y

Your M&A Transaction: A Comprehensive Step-by-Step Guide

An independent guide to navigating sell-side, buy-side and management buyout transactions — with an international perspective.

ROCK-SHORE

M&A, done differently.

Prepared by Rock-Shore Advisory

Independent advice. Fully focused on your deal.

Important Notice

This guide has been prepared by Rock-Shore Advisory for general informational purposes only. It does not constitute legal, financial, tax or regulatory advice, and should not be relied upon as such. Transactions differ significantly by jurisdiction, sector, size and circumstance. Rock-Shore Advisory strongly recommends that all parties to a transaction obtain qualified independent legal, tax and financial advice appropriate to their specific situation.

The information contained in this document reflects general market practice as understood by Rock-Shore Advisory at the time of preparation. It does not represent an exhaustive treatment of any subject and may not reflect developments in law, regulation or market practice in all jurisdictions.

Rock-Shore Advisory is an independent M&A advisory firm. We have no affiliation with any financial institution, legal firm or accounting practice, and do not receive referral fees from third parties. Our sole interest is the best possible outcome for our clients.

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Introduction

A merger or acquisition is among the most consequential events in the life of a business. For founders, it represents the culmination of years — sometimes decades — of work. For acquirers, it is a strategic bet on the future. For management teams executing a buyout, it is both a professional and personal transformation.

The complexity of a transaction should not be underestimated. A mid-market deal — typically defined as transactions with enterprise values between EUR 5 million and EUR 250 million — involves legal, financial, tax, regulatory and interpersonal dimensions that are difficult to navigate without experience. Mistakes made in any of these areas can reduce value, delay completion, or cause a transaction to fail entirely.

Increasingly, M&A is a cross-border activity. A Belgian founder may attract interest from a German strategic buyer and a London-based private equity firm simultaneously. A Dutch acquirer may target a business in Poland or Portugal. An MBO team in France may seek co-investment from a Luxembourg-based family office. In this environment, understanding the international dimensions of a transaction — jurisdiction, currency, regulation, culture — is no longer optional. It is essential.

This guide is designed to give founders, business owners, management teams and corporate buyers a clear, practical framework for understanding the transaction process from start to finish. It is written from the perspective of an independent adviser: our interest is in your outcome, not in fees generated by unnecessary complexity.

> Rock-Shore Advisory operates internationally, with particular experience in transactions involving parties across Western and Central Europe. We advise on sell-side and buy-side mandates, strategic partnerships and management buyouts.

P A R T   O N E

Selling Your Business

Deciding to sell a business is rarely a single moment of clarity. For most founders, it is a gradual process — a growing sense that the time is approaching, combined with external factors that shape the pace and form of the decision. Understanding this process, and managing it deliberately, is the foundation of a successful outcome.

1.1 Deciding When to Sell

The question of timing is one of the most consequential decisions a business owner will face. And yet it is rarely approached with the rigour applied to running the business itself. Instead, it tends to be deferred, revisited, and deferred again — until circumstances make the decision for you.

The best time to sell is when three conditions align: your business is performing well and the trajectory is clear; you have genuine personal clarity about what comes next; and the market is receptive to businesses in your sector. These three conditions rarely persist indefinitely.

FINANCIAL READINESS

Buyers pay for visibility. A business sold on the back of two or three strong years commands significantly more than one sold during a period of transition or uncertainty — even if the underlying fundamentals are identical. Performance matters not only because it drives valuation multiples, but because it reduces the buyer's perception of risk.

- Review your EBITDA trajectory over the past three years
- Assess whether current performance is sustainable and demonstrable
- Consider whether an investment in growth now would significantly increase exit value
- Understand the impact of any customer concentration on buyer appetite

PERSONAL READINESS

Founders who are ambivalent about selling — who have not yet decided what they are moving towards — tend to complicate processes, create uncertainty in negotiations, and sometimes withdraw entirely. Before initiating a process, it is worth investing time in a clear-eyed assessment of your personal motivations and post-sale plans.

- What is driving the consideration of a sale — financial, personal, strategic?
- What does success look like beyond the headline number?
- What happens to your people, your legacy, your identity?
- Are you prepared for the intensity and duration of a sale process?

MARKET CONDITIONS

Market conditions are outside your control, but they are not unpredictable. Valuation multiples in your sector, the availability of acquisition financing, the appetite of strategic and financial buyers, and the level of M&A activity more broadly all influence what you can achieve. A qualified adviser should give you a current, honest assessment of the market before you commit to a process.

> Rock-Shore typically works with owners twelve to twenty-four months before they intend to sell. The conversations that happen in that window — about positioning, financial presentation, and what a buyer will see — consistently produce better outcomes than processes begun in urgency.

1.2 Preparing the Business for Sale

A well-prepared business is faster to sell, attracts better buyers, and achieves a higher price. The preparation phase — ideally twelve to twenty-four months before going to market — is one of the highest-return activities a founder can undertake.

