SESAME BANKHALL GROUP

What is an asset purchase?

ExitPathway

Selling your business is a significant decision, and it's crucial to get it right. That's where Bankhall comes in. Unlike traditional mergers and acquisition (M&A) brokers, we work closely with you to help prepare your business for sale.

We thoroughly examine everything from data quality to regulatory and compliance standards. By identifying and fixing potential issues before a buyer sees them, we help protect and often increase your sale value. Our expertise in risk and regulation also streamlines the due diligence process, reducing the chance of delays or last-minute deal breakers. If there's untapped growth potential in your business, we'll highlight it, giving you the chance to boost your valuation before going to market.

We don't stop there. We use our extensive Sesame Bankhall Group network to help find the right buyer who aligns with your goals, values, and culture. When it's time to negotiate, we're with you every step of the way, from initial discussions to exchange and completion.

With trusted consultancy, practical tools, and end-to-end support, we're your proactive partner for life, whether you're ready to sell now or preparing for the future.

What is an asset purchase?

An asset purchase is a type of transaction where a buyer acquires specific business assets, rather than purchasing the entire business - in this scenario your client bank.

This approach is often used in mergers and acquisitions (M&A) to selectively acquire valuable parts of a business while avoiding unwanted liabilities or contracts. If staff are also transferring, please refer to the Trade and Asset Purchase document on the Knowledge Hub.

It would be normal for the seller to acquire run off cover in this scenario and liquidate the company at their own cost.

Quite often an asset purchase is offered for smaller companies (one and two person entities) as the legal and due diligence costs can come to more than the purchase price itself, making the deal unappealing on a share purchase basis.

How it works

1. **Identification of assets:** The buyer and seller agree on which clients will be included in the transaction.
2. **Non-disclosure agreement:** An agreement between the buyer and the seller that may be entered into in the early phases of the transaction.
3. **Term sheet:** Before preparing the key transaction document, the buyer and the seller often enter into a term sheet (often referred to as a 'head of terms') to outline the key principles and commercial terms that have been agreed between the parties. If not in the term sheet, a separate exclusivity agreement may be entered into between the buyer and the seller.
4. **Due diligence:** The buyer conducts thorough due diligence to assess the value and condition of the assets, ensuring there are no hidden liabilities or issues. This step is crucial to mitigate risks and confirm the assets' worth.
5. **Asset purchase agreement (APA):** This legal document outlines the terms and conditions of the sale, specifying the assets being acquired and any liabilities being assumed. It also details the purchase price and payment terms.
6. **Transfer of assets:** Once the APA is signed, the assets are transferred to the buyer. This may involve updating ownership records, transferring contracts, and notifying clients of the change. If client consent is required, this would also take place.
7. **Integration:** The buyer integrates the acquired assets into their existing operations. This will likely involve merging client accounts, aligning service offerings, and ensuring compliance with regulatory requirements.

Buyers vary, but most will want you to stay involved in their business until the client handover is complete.

Advantages of asset purchases for the buyer

- **Selective acquisition:** Buyers can choose which assets to acquire, avoiding unwanted liabilities.
- **Tax benefits:** Buyers can often 'step up' the basis of the acquired assets (i.e. revalue them to their current market value). The buyer can then claim tax deductions on the depreciation (for tangible assets) and amortisation (for intangible assets) based on

this new, higher value. This can reduce the buyer's taxable income, leading to potential tax savings.

- **Reduced risk:** By not acquiring the entire entity, buyers limit their exposure to unknown liabilities or contracts.
- **Regulatory requirements:** There is no requirement to send a change in control notification to the Financial Conduct Authority.

Advantages of asset purchases for the seller

- **Transaction timing:** Normally a quick transaction sometimes completed in 8 - 12 weeks.
- **Due diligence:** This is lighter as the buyer is not acquiring historic liabilities attached to the company.
- **Straightforward sale:** Typically, this is a straightforward transaction compared to other ways to sell a business.
- **Cost of legal agreements:** Production of agreements like APAs will be considerably cheaper than share purchase agreements.

Considerations

Whilst this transaction is not normally as tax efficient as a share sale, quite often for smaller companies this is the only option buyers are willing to consider. If you have any staff, they will not be taken on as part of the deal therefore you have to make them redundant or come to an agreement with them prior to the sale completing.