

## 30 Second M&A Newsletter

### Stay Bonuses Add Value When Selling A Business

#### Key Employees/Stay Bonuses

We're selling a business in which a management team member holds a minority equity stake. This critical employee stands to get a small windfall when the sale occurs. The seller told us she wanted to give the employee a financial gift as a "thank you" at closing. Pump the breaks! We like recognizing key contributors as you exit your business, but let's talk about structuring those payments as a "stay" bonus instead of an outright gift. A stay bonus provides an incentive for an employee to remain with the company after a sale. They're designed to protect the company in times of change. Recognize that a business transition can create a lot of uncertainty and anxiety for employees. Some managers may wonder if they'll be let go after a sale. Or, more likely in this talent market, valuable team members may feel the timing is right to pursue new opportunities—rather than put themselves through the uncomfortable process of an ownership change.

#### Who Receives a Stay Bonus

Typically, stay bonuses are used in situations like these:

An employee who must be told of the pending sale: Normally, we advise business owners to keep the sale process strictly confidential. If employees become aware of a pending sale, they may look for other positions rather than risk the uncertainty of a transition. However, sometimes certain team members must be included in the sale process, particularly when the owners are no longer active in day-to-day operations.

An employee who must do extra work due to the sale: Sometimes certain employees like your CFO or your HR leader will need to be told the business is for sale. They'll be heavily involved in gathering due diligence information which is a big job on top of normal duties. Unfortunately, these administrative leaders pitching in extra time are the most likely to be made redundant in a transition. A stay bonus can help ensure they remain to help the sale go more smoothly.

An employee who's critical to the business: Stay bonuses become increasingly important in a tight labor market. Turnover in a key position creates substantial risk for a buyer, but a stay bonus can reduce that risk and add value to the sale process.

#### How Stay Bonuses Work

Stay bonuses can be structured in many ways depending on the employee's role, compensation, and potential value to a buyer. You need to find a balance between a meaningful incentive and a gift so "life changing" that the employee is not likely to walk away as soon as they receive it. Between 50% to 100% of an employee's annual salary is often a good guideline. Payouts usually happen in two parts – a small payment (between 25% - 50%) when the sale closes and the remainder six months to a year later. Structuring these details can be a point of negotiation with your buyer. They may be willing to share the cost of an incentive. Similarly, some transition negotiations will include an employment agreement for key staff members. This establishes that certain severance payments are to be made if an employee is terminated after a sale. This is another way for the business owner to protect their employees and discourage management from seeking new jobs.

#### Timing

When do you talk to employees about a stay bonus? Telling an employee the business is for sale is always sensitive, and timing will vary based on your individual scenario. But you can't wait too long, especially if you believe your sale could be dependent on keeping key talent in place. If you present it to the employee in the early stages, you can avoid last minute pressure to get contracts signed days before the closing date. However, you may also find your employee has gained an unhealthy amount of leverage. I've actually seen a key employee take a deal hostage; demanding a higher salary and bonus, because they knew the transition hinged on their retention agreement.

#### Talent Continuity

Buyers will pay a higher price for a business when they can eliminate perceived risks. A proven management team who will maintain key operations and relationships can help a buyer achieve performance targets. That's why we consistently advise sellers to develop a strong, empowered management team that can run the business. Buyers may pay a premium if they know they'll have an experienced team to not only maintain the business but take it to the next level.



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