FINANCIAL PRESENTATION

Buyers and their advisers will normalise your EBITDA — adjusting for non-recurring items, owner-related expenses, and accounting policies that may not reflect underlying performance. You can do this work in advance, producing a clean, well-documented financial narrative that builds confidence rather than inviting scrutiny.

- Normalise EBITDA: remove one-off items, personal expenses, above-market owner remuneration
- Prepare clean management accounts for the last three years
- Resolve any outstanding tax matters or accounting irregularities
- Ensure your financial systems can produce timely, accurate reports
- Prepare a credible three-year financial forecast with documented assumptions

LEGAL AND OPERATIONAL HYGIENE

Legal issues discovered during due diligence create uncertainty, delay transactions, and provide buyers with negotiating leverage. Addressing them before going to market removes that leverage and accelerates close.

- Review all material contracts: customer, supplier, employment, lease
- Ensure intellectual property is properly owned and registered
- Resolve any outstanding litigation or regulatory matters
- Check that all corporate records are up to date
- Document key processes, particularly those that currently exist only in people's heads

MANAGEMENT AND ORGANISATION

A business that depends entirely on its founder for relationships, decisions and operational knowledge is a risk that buyers price heavily. Building a capable management layer — and being able to demonstrate it — materially increases value and reduces transaction risk.

- Identify and develop two or three key managers who can operate independently
- Transfer key customer and supplier relationships to the broader team where possible
- Document succession plans and contingency arrangements
- Consider whether incentive arrangements for key staff are in place

1.3 Appointing an Adviser

The decision to appoint an M&A adviser — and who to appoint — is among the most consequential choices in a sale process. A good adviser brings market knowledge, transaction experience, a relevant buyer network, and the bandwidth to run a complex process while you continue to run your business. A poor one does the opposite.

WHAT TO LOOK FOR

- Demonstrable experience in your sector and deal size range
- International reach if your business is likely to attract cross-border interest
- A clear conflict-of-interest policy — particularly important for advisers who also represent buyers
- A senior team that will personally manage your transaction
- A track record of completed transactions, not just mandates initiated

FEE STRUCTURES

M&A advisory fees typically consist of a monthly retainer (covering process management, documentation and ongoing advice) and a success fee payable on completion. Success fees are usually calculated as a percentage of enterprise value, often on a sliding scale. Understand the full economics before engaging.

- Retainer fees typically range from EUR 3,000 to EUR 15,000 per month depending on deal complexity
- Success fees typically range from 1% to 5% of enterprise value, declining at higher values
- Ensure the definition of 'transaction value' for fee purposes is clearly agreed
- Understand what happens to the retainer if no transaction completes

PROCESS DESIGN

The design of the sale process — broad auction versus targeted approach — should be agreed with your adviser before launching. Each has advantages and tradeoffs.

- Broad auction: maximises competitive tension, appropriate for businesses with wide buyer appeal
- Targeted approach: maintains confidentiality, appropriate for sensitive businesses or where buyer universe is limited
- Hybrid: limited process with a curated shortlist of highly qualified buyers

1.4 Preparing the Documentation

A well-prepared information package reduces friction, builds buyer confidence, and shortens due diligence. The core documents are typically produced by the adviser in close collaboration with management, and represent the business's best case to prospective buyers.

THE TEASER

A one-to-two page anonymous summary of the business, used for initial outreach. It should be compelling enough to generate interest without revealing the identity of the business. Key elements: sector, geography, scale (revenue and EBITDA range), strategic rationale for acquisition, and next steps.

THE INFORMATION MEMORANDUM (IM)

The IM is the primary marketing document for the business. It is typically shared under NDA and should provide a qualified buyer with everything needed to form an indicative view of value. A well-crafted IM tells a coherent story — about the business, its market, its management, its financials, and its future.

- Executive summary
- Business overview: history, products/services, customers, operations
- Market and competitive landscape
- Management team: biographies, organisational structure
- Financial performance: three years of historical financials, KPIs, normalised EBITDA
- Financial projections: three-year forecast with assumptions
- Strategic opportunities: growth initiatives available to an acquirer

THE FINANCIAL MODEL

A standalone financial model — covering the income statement, balance sheet and cash flow — is essential for any serious buyer. It should be clean, transparent, and capable of withstanding scrutiny. Avoid complexity for its own sake: a model that a buyer cannot follow creates scepticism.

THE DATA ROOM

A virtual data room (VDR) is used to share confidential documents with buyers under NDA during due diligence. Organising the data room in advance — and populating it with well-indexed, complete materials — dramatically reduces the time and friction of due diligence.

- Corporate: constitutional documents, shareholder agreements, corporate history
- Financial: audited accounts, management accounts, tax returns, working capital analysis
- Legal: contracts, IP, litigation, regulatory correspondence
- HR: key employee contracts, incentive schemes, organisational chart
- Operations: key supplier and customer contracts, property leases, IT systems

1.5 Running the Sale Process

A well-run process creates competitive tension and protects your negotiating position. The adviser's role is to manage the process so that you can focus on running the business — and so that buyers receive a consistent, professional experience that builds confidence.

