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Partial Business Sale as a Succession Strategy

For many founder-led SMEs, the biggest risk in a retirement-driven sale is not finding a buyer. It is proving the business can thrive without the founder on day one.

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Contents

The cliff edge problem

A sudden 100% sale at the point the founder wants to step away is a difficult deal to do well. The buyer is being asked to take on a business and lose the person who has been at the centre of it on the same day. That is a lot of risk to underwrite at a clean price.

In practice, the cliff edge tends to surface as:

- owner dependency that has never been formally addressed
- customer relationships that sit with the founder personally
- management succession gaps below board level
- buyer nervousness about post-completion performance
- reduced valuation confidence and a wider bid–ask spread
- pressure to accept a heavy earn out to bridge the gap
- loss of meaningful control the moment contracts are signed

The point is straightforward. If the business still relies heavily on the founder, the buyer is not just buying the company. They feel they are buying the founder's future cooperation. That changes the negotiation, the structure, and very often the price.

Why acquirers worry about you

Larger trade buyers are often genuinely interested in good UK SMEs. They see a strong customer base, a credible team, and a sensible market position. What they need is confidence that the business will continue to perform after acquisition. Founder dependency is the single most common reason that confidence is hard to give.

A serious acquirer will quietly ask:

- Who actually owns the key customer relationships?
- Who prices work and wins new contracts?
- Who manages strategic suppliers?
- Who holds the technical or commercial knowledge that sets the business apart?
- Who keeps the senior team together?
- Who understands the culture and the informal way decisions actually get made?

A good business can still look risky if the founder is too central to its day-to-day performance. That is not a criticism of the founder. It is the inevitable result of building a company over twenty or thirty years. The question is what you do about it before you try to sell.

The earn out reality

The standard advisory response to founder dependency is an earn out. Sell 100% on day one, agree a portion of the consideration to be paid later if the business hits agreed targets, and bridge the gap that way. It can work. It is also not the right structure for many retirement-driven founders.

In plain English, an earn out usually means:

- the seller has sold the business immediately
- future payments depend on performance after completion
- day-to-day control sits with the buyer
- disputes can arise over costs, investment decisions, staff, strategy and accounting treatment
- the seller is contractually tied to the business without the same authority they had before
- the buyer often wants control faster than the founder is emotionally or commercially ready for

Earn outs have a place. They can bridge a genuine valuation gap and align both sides on a believable growth plan. The issue is asymmetry. After completion the seller carries performance risk without ownership control. For a founder who wanted a planned, dignified transition into retirement, that can feel like the worst of both worlds.

For a fuller comparison of paths and structures, see our companion decision framework on full sale versus partial sale.

A better succession pathway

A partial business sale works on a different principle. The owner sells a meaningful stake to a complementary larger trade buyer, retains the rest, and uses the next phase to professionalise the business, reduce dependency on the founder, and prepare for a future exit. The transition becomes a project, not a single day.

For a retirement-driven founder, the benefits stack up quickly:

- take meaningful money off the table now
- retain an equity stake in future growth
- bring in a strategically relevant trade partner
- reduce founder dependency over time, with help
- create a credible succession plan that buyers can underwrite
- support the existing senior team through the transition
- access better systems, resources, customers, buying power and operational depth
- build towards a stronger second-stage exit on improved metrics
- avoid the abrupt personal break of a full sale

Done well, the founder ends up with two pay days, a better business, and a planned retirement rather than a forced one. For more on the underlying mechanics, see our overview of the partial business sale route, jump to the partial equity advisory next-steps panel further down this guide, or arrange a confidential discussion using the secure enquiry form.

The complementary trade buyer

The right trade buyer is not just buying shares. They are bringing capability into the business that the founder, however good, would struggle to assemble on their own in the time available. That is the difference between capital and partnership.

A genuinely complementary trade buyer can typically bring:

- management strength and depth below board level
- operational systems, processes and reporting discipline
- established sales channels and route-to-market
- technical capability the existing team can learn from
- access to larger customers and longer-term contracts
- supplier leverage and improved buying terms
- balance sheet strength to support investment
- sector knowledge and credibility with larger counterparties
- a route to long-term succession that does not depend on one person

Position this as capability, not just capital. The wrong buyer can damage value, however good their offer looks on paper. The right buyer must be strategically relevant and culturally workable. Our note on finding a strategic partner goes further into how to test for genuine fit rather than financial fit alone.

Partial sale vs full sale with earn out

Side by side, the structures behave very differently in the years that matter most for a retirement-driven founder.

Neither structure is inherently right or wrong. The question is which one serves the founder's actual objective: a planned, controlled transition into retirement, with capital protected and the business stronger by the end of it.

