The Toughest Sell

A Founder's Guide to Startup Exits

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Foreword

It was the morning of May 15th, 2024—my mom's 60th birthday. Instead of being focused on planning a birthday message, all my attention was consumed by a single email I had been anxiously awaiting. After years of careful planning, meetings, and countless sleepless nights, I was expecting an acquisition term sheet from a $40 billion market-cap private company. They had originally wanted to buy my company back in 2021. My cofounder Borui and I made the mistake of ghosting their founders after a positive first meeting. And soon the market soured and although we had strong inbound interests and hired professional bankers to help negotiate deals, the only offer we received was a full stock deal from another struggling startup that wanted all of our company cash and other income producing assets. Nearly three years later, in January 2024, as a last ditch hail mary, we reinitiated contact, this time they were again leaning in, and a term sheet felt imminent.

We had done days worth of product and technology due diligence with our team. Their founders and execs have spoken highly of us throughout the process. They even gave us a valuation range and asked if that aligned with our expectations. It was, even though it was on the lower end of what we had to hope to sell for. They had everything they needed to make an offer. Our last meeting had been perfect, we spent a good chunk of the meeting talking about potential relocation logistics and good spots around their headquarters to settle our families. Our main point person reassured us that the offer was being finalized; we just needed to wait a little longer for him to check-in with another stakeholder. However, in the weeks leading up to May 15th 2024, that reassurance turned to radio silence. Each passing day without news deepened my anxiety, leaving me sleepless for days on end, obsessively checking my phone throughout the night. I even had a dream where I flew 16 hours to their office for a meeting but could not check-in because all of the doors were locked shut.

That morning, after a grueling swim at the YMCA, my Apple Watch buzzed mid through my dead hang on a horizontal bar. I immediately let go to read the message from my watch, my heart racing. As I scanned the email, my heart sank—it was not the definitive yes or no I expected. Instead, it was a vague long-winded email that said they needed more time and more stakeholders needed to be pulled in. In an instant, my hopes shattered. A bunch of things flashed in my mind—our team, our board, and even my family had mentally committed to this deal. Yet now, the stark possibility of winding down our once-promising startup, which had raised over thirteen million dollars and partnered with major industry players, felt brutally real. I stood silently, numb with exhaustion and defeat, asking myself, “What now?”

This moment encapsulates the harsh reality of startup mergers and acquisitions. If you are reading this book, you have likely faced similar pressures, expectations, and emotions. But Let me first say: congratulations. Starting a company and getting to the point of considering an exit places you among a select few who have achieved extraordinary things. However, make no mistake—finding a buyer for your business will be among the most challenging endeavors you'll ever undertake.

Starting a business is akin to launching a rocket into space; successfully selling your company, though, is like safely landing that rocket back on its launch pad—far more challenging and fraught with risk. A single misstep can erase years of effort and sacrifice. When startup founders say that the journeys’ highs are really high, and the lows are really low - this is what they are talking about. Hopefully, this book is your guide to navigating that perilous yet potentially rewarding journey.

There's a well-known saying in the M&A circles: "Companies are bought, not sold." Unlike raising funds, selling your business demands the buyer to be deeply convinced that your company is the missing piece to unlock the next level of growth for their business. The market for acquiring businesses is drastically smaller than that for raising capital or finding customers. Many entrepreneurs mistakenly approach selling their company like pitching investors, yet it is fundamentally different and infinitely more complex.

My cofounder and I tried to sell our company starting near the end of 2021, desperately wishing a book like this existed at the time. We thought our strong market position, financial stability, and numerous inbound inquiries would make our exit straightforward. Instead, it took almost four exhausting years before we finally secured the right buyer. Along the way, I learned that most companies actively seeking a buyer rarely find one, and the skills required to sell a business differ greatly from those required to build one.

Few reliable resources exist to guide founders through the complexities of selling a business. The hard truth is that deliberately engaging in an M&A process often leads to disappointment or failure. However, the experiences and lessons shared in this book can help you avoid common pitfalls and significantly increase your odds of a successful exit.

This book hopes to offer candid guidance, vivid personal anecdotes, and practical strategies based on hard-earned experience. My desire is that the lessons learned from my own rollercoaster journey—filled with anxiety, fear, despair, and ultimately a moderate success—will resonate deeply with you and provide meaningful support.

Your entrepreneurial journey is extraordinary, filled with challenges and achievements few ever experience. I sincerely hope that this book will help you land the outcome that you desire and deserve, let’s begin.