PHASE 1 — INITIAL OUTREACH

The adviser contacts a carefully selected list of potential buyers — strategic acquirers, private equity firms, family offices — with the anonymous teaser. Interested parties sign an NDA and receive the Information Memorandum.

PHASE 2 — MANAGEMENT PRESENTATIONS

Qualified parties are invited to a management presentation — typically a two-to-three hour meeting with the founder and key management. This is the buyer's first opportunity to assess the team, and the seller's first opportunity to assess the buyer. Cultural fit and intent matter as much as financial capability at this stage.

PHASE 3 — INDICATIVE OFFERS

Interested parties submit non-binding indicative offers, typically including a proposed valuation range, deal structure, and key assumptions. The adviser evaluates these against price, structure, certainty of close, and strategic fit, and recommends a shortlist for further engagement.

PHASE 4 — EXCLUSIVITY AND DUE DILIGENCE

A preferred buyer is granted exclusivity — a period during which the seller agrees not to engage with other parties. In exchange, the buyer conducts detailed due diligence and moves towards a binding offer. Exclusivity periods typically range from four to twelve weeks.

PHASE 5 — SIGNING AND CLOSING

The transaction is documented in a Share Purchase Agreement (SPA) or equivalent. The SPA is negotiated between the parties' legal teams and covers price, structure, representations and warranties, conditions to closing, and post-closing obligations. Signing is followed by closing, which may occur simultaneously or after satisfaction of conditions (regulatory approval, financing).

> A typical mid-market sale process from appointment to close takes six to twelve months. Cross-border transactions and those requiring regulatory approval tend to take longer.

1.6 Navigating Due Diligence

Due diligence is where transactions succeed or fail. A seller who is well-prepared — with a complete data room, a responsive management team, and experienced legal counsel — will navigate due diligence faster, with fewer price adjustments and fewer conditions to close.

FINANCIAL DUE DILIGENCE

Conducted by the buyer's accountants, financial due diligence focuses on the quality of earnings, working capital dynamics, and the financial condition of the business. It is the most commonly cited source of purchase price adjustments.

- Quality of earnings: normalised EBITDA, recurring versus one-off items
- Working capital analysis: seasonal patterns, debtor and creditor days, cash conversion
- Net debt and debt-like items: pension obligations, deferred revenue, earn-outs
- Tax: compliance, exposure, deferred tax positions

LEGAL DUE DILIGENCE

Conducted by the buyer's lawyers, legal due diligence reviews the legal integrity of the business and identifies risks that may require warranty coverage, price adjustment or specific indemnities.

- Corporate structure and ownership
- Material contracts: assignability, change of control clauses
- Intellectual property ownership and registration
- Employment: key person dependencies, outstanding claims
- Litigation and regulatory compliance

COMMERCIAL DUE DILIGENCE

Focused on the market, competitive dynamics and sustainability of the business model. Often conducted by specialist strategy consultants, particularly in private equity transactions.

- Market size, growth and competitive landscape
- Customer concentration and relationship durability
- Pricing power and margin sustainability
- Management team assessment

1.7 Negotiating and Closing

The negotiation of a transaction — from indicative offer to signed SPA — is a complex, multi-dimensional exercise. Price is important, but it is rarely the only consideration. Deal structure, representations and warranties, earn-out mechanics, and management arrangements all carry significant value and risk.

KEY NEGOTIATING POINTS

- Enterprise value and equity value bridge: treatment of cash, debt and working capital
- Locked box versus completion accounts: mechanism for determining final price
- Representations and warranties: scope, materiality thresholds, and liability caps
- Indemnities: specific protections for identified risks
- Earn-out arrangements: quantum, metrics, duration, and governance during earn-out period
- Management arrangements: employment terms, non-compete, good leaver/bad leaver provisions

WARRANTY AND INDEMNITY INSURANCE

W&I insurance — increasingly standard in mid-market transactions — provides buyers with recourse against warranty breaches without requiring sellers to retain funds in escrow. For sellers, it provides a clean exit. For buyers, it provides financial protection. Premiums typically range from 1% to 2% of the insured amount.

CONDITIONS TO CLOSING

Transactions may be subject to conditions that must be satisfied between signing and closing. These commonly include regulatory approvals (merger control), third-party consents (landlord, lender, key customer), and financing conditions. The adviser and legal team should manage these conditions actively to minimise the risk of delay.

1.8 International Considerations for Sellers

Selling a business with cross-border elements — whether through international operations, a foreign buyer, or simply a sale process that spans multiple jurisdictions — introduces additional complexity that must be managed carefully.