A five-year succession timeline

One reason a partial sale succeeds where a cliff edge exit fails is that succession is treated as a programme, not a single signing. The timeline below is illustrative rather than prescriptive, but it captures the rhythm of a well-run phased exit and the kind of milestones a credible trade partner will expect to see written down.

Year 0 — Completion and 100-day plan

Heads of terms agreed, due diligence completed, and the shareholders' agreement signed alongside an investment agreement. Capital is paid out for the sold stake. A joint 100-day plan is published internally so staff hear a single, calm message about continuity, the founder's continuing role, and the partner's intent. Reserved matters, board composition and reporting cadence are activated from day one.

Year 1 — Stabilise and professionalise

The founder remains visibly in charge of customer relationships and culture. Behind the scenes, the partner contributes management bandwidth: monthly board packs, sharper KPIs, integrated reporting and a strengthened finance function. A second-tier leader (often a commercial or operations director) is recruited or promoted, with succession to the founder's day-to-day duties as an explicit objective.

Year 2 — Transfer the relationships

Top customers and key suppliers are deliberately re-introduced through the new senior team. The founder steps back from pricing approvals on routine work and from day-to-day sales activity. Cross-selling with the partner begins, where appropriate. The business starts to look, in management terms, like a company that does not depend on the founder.

Year 3 — Founder moves to chair

The founder transitions out of the managing director role into a non-executive or executive chair position. Operational authority sits clearly with the new senior team. The founder's time commitment reduces, often to two or three days a week. Performance is benchmarked against the original investment thesis so both sides can see whether the second-stage trigger is on track.

Year 4 — Prepare the second-stage exit

Quality of earnings is reviewed. A vendor due diligence pack is assembled. The valuation mechanic in the shareholders' agreement is tested against actual performance. The founder's remaining shares are positioned for sale either to the trade partner under pre-agreed mechanics, or, where rights allow, into a wider sale process if a more attractive market opportunity has emerged.

Year 5 — Exit on improved terms

The remaining stake is sold. Because the business is now demonstrably less founder-dependent, has stronger management depth, better systems and improved earnings, the multiple at second stage is typically firmer than it would have been at the original cliff edge moment. The founder retires from a position of strength rather than exhaustion.

Five years is not a fixed rule. Some founders run the runway in three years, others extend it to seven. The point is that the journey is mapped out before completion, not improvised after it. For the broader process discipline that supports this, see the sell-side process overview.

Worked financial illustration

The numbers below are illustrative only and exclude tax, fees and working-capital adjustments. They are intended to make the shape of a phased exit concrete, not to predict any particular outcome. Every business is different, and reliable figures only emerge from a proper engagement.

Take a profitable UK SME generating £1.5m of normalised EBITDA at the point the founder begins to think about retirement. A clean, full-sale market check might suggest a multiple in the 5x to 6x range, given founder dependency and limited management depth. Headline enterprise value: roughly £7.5m to £9m. Add a meaningful earn out to bridge the buyer's confidence gap, and the founder is contractually tied to the business for a further two to three years for a portion of that consideration.

Now consider the partial-sale alternative on the same starting business.

- Day-one stake sold: 60% of equity to a complementary trade partner at a 5.5x multiple of EBITDA. Initial enterprise value pegged at roughly £8.25m, with the founder receiving cash consideration of approximately £4.95m for the sold stake (before tax and fees).
- Retained stake: 40% remains with the founder, with reserved matters, board representation and a clear path to a second-stage exit set out in the shareholders' agreement.
- Runway performance: Over the next four to five years, with partner support, EBITDA grows from £1.5m to £2.5m. Management depth is built. Founder dependency is materially reduced.
- Second-stage multiple: The same business at second-stage exit is now a less risky asset. A 7x multiple is plausible, producing an enterprise value of roughly £17.5m.
- Second-stage proceeds: The founder's retained 40% is now worth roughly £7m before tax and fees, depending on the precise valuation mechanic.

On these illustrative numbers, the founder receives roughly £4.95m on day one and a further £7m at second stage, for total gross consideration in the region of £11.95m. The same business sold cleanly on day one at a 5.5x multiple would have produced gross consideration of around £8.25m, much of it potentially exposed to earn-out risk. The phased route is not a magic trick. It is the result of a stronger, less founder-dependent business commanding a firmer multiple at the point of full exit.

The mechanics of how the second-stage price is calculated, capped, collared and triggered are negotiated up front. For more on those mechanics, see the companion trade partner versus private equity guide.

Team, family and personal dimensions

A retirement-driven sale is rarely only a financial decision. For most owner-managed UK SMEs, the business is intertwined with the founder's identity, with long-serving staff, and often with the wider family. The structure chosen has to work on those dimensions as well as on the deal page.