PART I: BEFORE YOU BEGIN

Chapter 1

Chances Are, It is Already Too Late

Recently I received a LinkedIn message from a college classmate (let's call him Colton, not his real name) whom I haven't talked to for over a decade asking for a chat. I knew he went on to start his own company shortly after graduation in the hardware space and experienced lots of earlier traction through partnership and press coverage. A few minutes into the conversation, he told me that his startup that was once the darling of news outlets and raised over a $1 million in venture funding now had around $300K in debt. The worst part was that all of the debt was placed on his own collateral - it was about to default in two weeks. He had laid off all of his full-time employees and currently only had two contractors working for him. He needed help finding a buyer for his company, ideally completing everything within two weeks so he did not have to declare bankruptcy in court. He wanted to know if I would be interested in acquiring his startup. And if his description of his circumstances were not reflective of how dire the situation was, the Zoom link that he sent for us to have the meeting on started an automatic countdown to end the meeting, because he was on the free plan and it had a forty minute limit. The very last words that I was able to squeeze in before Zoom kicked us out was that I would send him an email with some practical advice.

It was one of the most difficult emails to write, but the content of the message was simple.

> Hey Colton,
>
> I thought about your situation a bit more over the last few days and unfortunately don't have any good solutions. I'm sorry.
>
> The best case in this scenario is to consult with a good bankruptcy lawyer to minimize the exposure to you personally while winding down the business. Unfortunately this is not an area that I'm familiar with, but I would talk to a lawyer.
>
> Lmk if you want to chat again,
>
> Derek

The cavalry was not coming, Colton needed to get his affairs in order and try to limit the damage. I did not even mention M&A as a possible option in his situation. The truth of the matter was, even if he had an acquisition offer in hand, two weeks would be far too short of a time window to complete the deal. Realistically when it came to finding a buyer for a business, even if it were a firesale, it would take months if not years of preparation beforehand.

Most entrepreneurs make the mistake of turning to an exit as a last ditch hail mary to save the business from bankruptcy or as a means to exit the company completely, but unfortunately almost all of them fail because the company runs out of cash before finding a buyer or the founder quits along the way, even those that raise hundreds of millions of dollars, or with sizable revenues and great products and services.

When founders ask me about the minimum runway for an exit, I often advise that they need cash to stay afloat for at least one year, ideally eighteen months to go through an M&A process. If they don't have this runway, the most important thing to do is to reduce expenses, increase revenue, or seek outside investments. M&As are all about relationship building, and unless there is already a strong business connection with the acquiring company and a personal relationship with its executives, building such a relationship in order to execute an acquisition takes a long time. The analogy I like to use here is akin to getting married with someone, except there is a twist, the person you want to marry needs to first propose to you, plus they need to convince their parents and potentially all of their extended family that marrying you is the best idea since sliced bread. And by the way, your prospective extended-in-law families are not that gullible or friendly.

You could try to woo a large cap public company to solicit acquisition offers (which is impossible unless there is a competing offer in hand), but oftentimes just getting a meeting in place with all the key stakeholders could take weeks. Furthermore, because the decisions often require a committee consensus, the amount of due diligence requests coming from various departments ranging from product, engineering, marketing, finance, legal, etc would take months on end. Plus, because everything including the balance sheet needs to be disclosed to the interested acquirer, they would quickly find out that the business is running out of cash and they could hire all the out-of-work employees without paying you a dime. The incentives are simply not there for the buyer when you are selling a business that is going out of the business. Moreover, while it was true that in the past, if your company was made up of specialized talents, there were always acquihire offers from big tech companies in need of talent, with the rise of AI agents, the premium paid for such talents had degraded greatly in recent years, there were very few acquihire M&As in the market.

Nevertheless, almost all consummated acquisitions were from inbound interest, and if not all of the acquiring companies have had prior relationships with the business acquired whether they would be partnerships, investments or being a customer. There often isn't a way for you to engineer an inbound interest without an existing offer, all you can do is ensure you have enough cash in the bank to fight another day, and build relationships early on with anyone who could be a potential buyer down the line.

PART I: BEFORE YOU BEGIN

Chapter 2

An Exit is Not the Silver Bullet You've Been Looking for

On a hot and humid spring night in April 2021, I was rocking my seven-month-old son to sleep for the eleventh time. With one hand I cradled him, and with the other I drafted an all-hands message announcing another round of layoffs. We were about to reduce the headcount from around fifty to twenty. It would be the second round of layoffs in a year, but this time I swore it would be the last. I promised myself I would never again fire people who had become my friends.