MERGER CONTROL AND REGULATORY APPROVALS

Transactions above certain turnover thresholds may require notification to competition authorities before closing. In Europe, this may involve the European Commission, national competition authorities (or both under the 'one-stop-shop' principle), or authorities in non-EU jurisdictions where the parties have operations. Regulatory timelines can range from three weeks (Phase I clearance) to over twelve months (Phase II investigation), and must be factored into deal structure and exclusivity arrangements.

TAX STRUCTURING

The tax consequences of a transaction vary significantly by jurisdiction, holding structure, and deal mechanics. Key considerations include: capital gains treatment (participation exemption, rollover relief), VAT on asset transactions, transfer taxes, and the tax treatment of earn-outs. Where a Luxembourg holding company or similar vehicle is involved, structuring advice should be obtained early in the process.

- Belgium: capital gains on shares generally exempt for companies under participation exemption
- Luxembourg: SOPARFI structures commonly used for holding and selling participations
- France: specific rules apply to real estate holding companies and asset-heavy businesses
- UK and US buyers: may require specific representations regarding FCPA, UK Bribery Act

CURRENCY AND FX RISK

Where a transaction involves parties in different currency zones, exchange rate movements between signing and closing can materially affect the economics for one or both parties. This risk can be managed through currency hedging, pricing in a neutral currency, or locked-box mechanics that eliminate the settlement lag.

CULTURAL AND NEGOTIATION DIFFERENCES

Cross-border transactions frequently involve different commercial cultures, negotiation styles, and business norms. Northern European buyers tend to prioritise process and documentation; Southern European counterparts may place greater emphasis on personal relationships. Anglo-Saxon acquirers typically operate with more aggressive legal documentation. Understanding these differences — and adjusting your approach accordingly — is a material factor in cross-border deal success.

> Rock-Shore has experience managing transactions across Belgium, the Netherlands, France, Luxembourg, Germany, the United Kingdom, and further afield. We provide cultural as well as commercial guidance throughout the process.

Acquiring a Business

A well-executed acquisition can transform a business — accelerating growth, entering new markets, acquiring capabilities, or consolidating a fragmented sector. A poorly executed one can absorb management bandwidth, destroy shareholder value, and damage culture for years. The difference, more often than not, lies in the quality of preparation, process discipline, and integration planning.

2.1 Defining the Acquisition Strategy

The most common mistake in buy-side M&A is starting with the market rather than with the strategy. Before approaching any target, an acquirer should have a clear, written acquisition rationale — one that can be tested against each potential target and communicated credibly to sellers, management teams, and financing parties.

STRATEGIC RATIONALE

- Horizontal consolidation: acquiring a competitor to gain market share
- Vertical integration: acquiring a supplier or customer to control the value chain
- Geographic expansion: entering a new market through acquisition rather than organic growth
- Capability acquisition: obtaining technology, IP, talent, or licences
- Financial: acquiring an underperforming asset at a discount with a clear value-creation thesis

ACQUISITION CRITERIA

Define your criteria clearly before entering the market. Vague criteria produce vague results and waste significant time evaluating unsuitable targets. A good acquisition mandate should specify:

- Enterprise value range (minimum and maximum)
- Revenue and EBITDA targets, with acceptable ranges
- Geography: specific countries, regions or language markets
- Sector: sub-sectors of interest, and those to avoid
- Business model: asset-light vs. asset-heavy, recurring revenue vs. project-based
- Management: requirement for continuity vs. appetite to install new management
- Structure: preference for 100% acquisitions, majority stakes, or minority investments

2.2 Sourcing the Right Targets

The best acquisitions are rarely the ones that come to market through a formal process. Proprietary deal flow — targets identified and approached before they have engaged an adviser — gives acquirers a significant structural advantage: less competition, more time to evaluate, and a more personal dynamic with the seller.

MAPPING THE UNIVERSE

A systematic approach to target identification — using databases, industry associations, trade publications, and adviser networks — produces a prioritised longlist of potential targets. This list should be reviewed and refined before any approach is made.

DIRECT APPROACHES

Direct approaches to business owners — particularly founder-owned businesses not actively considering a sale — require sensitivity and credibility. The initial contact should be brief, personal, and focused on why this specific business is of interest. Mass mailings or impersonal approaches tend to be counterproductive.

- Research the owner personally before making contact
- Frame the approach around the strategic logic, not the financial transaction
- Offer a no-obligation conversation rather than a formal proposal
- Be prepared for a lengthy relationship-building phase before a transaction is possible

ADVISER-RUN PROCESSES

For businesses actively seeking an acquirer — whether through a formal auction or a targeted process — the seller's adviser will manage access and process. Participating effectively in these processes requires rapid financial analysis, clear articulation of your acquisition rationale, and a compelling offer that addresses the seller's priorities beyond price.

2.3 Approaching and Evaluating Targets

The first meeting with a potential target sets the tone for the entire relationship. It should be led by a senior person, well-prepared in terms of knowledge of the business, and focused as much on listening as on presenting.