Senior team and key people

A phased exit makes it easier to retain and motivate the senior team. Where management have been quietly anxious about a sudden change of ownership, a partial sale demonstrates continuity. Where ambitious operators have been waiting for room to grow, the partner brings systems, customers and capability that create that room. Senior people typically welcome a credible partner more than they welcome an abrupt change of control to an unknown buyer.

Equity participation for key managers is often introduced or strengthened around a partial sale. A simple, well-drafted growth share or option scheme aligns the senior team with the second-stage exit and ensures the people who most influence the runway have a direct stake in its success.

Family and shareholder dynamics

In family-owned businesses, the partial sale route can be especially useful where one branch of the family wants liquidity now and another wants to remain involved. A partial sale lets the founder release capital for the household, support estate-planning conversations with proper professional advice, and reduce concentration risk against a single illiquid asset, without forcing a wholesale change at the company.

Where the next generation has chosen a different career, a partial sale offers a dignified alternative to a forced family succession that nobody really wants. Where one family member is genuinely keen to lead, the runway gives them time to step up under the founder's continuing oversight and the partner's professional support.

The founder's own next chapter

The most under-discussed aspect of any retirement-driven sale is the founder's life on the other side of it. A cliff edge sale can leave a successful operator suddenly without purpose. A phased exit gives the founder time to build the next chapter deliberately: non-executive roles, charitable work, family time, or a new venture. The capital is partly released early so the next chapter can begin in parallel, rather than waiting for one terminal day.

Tax and structuring at a glance

Tax treatment is one of the most important factors in any sale, and one of the most personal. The points below are general only. They are not advice and should not be relied on. Every founder must take their own professional tax advice on their specific circumstances before signing anything. Mergers does not provide tax, legal or investment advice.

Capital gains and reliefs

For UK individual shareholders, gains on the sale of shares are typically chargeable to capital gains tax. Business Asset Disposal Relief, where available, can reduce the rate on qualifying gains up to a lifetime limit. The rules and limits are set by HMRC and change from time to time, so the position must always be confirmed by a qualified UK tax adviser at the point of signing.

Sequencing and the 'second bite'

A partial sale produces two taxable events: the day-one sale of the initial stake, and the eventual second-stage disposal. Sensible founders model both alongside their advisers in advance. The interaction between reliefs, lifetime limits, share structures and any rollover or earn-out elements has to be thought through before completion, not after it.

Share structure and the shareholders' agreement

The class of shares retained, voting rights, dividend policy, dilution protection and the precise valuation mechanic for the second stage are all set in the shareholders' agreement. The headline price on the term sheet is only one part of the value. The terms governing the next three to seven years are usually where the long-term economics are decided.

Estate planning and personal balance sheet

Releasing capital partway through a runway gives founders the ability to address concentration risk early, support pensions and ISAs, and have proper estate-planning conversations with qualified advisers. The phased structure also supports gifting and trust strategies that are hard to execute when the entire family balance sheet is locked into a single illiquid trading company.

None of the above is a substitute for tailored professional advice from a regulated tax adviser, solicitor and, where appropriate, an independent financial adviser. Mergers focuses on the corporate transaction itself and works alongside the founder's own professional team.

When this route fits

This route tends to fit a recognisable founder profile rather than every situation. It is most suitable when several of the following are true at once.

- The owner wants to retire in three to seven years
- The business is good but still founder-dependent
- There is no obvious internal successor
- The owner wants to de-risk personally but not walk away
- The business could grow faster with a larger partner
- The owner wants to protect staff and customers
- A full sale today would price in too much succession risk
- There is a credible second-stage exit horizon

When it does not fit

A serious adviser is honest about when a route is not the right answer. A partial business sale is not for everyone. It tends not to fit where:

- the owner wants a clean break immediately
- the business is too small to attract genuine strategic acquirer interest
- the seller cannot work collaboratively with a new shareholder
- the business has limited growth or strategic value to a partner
- the buyer and seller cannot align on the next three to five years
- governance and decision rights cannot be cleanly agreed in writing

If any of these apply, a different structure is usually better. That might be a clean full sale, a management buyout, or a longer pre-sale preparation phase before going to market at all. The point is to choose with clear eyes.

Planning the second stage exit

A partial sale should not be vague about what happens next. Both sides need clarity on the journey from day one to the eventual full exit, so that the structure works for the founder, the partner and the business.

A well-built partial sale typically addresses:

- what stake is sold now, and what is retained
- how the founder's role evolves over the next three to seven years
- how the remaining shares are valued at the second-stage exit
- whether there is a put and call mechanism, and when it can be triggered

- how performance is measured and reported during the runway
- how governance, board representation and reserved matters work
- what happens if circumstances change for either side
- how staff, customers and suppliers are managed through the transition

A partial sale is best treated as a planned journey, not a half-finished deal. The shareholders' agreement is where most of this lives, and it deserves the same attention as the headline price.