After the cuts, the company would technically break even, but I was spent. Seven years of nonstop running, endless fundraising and firefighting, and now the sleeplessness of new fatherhood had left me empty. Growth had plateaued, I was exhausted, and I feared I wouldn't even make it to my son's first birthday. I needed a way out.

At the time, I clung to a dangerous fantasy that many founders secretly hold: that an exit could magically solve everything.

You might be tired, bored, envious of a competitor's big headline, or spooked by an unexpected inbound email—and convince yourself that selling is the obvious next move. But here's the truth: M&A does not exist to give you closure, relief, or validation. Potential acquirers don't care about your burnout. They certainly didn't care about mine. What awaited me instead was a painful four-year slog through the harsh realities of the acquisition process.

If your company has plateaued or you want to retire, you need to understand the math. Most private equity firms won't even look at you unless you're clearing $2–5M EBITDA, or $10M+ in recurring revenue with healthy margins sustained over years. And even then, they may require you to stay for six months to a year to transition and train new management. Below those thresholds, your company isn't buyable—it's fixable. Your job is to improve it until it clears the bar. Even if you have hit the numbers, selling might not be the smartest option. In many cases, hiring professional management and collecting dividends is a far better outcome than handing over the keys.

Another illusion is what I call the competitor headline trap. You see someone in your space announce an acquisition and assume you're next. In reality, that deal usually means there's now one fewer buyer available. Acquirers spend months—sometimes years—digesting a single acquisition before they make another move. Their spree is over, at least for now.

And then there are inbound emails. They often arrive out of nowhere, dressed up as "exploring synergies" or "wanting to learn more about your market." Founders get excited, start imagining terms, and talk themselves into believing it's their moment. But most of the time, those emails are fishing expeditions. Corporate development teams are gathering intelligence, not offering lifelines. Even when the interest is genuine, the emails usually go out to every player in your space. After a couple of conversations, once they've learned what they need, the replies stop. That's not betrayal—it's just how corporate development works.

Of course, there are rare exceptions. Every so often, an email comes directly from the CEO or founder of a company you respect, or through a trusted investor introduction. Those signals are stronger, but even then, caution is essential. Any serious acquirer will also be evaluating multiple targets. Deals collapse all the time, even after late-stage meetings and signed term sheets. Until the definitive agreement is inked and the money actually hits your account, nothing is real.

The lesson is this: don't trick yourself into believing an exit is the cure for fatigue, a stagnant business, or the fear of missing out. M&A is not an emotional solution. It's a transaction that happens only if the numbers work and you solve a problem the buyer can't solve on their own. Until then, an exit isn't a parachute or a reset button. It's just a pipe dream.

PART I: BEFORE YOU BEGIN

Chapter 3

It's Not You, It's the Acquirer

In mid-2021, after finally deciding it was time to sell, my cofounder Borui and I spent several long, hard nights aligning on what that actually meant. We both agreed: the company was in a good place to explore the market. We told our board we were ready to entertain acquisition offers and reach out to potential acquirers. Everyone felt confident we could fetch a strong outcome.

By every metric, we looked like a perfect candidate. We had solid revenue, a lean team, clean governance, and a mature suite of products. On paper, we checked every box for a deal north of $100 million.

So we went to work. We polished our deck, built the dataroom, and brought a banker on board that September to run the process. Within weeks, we were taking meetings with some of the biggest names in Silicon Valley and every major player in our space. For months it felt like we were always on calls — one day pitching to a tech giant, the next to a unicorn startup. Yet nothing moved beyond the second meeting.

Four months in, not a single written offer. That was when the realization hit: M&A was never about us. It didn’t matter how prepared we were, how crisp the narrative sounded, or how badly we wanted to join forces. Unless a buyer believed their future depended on acquiring us, nothing would happen.

That’s the brutal distinction between fundraising and selling a company. Fundraising is founder-driven — you pitch your vision, and investors decide whether to believe. Acquisitions are buyer-driven — the buyer has to believe their vision is incomplete without you. Until that moment, you’re invisible.

So much of the exit game rests on variables you’ll never control: a buyer’s internal roadmap, shifting budgets, an executive’s conviction, or simply whether they’re in the mood to do deals this quarter. That’s why so many perfectly good companies never get acquired. There’s nothing wrong with them — there’s just no buyer on the other side.