PRELIMINARY FINANCIAL ANALYSIS

Before meeting a target, conduct a preliminary financial analysis using publicly available information — accounts filed at the Companies Registry, sector benchmarks, customer and competitor information. This allows you to form a preliminary view of value, structure a meaningful conversation, and demonstrate seriousness to the seller.

INITIAL VALUATION

Establish a preliminary valuation range before making any indication of interest. This valuation should be based on a clear methodology — typically an EBITDA multiple benchmarked against comparable transactions — and should be stress-tested against different scenarios. Anchoring too early with a number that proves difficult to substantiate damages credibility.

RED FLAGS

Early conversations often reveal issues that would not appear in any information pack. Be alert to:

- Overly optimistic projections without substantiated assumptions
- High customer or supplier concentration
- Key person dependency — particularly if that person is the seller
- Unusual accounting policies or restatements
- History of management turnover
- Sector or regulatory headwinds not acknowledged by the seller

2.4 Structuring the Offer

A compelling offer addresses the seller's priorities — not just the acquirer's. For a founder selling a business they have built over twenty years, price is rarely the only consideration. Certainty of close, the future of their people, and what happens to what they have built often matter as much or more.

PRICE AND STRUCTURE

- Cash at closing: the simplest and most attractive structure for sellers
- Deferred consideration: a portion paid at a later date, subject to conditions
- Earn-out: additional consideration contingent on future performance
- Vendor loan: seller retains a subordinated debt instrument
- Equity rollover: seller reinvests a portion of proceeds in the acquiring entity

EARN-OUTS

Earn-out arrangements — in which the seller receives additional consideration if the business meets agreed performance targets post-acquisition — are commonly used to bridge valuation gaps or retain management alignment. They are also a frequent source of post-closing disputes. If you use an earn-out, the mechanics must be precisely defined: which metrics, over what period, under what accounting policies, with what management autonomy.

EXCLUSIVITY AND TIMING

Move decisively once you have decided to proceed. Hesitation signals uncertainty, damages the relationship, and invites competing interest. Requesting a short period of exclusivity — typically four to eight weeks for due diligence — demonstrates commitment and allows both parties to focus resources.

2.5 Due Diligence

Buy-side due diligence is about confirming the investment thesis, not just checking boxes. The findings should actively shape the final price, structure and terms — not merely validate the original offer.

ORGANISING THE PROCESS

Appoint your advisers — financial, legal, and where appropriate commercial — before exclusivity begins. Brief them clearly on the investment thesis and the specific risks you wish to investigate. A well-coordinated due diligence process moves faster and produces more useful output than one where advisers work in silos.

FINANCIAL DUE DILIGENCE PRIORITIES

- Quality of earnings: recurring vs. non-recurring, customer concentration, margin drivers
- Working capital: normalised level, seasonal patterns, and cash conversion cycle
- Net debt and debt-like items: pension obligations, deferred revenue, off-balance-sheet liabilities
- Capital expenditure: maintenance vs. growth capex, deferred investment
- Tax: historic compliance, transfer pricing, deferred tax positions

LEGAL DUE DILIGENCE PRIORITIES

- Title to shares and assets
- Change of control provisions in material contracts
- Employment obligations: TUPE, collective agreements, key person arrangements
- Intellectual property: ownership, registration, third-party licences
- Litigation and regulatory exposure

USING FINDINGS IN NEGOTIATION

Due diligence findings should be used constructively — to adjust the price or structure to reflect identified risks, not as a weapon to renegotiate arbitrarily. Sellers are more likely to accept reasonable adjustments supported by evidence than demands unsupported by specific findings. Maintain a constructive relationship with the seller throughout.

2.6 Closing and Integration

Integration is where acquisition value is created or destroyed. Research consistently shows that the majority of acquisitions fail to deliver on their strategic and financial objectives — and that poor integration planning is the most common cause.

INTEGRATION PLANNING BEFORE CLOSING

Integration planning should begin before the transaction closes. A detailed integration plan — covering governance, systems, people, customers, and culture — should be agreed between the acquiring and acquired management teams before Day 1.

- Define the integration model: full absorption, partial integration, or standalone
- Identify and retain key people before closing
- Plan Day 1 communications to staff, customers and suppliers
- Establish clear governance and decision-making authority
- Set integration milestones and accountability

MANAGING PEOPLE

People are both the most valuable asset in most acquisitions and the most commonly damaged one. Uncertainty about roles, reporting lines and culture drives talent attrition. Address people issues early, honestly, and with empathy.

PROTECTING WHAT MADE THE TARGET VALUABLE

Acquirers sometimes destroy the very thing they paid for — the culture, the relationships, the brand, or the operational model that generated the target's performance. Be deliberate about what to preserve as well as what to change.

2.7 Cross-Border Acquisition Considerations

Acquiring a business in a foreign jurisdiction introduces risks and complexities that domestic transactions do not carry. Understanding these in advance allows them to be managed proactively.