Why early planning protects value

The best time to consider a partial sale is before the founder is exhausted and before the business has lost momentum. The stronger the business looks, the more options the owner usually has, and the more competitive the eventual partner discussion becomes.

A partial sale is especially powerful when the business is already performing well, but the owner can see, honestly, that succession risk will become a bigger issue in the next few years. Acting early lets the founder choose the partner, set the structure, and shape the runway. Acting late narrows the choices and usually compresses the price.

For a deeper view of how this sequencing plays out in practice, our guide to the sell-side process walks through preparation, confidentiality and how a disciplined process protects value at every stage. When you are ready, jump to the partial equity advisory next-steps panel or go straight to the confidential enquiry form on our contact page.

Conclusion

A retirement-driven exit does not have to be a cliff edge. A partial business sale to the right complementary trade buyer can let an owner take meaningful value off the table, reduce personal risk, protect staff and customers, build proper succession, and retain a stake in future upside. For the right founder and the right business, it is often a better route than waiting too long, selling everything in one go, and relying on an earn out after control has already passed to the buyer.

Planning your future exit?

If you own a UK business with turnover of £3m or more and want to explore whether a partial business sale could help you de-risk retirement and protect future value, we would welcome a confidential conversation.

For a wider view of the route, also see selling your business and our flagship guide for founders not yet ready to retire.

Related questions

Short, direct answers to the questions founders most often ask when weighing a partial business sale as a way to de-risk retirement.

- Can I do a partial sale now and a full sale later? Why it matters: staging a two-step exit to de-risk retirement
- Can I sell part of my business and stay in charge? Why it matters: staying in control after partial liquidity
- What is a two stage exit strategy? Why it matters: structuring succession over time, not overnight
- What is a second bite of the cherry? Why it matters: capturing value twice across both transactions
- What types of businesses are suitable for a partial sale? Why it matters: checking if your business fits the profile
- Browse all partial business sale FAQs Why it matters: a fuller library of founder questions and answers

Frequently asked questions

What is a partial business sale?

A partial business sale is a transaction in which the founder sells part of the equity in their company, often between 30% and 70%, to an incoming shareholder, usually a complementary trade buyer. The founder retains a meaningful stake, stays involved in the business, and typically works towards a planned future exit on improved terms.

How can a partial sale help with succession planning?

A partial sale gives the founder time. Instead of a sudden change of control, the business has a runway in which management depth is built, customer relationships are transitioned, systems are strengthened, and the founder gradually steps back. Succession becomes a managed journey rather than a single event tied to retirement day.

Is a partial business sale better than an earn out?

Neither is universally better, but for retirement-driven founders a partial sale is often a better fit. Under an earn out the founder has sold the company on day one and must work for future value while the buyer holds control. Under a partial sale the founder retains shares, retains influence, and shares risk and upside more evenly with the new partner.

Can I sell part of my business and stay involved?

Yes. Staying involved is one of the main reasons founders choose this route. A typical partial sale to a complementary trade buyer keeps the founder as managing director, executive chair or key shareholder, with a clear post-deal role agreed in writing before completion, supported by board representation and reserved matters.

Why would a trade buyer buy only part of a business?

A complementary trade buyer often prefers a phased approach because it keeps the founder engaged through the transition, protects customer relationships, retains technical and commercial knowledge, and aligns incentives. Buying part now and the rest later can also reduce day-one risk and produce a better integration outcome.

What type of business is suitable for a partial sale?

It works best for profitable owner-managed UK SMEs, typically £3m turnover and above, with a credible growth story, a recognisable market position, and a founder who is open to a partner. A degree of founder dependency is normal and expected. The route is less suitable where the owner wants a clean immediate break or the business is too small to attract strategic interest.

Can a partial sale lead to a full exit later?

Yes, and that is usually the intention. The shareholders' agreement sets out how the remaining stake is valued, when it can be sold, and to whom. Common structures include put and call options, a defined window for the second sale, and pre-agreed valuation mechanics that reflect the improved performance of the business by that point.

How do I know if this is right for my business?

Start with the personal question rather than the deal mechanics. If you want to retire in three to seven years, want to take meaningful capital out now, but do not want a cliff edge exit or a contentious earn out, a partial sale to a complementary trade buyer is usually worth exploring. A confidential discussion is the sensible first step.

Arrange a confidential discussion

If you would like to explore whether a partial sale, staged exit or majority-stay-in structure could work for your business, we welcome a confidential conversation. Every enquiry is handled in strict confidence by Tony Vaughan, founder of Mergers.co.uk.

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