You can and should prepare. Keep your governance clean, your metrics trending up, and your relationships warm. But know that all of that only matters if the acquirer is already motivated. Without that alignment, you're just shouting into the void.

If there's a single truth in M&A, it's this: companies are bought, not sold. Your job isn't to convince someone to buy you. Your job is to build a business so compelling that, when the right buyer finally needs you, the fit is undeniable.

And yet, even knowing that, I still managed to make one of the biggest mistakes of my founder life — when I ignored an inbound message that, in hindsight, might have been the opportunity.

PART I: BEFORE YOU BEGIN

Chapter 4

Caught Off Guard: Handling M&A Inquiries Before You're Ready

In early 2015, when my company Polarr was just getting started, Deep Learning and web-based graphics were still nascent technologies without practical use cases. Very few companies had production-ready software that combined the two. We had found a strange little pocket of opportunity: advanced photo-editing features—denoise, segmentation, object removal—running entirely inside a browser without the need of a large data center. That single technical bet let us reach users on Chromebooks, where storage and RAM were scarce, and soon after, on iPhones and Androids with the same shared codebase. We launched our iOS app in June 2015 and had a quarter-million downloads in the first 48 hours.

By 2018 we had raised a $13.5 million Series A led by DFJ, powered the camera apps of major Android OEMs and built a reputation as the quiet infrastructure behind hundreds millions of photos. We were flying high—and that's exactly when one of the biggest companies in our space came knocking.

Below is the email that still haunts me.

> From: Caleb <***@***.com>
>
> Date: Wed, Jul 1, 2020 at 8:17 AM
>
> Subject: FWD: Intro request *** <> Polarr | re: Photo Editing
>
> To: Borui Wang <borui@polarr.co>
>
> Hey Borui, hope your well, we are big fans of what you have built!!!
>
> See the below message from Mike, as he mentioned, we are currently pretty shit at photo editing and need to get way better (and have plans to), we would love to chat to you about potential deep partnerships to service our customers (the 99% of the world who are not 'creative professionals'). I think we could do awesome things together.

> I would also like to entertain a potential acquisition, however, I think you are doing so well and growing so fast there is no way we could afford you (or that you would want to sell :).
>
> Cheers,
>
> Caleb
>
> Co-Founder & COO
>
> ---------- Forwarded message ---------
>
> From: Mike <***@***.com>
>
> Date: Tue, Jun 30, 2020 at 12:32 PM
>
> Subject: Intro request *** <> Polarr | re: Photo Editing
>
> To: Caleb <***@***.com>
>
> Cc: Alex <***@***.com>
>
> Hi Caleb,
>
> As you know, our Product teams are looking to expand ***'s photo editing capabilities, and are meeting with leading photo and image companies, to learn more about their platforms, and explore potential partnership avenues to bring the best image technologies to ***'s tens of millions of monthly users.
>
> Our team are long time fans of Polarr's global and China products, as well as the company's mission to empower everyone to communicate more visually. We're hoping to connect with Borui Wang, or the best contact, to share more about our photo editing plans and ideas for *** and Polarr to collaborate.
>
> I noticed you were connected to Heidi Roizen from Threshold Ventures and Polarr Board Member, and was wondering if you would be able to connect Alex and I to Heidi, to understand whether her colleagues are open to an introductory call.
>
> Thanks in advance, and let me know if you or Heidi would like any more context from Alex and I.
>
> Mike

At the time, Caleb's company was already valued at around $6 billion. Today it's worth nearly $50 billion and on the verge of an IPO. Looking back, that email was a golden ticket disguised as a friendly introduction.

But, we didn't treat it that way.

I told my cofounder Borui to take the meeting while I focused on something "more urgent." He met Caleb and his cofounder, who directly floated the idea of an acquisition and asked what our expectations might be. We hadn't even talked about that internally. Borui didn't know how to answer. The meeting ended politely, and we never replied to their follow-up. We simply… ghosted them.

Our silence was worse than a "no." It was a signal that we were immature, unready, maybe even arrogant. We laughed it off at the time.

A year later, when we finally decided it was the right moment to explore M&A, Caleb's company had already acquired two smaller, and in our eyes, much worse startups in the space and was busy integrating them. We tried reaching out again in 2024 and managed to get a meeting with his cofounder, but by then the company was too big, the priorities had changed, and our technology was no longer strategic. They passed.