REGULATORY AND ANTITRUST

Cross-border transactions above certain turnover thresholds must be notified to competition authorities before closing. In Europe, the European Commission has jurisdiction over transactions meeting EU Merger Regulation thresholds; national competition authorities retain jurisdiction below these thresholds. Clearance timelines must be built into the transaction structure.

LEGAL SYSTEM DIFFERENCES

Governing law, legal documentation standards, and enforcement mechanisms differ significantly across jurisdictions. Common law systems (UK, Ireland) and civil law systems (France, Belgium, Germany, Netherlands) approach M&A documentation very differently. Engage local legal counsel in each relevant jurisdiction.

TAX AND STRUCTURING

Cross-border acquisitions require careful consideration of the acquisition structure — through which entity, in which jurisdiction, and with what financing. The location of the acquisition vehicle has significant implications for ongoing tax efficiency, dividend flows, and future exit planning.

CURRENCY RISK

Where the transaction currency differs from your reporting currency, you are exposed to FX movements between signing and closing. Consider hedging this exposure or, where possible, negotiating a locked-box mechanism to eliminate the closing adjustment.

CULTURAL DUE DILIGENCE

Cultural compatibility is consistently underweighted in acquisition due diligence and consistently cited as a primary cause of post-acquisition difficulties. Assess management style, decision-making culture, attitude to risk, and communication norms as seriously as financial and legal matters.

> Rock-Shore provides guidance on cultural dynamics in cross-border transactions, drawing on experience across multiple European jurisdictions and deal cultures.

PART THREE

Management Buyout (MBO)

A management buyout is a transaction in which a company's existing management team acquires the business from its current owner. MBOs represent a compelling succession solution for founder-owned businesses where the owner wishes to exit but values continuity of leadership, culture and relationships.

For management teams, an MBO is both a professional and personal transformation — from employed managers to owner-operators, with the rewards and risks that entails. Understanding the process, the financing, and the personal implications is essential before committing.

3.1 What is an MBO?

In a typical MBO, the management team acquires a majority or controlling stake in the business, financed through a combination of their own equity investment, senior debt from a bank or debt fund, and sometimes additional equity from a private equity co-investor or the vendor.

The key characteristics that distinguish an MBO from a third-party sale are: the buyers already know the business intimately; the transaction is inherently sensitive to the ongoing employment relationship; and the financing structure typically relies on the business's own cash generation to service and repay acquisition debt.

3.2 Building and Aligning the Team

Before approaching the owner or any financing party, the management team must be internally aligned. Misalignment within the team — about roles, equity stakes, decision-making authority, or personal financial expectations — is one of the most common causes of MBO failure.

TEAM COMPOSITION

Not every member of the management team needs to participate. The MBO team should include those who are essential to the future of the business, who bring complementary skills, and who are genuinely committed to the ownership journey.

- Identify the core team and their strategic roles post-transaction
- Be realistic about who adds value as an owner, not just as an employee
- Agree on governance arrangements: who leads, how decisions are made, what happens in disagreement

EQUITY ALLOCATION

Equity allocation is one of the most sensitive discussions in any MBO. It must reflect both the relative contribution of each team member and the practical reality that unequal stakes can create governance problems. There is no universal formula — but transparency, fairness, and a clear rationale for the allocation are essential.

- Consider contribution: current role, future importance, financial investment
- Consider a lead shareholder with a majority stake for governance clarity
- Establish vesting schedules and leaver provisions from the outset
- Document the shareholder agreement in detail before approaching any external party

PERSONAL FINANCIAL COMMITMENT

Lenders and private equity investors will expect the management team to make a meaningful personal financial investment — typically the equivalent of one to two years' salary per individual. This 'skin in the game' demonstrates commitment and aligns incentives. It also means that team members must assess their personal financial capacity honestly.

3.3 Approaching the Owner

The conversation with the owner is one of the most delicate in the entire MBO process. It must preserve the working relationship, avoid creating uncertainty in the business, and create the conditions for a constructive negotiation.

BEFORE THE APPROACH

Do not approach the owner until the management team is fully aligned and has a realistic preliminary view of value and financing. Approaching an owner with a vague or underprepared proposal is likely to be counterproductive.

- Assess the owner's likely priorities: price, legacy, timeline, confidentiality
- Prepare a preliminary view of the business's value — understand the range the owner might expect
- Consider engaging an adviser to help structure and manage the conversation

THE APPROACH CONVERSATION

The initial approach should focus on the owner's interests, not the management team's. Position the MBO as a solution to the owner's succession challenge — one that preserves continuity, protects the business's culture and people, and provides a credible exit.

MANAGING CONFIDENTIALITY

Confidentiality is critical throughout the MBO process. News of a potential management buyout — if it reaches employees, customers or suppliers before it is ready to be announced — can create damaging uncertainty. Agree strict confidentiality protocols with the owner from the outset.