That missed chance remains one of the most expensive lessons of my career. When a serious, actionable inbound inquiry lands in your inbox—especially from a decision-maker—you drop everything. You listen, you ask thoughtful questions, and you follow up quickly. Even if you're not ready to sell, you engage. Because opportunities in M&A don't expire in months—they evaporate in days.

The Silicon Valley myth is that acquisition talks are distractions. They're not. They're part of your fiduciary duty as a founder to explore any path that could maximize shareholder value. With hindsight, we should have both joined that call, answered honestly—"We haven't really considered selling, but we'll discuss it internally and get back to you"—and at the very least, kept the door open.

There's an old saying: friends come and go, but enemies accumulate. In the world of M&A, relationships compound the same way. You never know which conversation today will become the bridge to your future acquirer.

Ironically, that failed engagement with Caleb's company ended up saving Polarr years later. The half-year of due diligence we eventually did with them in 2024 forced us to tighten our operations, organize our data room, and clarify our story—work that directly prepared us for the eventual inbound acquisition inquiry a few months later which turned into the offer we ended up signing. Without that earlier "failure," we might not have survived long enough to close the deal that finally did happen.

Every inbound deserves respect, even if you think you're not ready. Because the truth is, readiness in M&A isn't a moment—it's a mindset.

And in our case, learning came at a huge cost. This missed opportunity still haunts me today, but I can't change what happened in the past. So in any case, when you decide that the best outcome for the company is an exit, doing nothing and waiting for the perfect buyer to show up is no strategy at all—if no one is knocking, it is on you to manufacture some inbound interest when there is none. That's what we will look at next.

Chapter 5

Manufacturing an M&A Market When None is There

I remember sitting in my home office in the fall of 2022 staring at an inbox that had gone completely cold. We had one term sheet that was far below what the board would ever entertain, and the rest was an avalanche of "thanks but no thanks." No new intros. No exploratory calls. No "let's catch up next quarter." Just silence.

Calling it a gut punch was an understatement. Deep down I knew the truth: there was no market for our company despite the revenue, products, and team. The potential acquirers that were once kicking tires were just kicking tires, and corporate-development teams that used to reply within hours now ghosted for quarters. That was when we realized something uncomfortable—if no one was coming to buy us, we'd have to create our own market.

Across more than fifty conversations at various levels, none turned into an actionable offer. Yet patterns began to emerge. The companies that requested second or third meetings all wanted to learn about our low-level web abstractions and our ability to deploy AI and computer vision without servers. Just as revealing, no one cared about our Gen Z consumer products or OEM licensing deals. Armed with that signal, we went back to the drawing board. We divested from B2B sales and consumer apps and refocused everything on a product that best leveraged our technical edge for professionals.

In early 2024—more than a year after that pivot—I started posting product updates and short write-ups on LinkedIn. They weren't marketing pieces, just candid reflections on what we were building and the problems we were solving. Those posts unexpectedly reached people we hadn't talked to in years, including an executive at a company that had passed on us in an earlier negotiation. Out of the blue he wrote, "Looks like you guys are onto something new—want to reconnect?" Three months later, that message turned into a term sheet.

That moment taught me something simple but profound: listen for the faint signals inside rejection and double down on them. Staying visible, sharing progress, and showing conviction create surface area for serendipity. But serendipity doesn't happen in isolation—it happens through people. Behind every "lucky break" is usually a relationship that was planted long ago, quietly nurtured, and waiting for the right timing to bloom.

If I could rewind the clock, I'd tell my younger self that M&A is a relationship business disguised as a financial one. Every "no" is just a "not yet" waiting for more proof, context, or trust. I learned that the best founders build relationships long before they need them. For years, I'd met execs, PMs, corporate developers who'd shown curiosity but never urgency. Once I began sending short updates—no pitch, no ask, just "here's what we learned and what changed"—those same people began to reappear. Relationships compound quietly, the same way code quality or brand reputation does: invisibly at first, and then all at once.

The temptation when your market goes quiet is to delegate the outreach—to bankers, to investors, or advisors. But the truth is, they can only amplify interest that already exists. They can't invent it. Bankers and investors open doors, but you're still the one who has to walk through and make people care.

Creating a market where none exists is one of the hardest things a founder will ever do. There were weeks when I didn't want to get out of bed, when rejection felt personal, and when silence was worse than "no." But every conversation, every update, and every act of staying visible mattered. The market eventually came back—but it only found us because we never disappeared.

The lesson of that season was simple: you can't force someone to buy you, but you can make it impossible for them to forget you.