3.4 Financing the MBO

The financing of an MBO is typically more complex than that of a third-party sale, because the management team is both the buyer and the management resource that will service the acquisition debt. Lenders and investors are therefore as focused on the quality of management as on the quality of the business.

TYPICAL FINANCING STRUCTURE

A mid-market MBO is typically financed through three or four layers of capital:

- Management equity: the personal investment of the management team, typically 5–15% of the total consideration
- Senior debt: bank or debt fund lending, typically 2.5–4.5x EBITDA, repaid over five to seven years
- Mezzanine or unitranche: subordinated debt carrying a higher interest rate, used to bridge the gap between senior debt and equity
- Private equity co-investment: for larger transactions, a PE firm may invest equity alongside management, typically taking a majority stake
- Vendor loan: the seller retains a portion of the consideration as a subordinated loan, often used to bridge a valuation gap

DEBT SERVICEABILITY

The fundamental test for any MBO financing is whether the business can generate sufficient cash to service and repay the acquisition debt while continuing to invest in operations and growth. Lenders will model this carefully. Management teams should do the same — and be conservative in their assumptions.

PRIVATE EQUITY PARTNERSHIP

For larger MBOs, a private equity co-investor may be the most appropriate financing solution. PE firms provide equity, financial expertise, and often strategic support. They also bring governance expectations — board representation, reporting requirements, and an explicit exit horizon — that management teams must be prepared for.

- PE firms typically target investments of EUR 5 million and above
- They typically seek a majority or significant minority stake
- Their investment horizon is typically three to six years, with a planned exit
- Management incentivisation is typically structured through a 'sweet equity' arrangement

3.5 Due Diligence and Legal Structure

MBO due diligence is unusual in that the management team already knows the business intimately. The focus shifts to validating the financial model for lenders and co-investors, and to the legal structuring of the transaction.

FINANCIAL DUE DILIGENCE

Even where management knows the business well, independent financial due diligence is required by lenders and investors. The process should focus on: quality of earnings, working capital normalisation, and the assumptions underlying the financial projections that support the debt serviceability analysis.

LEGAL STRUCTURING

An MBO typically involves the creation of a new acquisition vehicle — a Newco — into which the management team and any co-investors invest equity, and through which debt is raised. The Newco acquires the target business from the vendor. The legal documentation includes a sale and purchase agreement (SPA), a shareholder agreement, and financing documentation.

- Shareholder agreement: governance, reserved matters, vesting, leaver provisions, drag and tag
- Management service agreements: roles, remuneration, non-compete obligations
- Financing documentation: facility agreement, security package, financial covenants

3.6 Post-MBO: The First 100 Days

The first one hundred days after an MBO are critical. Employees, customers and suppliers are watching for signals about continuity and direction. Lenders and investors are watching for early evidence that the management team is performing as expected.

COMMUNICATION

- Communicate clearly and promptly to all stakeholders — staff, customers, suppliers — immediately after closing
- Emphasise continuity: the people, the culture, and the commitment to quality remain the same
- Be transparent about the new ownership structure where appropriate

EARLY PRIORITIES

- Establish new governance processes: board meetings, reporting cadence, decision-making authority
- Review the business plan against actual trading and adjust assumptions as needed
- Identify and address any integration issues (particularly if the Newco has acquired assets from the vendor)
- Protect and retain key relationships — particularly those previously held by the departing owner

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M&A, done differently.

P A R T F O U R

Valuation Fundamentals

Understanding how businesses are valued is essential for both buyers and sellers. Valuation is as much art as science — the same business can be valued differently by different buyers, using different methodologies, at different points in the cycle. What matters is understanding the logic, the inputs, and the assumptions behind any valuation.

4.1 The EBITDA Multiple Method

The most common valuation methodology in mid-market M&A is the EBITDA multiple — a multiplier applied to normalised earnings before interest, tax, depreciation and amortisation. The multiple reflects market conditions, sector characteristics, business quality, and strategic value to a specific buyer.

NORMALISED EBITDA

Normalised EBITDA removes items that do not reflect the underlying, recurring earnings of the business. Common adjustments include:

- Owner's remuneration above or below market rate
- Non-recurring costs: restructuring, one-off professional fees, relocation
- Non-recurring revenue: grants, one-time contracts
- Non-business expenses run through the P&L
- IFRS 16 lease adjustments (where relevant)

TYPICAL MULTIPLES BY SECTOR

Valuation multiples vary significantly by sector, business model and market conditions. The following ranges are indicative for mid-market transactions in Western Europe at the time of writing and should not be relied upon without current market data:

- Technology and SaaS: 8–15x EBITDA (recurring revenue premium)
- Business services: 6–10x EBITDA
- Industrial and manufacturing: 4–7x EBITDA
- Healthcare and medtech: 7–12x EBITDA
- Retail and consumer: 4–7x EBITDA
- Professional services: 5–9x EBITDA

> Multiples are highly sensitive to market conditions, interest rates, and the availability of acquisition financing. These ranges reflect conditions at the time of preparation and may have changed materially.