When I look back, I realize the real challenge of manufacturing a market wasn't just about visibility—it was also about authenticity. You have to know who you are and what you stand for, because every conversation, every partnership, and every potential buyer will test it. Which is why the next chapter begins not with the market, but with you. Before finding the right buyer, you must first understand yourself, your motives, and your values—because the foundation of every successful M&A is a shared belief in why you're building what you're building.

PART I: BEFORE YOU BEGIN

Chapter 6

Know Thyself

When it comes to selling your company in a buyer's market, everything becomes negotiable—your valuation, your role, your product roadmap, even your identity. In the middle of an acquisition, there are moments when you'll say yes to anything just to keep the deal alive. Be warned, these are times when your values either save you or sell you out.

I learned that early on in the process. During one of our early acquisition talks that resulted in a term sheet, the CEO of the potential acquirer looked Borui and I in the eye and said, "We love what you guys are working on and will take good care of you two and the key employees." What he didn't say was that the terms that he wanted us to sign would lay off a number of our employees and be a terrible deal for all our investors. After months of rejections and half-promises, part of me just wanted the pain to end and sign the deal. But then I thought about the people who built that product—the engineers who poured weekends into it, the users who had grown with us, and the investors who had believed in us when everyone else said no. That was the moment I realized: if you don't know what you stand for before you start an M&A process, you may fall for anything in order to close the deal.

Values aren't an accessory to M&A—they're the only compass that works when you're lost in the fog. So from that moment on, I forced myself to write down the three things that mattered most to me: take care of our people, make a bigger impact, and be a good husband and father. Everything else—valuation, timing, prestige—was noise.

The first line came easy. I kept seeing the faces of the people who had taken a bet on us when we were nothing but two grad students with a barely working demo. Some had joined fresh out of school, others left big-name jobs to chase a dream with us. During the pandemic, when the world shut down, I had to make two rounds of layoffs that cut our headcount from sixty to seventeen. To this day, I can still remember every name I let go. Each conversation felt like a personal failure. I promised myself that if I ever had to make another big decision—whether to sell, pivot, or keep going—it would start from the question: will this take care of our team?

The same applied to our investors. I often joke that I still don't know what convinced people to write million-dollar checks to two twenty-somethings with no track record, but they did. They showed up for us through every high and low, joined late-night calls about strategy, and never once pushed for an outcome that wasn't in the company's best interest. They believed before anyone else did. The least I could do was make sure they didn't lose their money—or at least not a big chunk of it. The decision to pursue an acquisition wasn't just business pragmatism; it was an act of stewardship. When someone bets on you, you owe it to them to try to return the chips.

The second line—make a bigger impact—was born out of frustration. After years of growth, our consumer photo apps had plateaued. Meetings became exercises in squeezing another dollar from ads and paywalls. We were optimizing ourselves into irrelevance. I remember looking at our dashboards one day and thinking, "We're trying to squeeze blood out of rocks." The only way forward was to bet big again, to either pivot into something new or join forces with someone who could take what we'd built and amplify it. You don't win by cutting costs; you win by finding purpose. M&A wasn't about survival anymore—it was about impact.

The third line was the hardest one to write because it had nothing to do with business. I started Polarr the same year I got married. For years even after we got married, Charis and I shared our home with a roommate to save on rent. Every anniversary trip turned into a "maybe next year." I was constantly traveling pre-pandemic. Typically flying out of SFO on a red eye on Saturday night to go to Korea to work with our partners as soon as I landed and returning on Friday after work so I could spend a couple days at home before grinding it out in the office the following week. We lost our first child in 2018 through a miscarriage, and when our son was finally born in 2020 after a complicated pregnancy, something in me shifted. I realized I'd been building a company to prove something to the world, but the world didn't need another photo editing app—it needed me to be present for my wife and kid. When we found out we were expecting again in late 2021, I made a promise: I needed to be there for my family no matter how crazy work got.

Those three lines guided every conversation that followed. They made hard decisions a lot easier. When an offer came in from our eventual acquirer, I didn't run the spreadsheet; I read the values. Would our team be taken care of? Yes. Would our technology and products reach a bigger audience? Absolutely. Would I be able to spend more time with my family? For once, yes. The deal made sense because it was aligned with my values.

Selling a company will test everything you believe in. When the money, ego, and pressure swirl together, the only thing that keeps you grounded is knowing why you're doing it. For me, that "why" wasn't freedom or fame—it was faithfulness to the people who believed in me, the mission we built, and the family waiting on the other side of the door.