4.2 Enterprise Value vs. Equity Value

Enterprise value (EV) represents the total value of the business's operations — what it would cost to acquire the business free of debt and with a normalised level of cash and working capital. Equity value — the cash received by the seller — is derived from enterprise value by deducting net debt and adding excess cash.

The bridge from enterprise value to equity value is one of the most commonly misunderstood aspects of M&A. Items that reduce equity value include: bank debt, finance leases, pension deficits, deferred tax liabilities, earn-out obligations, and working capital deficiencies versus an agreed normalised level.

4.3 Other Valuation Methodologies

DISCOUNTED CASH FLOW (DCF)

DCF analysis values a business by discounting projected future free cash flows at a rate that reflects the risk of those cash flows. It is the most theoretically rigorous methodology but is highly sensitive to assumptions about growth rates, margins and discount rates. In practice, it is used as a cross-check rather than a primary methodology in most mid-market transactions.

COMPARABLE TRANSACTIONS

Reviewing recent comparable transactions — businesses of similar size, sector and profile that have been acquired — provides market evidence for valuation multiples. Your adviser should maintain a database of relevant precedent transactions.

COMPARABLE COMPANIES

Listed comparable companies — public businesses in the same sector — can provide valuation benchmarks, though listed multiples are typically subject to a liquidity premium relative to private company values.

ASSET-BASED VALUATION

For asset-heavy businesses — property, manufacturing, logistics — asset-based approaches (net asset value, replacement cost) may be more relevant than earnings-based approaches. Real estate valuations in particular should be obtained from qualified independent valuers.

PART FIVE

Working with Advisers

A transaction of any complexity requires a team of specialist advisers. Understanding their roles, how to work with them effectively, and how to manage the total advisory cost is an important dimension of process management.

5.1 The Advisory Team

M&A ADVISER

The M&A adviser manages the overall transaction process: identifying and approaching counterparties, preparing documentation, managing due diligence, coordinating the advisory team, and advising on negotiation strategy. In a sell-side transaction, the adviser acts as your agent — their interests should be aligned with achieving the best outcome for you.

LEGAL COUNSEL

Transaction lawyers draft and negotiate the legal documentation — the SPA, disclosure letter, shareholder agreement and ancillary documents. In cross-border transactions, local counsel in each relevant jurisdiction is typically required. Legal fees are typically the largest advisory cost item.

FINANCIAL ADVISER / REPORTING ACCOUNTANTS

In larger transactions, a Big Four or mid-market accounting firm may be engaged to produce a vendor due diligence report — a financial analysis of the business prepared on behalf of the seller and shared with prospective buyers. This can accelerate due diligence and increase buyer confidence.

TAX ADVISER

Tax advisers structure the transaction to optimise the after-tax outcome for the seller or acquirer. In cross-border transactions, tax structuring — the choice of acquisition vehicle, financing structure, and jurisdictional considerations — can have a material impact on net proceeds.

OTHER SPECIALISTS

Depending on the business and the transaction, specialist advisers may also be required: commercial due diligence consultants, IT advisers, environmental consultants, pension actuaries, and regulatory specialists.

5.2 Managing the Advisory Process

The management team's role in the advisory process is to provide information, make decisions, and maintain the trading performance of the business. The adviser's role is to manage everything else. The division of labour should be clear from the outset.

- Establish a small internal transaction team — two or three people maximum — to manage the process
- Agree a communication protocol with your adviser: how often, through which channels, who escalates what
- Be responsive: delays in providing information are the most common cause of transaction delay
- Make decisions promptly: indecision signals uncertainty to buyers and advisers alike
- Maintain confidentiality: information about a potential transaction must be strictly controlled

5.3 Total Advisory Costs

Advisory costs in a mid-market transaction typically range from 2% to 5% of enterprise value for the sell-side, with legal costs representing the largest component. These costs are deal-expense and, in most jurisdictions, deductible against the gain on disposal. Understanding the total advisory cost budget before initiating a process allows for realistic expectations.

- M&A adviser: retainer plus success fee (1–3% of EV)
- Legal counsel: EUR 100,000–EUR 400,000 depending on complexity
- Financial advisers (VDD): EUR 80,000–EUR 200,000 for a full vendor due diligence
- Tax adviser: EUR 20,000–EUR 80,000 depending on structure complexity
- W&I insurance premium: 1–2% of insured amount

> These ranges are indicative only and vary significantly by transaction complexity, jurisdiction, and the specific advisers engaged. Always obtain detailed fee proposals before engagement.

G E T   I N   T O U C H

Ready to have a conversation?

Every significant transaction begins with a conversation. We welcome enquiries at any stage — whether you have a live mandate, are preparing for a process twelve months from now, or are simply thinking ahead.

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tim@rock-shore.com

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