Writing down my values didn't make the decision easier—it made it clearer. It reminded me that exits are never purely financial; they're moral, emotional, and deeply personal. The numbers only make sense when they serve the story you want to live.

In the next chapter, I will talk about what happens when that clarity meets opportunity—how to know when selling is the right move. Because not every offer deserves a yes, and not every exit is a victory. Sometimes the hardest—and wisest—choice is to sell for the right reasons.

Chapter 7

Sell for the Right Reasons

The biggest mistake I made as a founder was thinking that selling meant giving up. I used to roll my eyes whenever another founder mentioned that they were looking to exit. I wanted to build the next big thing, not just some startup that got acquired and shut down immediately. You hear it everywhere in the Valley—real entrepreneurs don't think about exits, they think about impact. Investors nod approvingly when you say that and refuse to write checks for those slide decks that include an M&A slide. But deep down, everyone knows the truth: in a capitalistic world, everything has a price. You may not sell for a million, but what about a billion?

Selling your company doesn't make you a sellout. It makes you human. At some point the weight of responsibility—for your team, your investors, your own family—becomes heavier than the myth of building forever. The key is to sell for the right reasons, not out of panic, fatigue, or ego.

1. When the Right Offer Comes Along

Every now and then, you catch a lucky break. You're in the right market at the right time, and a decision-maker somewhere wakes up one morning and realizes your company is the missing piece they need. When that happens, your duty as a founder isn't to wave it off; it's to take the call seriously.

I've seen founders turn down great offers because they were too focused on the fantasy of what could be next quarter. But the reality is, genuine, actionable offers are rare and impossible to manufacture. When one shows up, at least explore it. Sometimes the "right" offer isn't even about the money—it's about reach, infrastructure, or distribution that accelerates your vision faster than you could alone. See chapter 4 on how my missed opportunity resulted in years of subsequent struggle and slog in the years following.

As for the fear of losing control—titles don't matter. As a founder you already work for someone: your customers, your employees, your board, your investors. Having one boss instead of four hundred is, if anything, a lot simpler.

2. When You're Out of Your Depth

When Google bought YouTube for $1.65 billion in 2006, it wasn't because the founders failed—it was because they'd built something bigger than they could protect. The lawsuits piling up from media companies could've crushed them. Google had the lawyers, the money, the infrastructure. YouTube had the product. Together they worked.

That story stuck with me. Founders like to believe grit can solve anything, but there are problems money, scale, or legal muscle solve better. Sometimes the most responsible move isn't doubling down—it's handing the reins to someone equipped to handle the next chapter.

3. When Growth Gets Ahead of You

The perfect time to sell is when you hold all the cards—when the numbers are exploding and buyers are circling. Ironically, that's also when founders least want to. During one of our hypergrowth years, we were scaling faster than our systems could handle. Everything looked great on paper—revenue, engagement, hiring. Behind the scenes, it was chaos.

I hired senior executives through expensive recruiters, thinking their experience would stabilize things. Within two years, none of them were still with us. I'd spent over half a million dollars on hires that didn't stick. In hindsight, what we really needed wasn't more people—it was more structure, the kind you get when you join forces with a bigger, more established company. If I'd recognized that sooner, the next phase of Polarr might have been a lot smoother.

4. When Growth Stops Altogether

After the pandemic, the numbers stopped moving. We had over six million monthly users for our consumer apps, but revenue stubbornly hovered around five million a year. Our enterprise customers cut R&D budgets, and the capital markets cooled. We were stuck in what YC calls a "tarpit"—too successful to quit, too stagnant to excite new investors.

Our employees had grown with the company. They were ready for bigger challenges, but the company wasn't growing fast enough to provide them. We were still profitable, still shipping products, but the spark was gone. In that kind of plateau, an acquisition isn't failure—it's evolution. Sometimes being absorbed by a larger platform is the only way to keep the mission alive.

5. When the Market Turns

In early 2022, while waiting with Charis for another obstetrician appointment—our daughter was due that fall—I sat in the waiting room listening to the nurses talk excitedly about NFTs. A few months later, no one was talking about them anymore. The entire market had collapsed. Terra and Luna had imploded, trading volumes had dropped 90 percent, and the easy-money era was over.

By the time our daughter was born, funding rounds had dried up across tech. Companies that once raised tens of millions were suddenly fighting for survival. Consolidation became the only path. The lesson was simple: when the market turns, pride is expensive. You don't wait for a perfect valuation—you look for a stable partner who can carry your team through the storm.

6. When Your People Need Liquidity

By 2021, my own life looked very different from when I'd started Polarr. I was married, had two kids, a mortgage, and a team of people with families of their own. Many had been with us for years, working below market pay because they believed in what we were building.

We were sitting on paper value but very little real liquidity. The venture market had cooled, and there was no viable path for a secondary sale. If we didn’t find an acquirer, the only “reward” my team would have for years of sacrifice would be more stock certificates that might never convert to cash.

That weighed on me. It wasn't about "getting rich." It was about keeping a promise—that if we built something of value together, everyone would see some return for the time they'd given up. Exploring M&A wasn't a financial decision; it was a moral one.

I've come to believe that there is always a right moment to sell . For me, it was alignment: taking care of our people, honoring our investors, protecting what we'd built, and finding ways to make a bigger impact. The wrong reasons are fear, burnout, ego, or chasing a headline. The right reasons are clarity, responsibility, and timing.

And once you know your reason—once you accept that selling isn't the end of your story but a continuation of it—the next challenge begins. You have to shift your entire mindset from building to letting go, from offense to endurance.

That's what I wished I had known: learning how to rewire my brain to survive the emotional roller coaster of actually going through an M&A.

Chapter 8

Rewire Your Brain: Getting Into Exit Mode

Our first serious M&A meeting was with a multi-trillion dollar tech company I had admired my entire career. It was the kind of place that, if I'm honest, I'd dreamed about working for back when we were still coding in a cramped apartment. It also happened to be where my wife, Charis, worked at the time, and in the days leading up to the meeting, my imagination ran wild.

I remember thinking how nice it would be to carpool to work together in the mornings, grab lunch in the same cafeteria, maybe even take a walk around the courtyard during breaks. After years of startup chaos—late nights, missed dinners, and weekends spent debugging instead of resting—the thought of working near her felt like some kind of cosmic reward.

The lead-up to the meeting only fueled the fantasy. Our bankers said that their initial meeting went really well and their team knew who we were and were fans of our products. Their emails were warm, full of familiarity, almost as if we had been close colleagues for years. We spent days preparing slides, rehearsing talking points, researching each person on the meeting invite list so we could tailor our pitch to their backgrounds.

The meeting itself went incredibly well—or so I thought. It ran longer than the allotted time. They asked detailed questions. They nodded in all the right places. When it ended, we exchanged pleasantries and promises to "continue the conversation." I walked out of that conference room on a cloud, convinced this could be it—the perfect fit, the dream acquirer.

Then… silence.

A week passed. Then two. Then a month. Nothing. No follow-up email, no "thank you for your time," not even a polite rejection. Just radio silence.

That was the first of many such experiences, but it hit the hardest. I learned that in M&A, the quiet afterward isn't personal—it's just how the process works. Buyers explore dozens of opportunities in parallel, and most of them never go anywhere. Still, that silence stings in a way no founder is ever prepared for.

And that's when I realized something I wish someone had told me earlier: selling your company requires an entirely different operating system for your brain.

Working through an M&A is an entirely different sport from running a company. If building a startup is all about endurance, selling a startup is about doing whatever it takes to live to fight for another day. Scott Belsky calls it "the last mile in a marathon race" in The Messy Middle—and he's right. The last mile looks deceptively short, but it demands a different kind of stamina, patience, and mental elasticity. You have to train your mind to operate in uncertainty for months, sometimes years, without breaking.

Because here's what M&A really feels like: one day, you're on top of the world—term sheet signed, champagne toasts, congratulatory texts pouring in. A week later, your inbox goes silent. The same people who once responded within hours stop replying altogether. You start checking your phone every five minutes like it's a lifeline. Multiply that cycle by a dozen false starts, and you begin to understand why exits drive founders insane.

Nothing prepares you for it.

The first thing you have to do is reset your baseline expectation: assume no deal will happen. Not even for a dollar. Tell yourself that you'll continue building alone, that life goes on with or without an acquisition. It sounds pessimistic, but it's actually liberating. The moment you stop believing an exit is inevitable, you regain control of your sanity. Anything beyond survival becomes upside.

Then comes acceptance: you're no longer running the company you want—you're running the company that can be acquired.

This was one of the hardest pills I had to swallow. Early in the process, I remember leaving a meeting with a potential buyer feeling physically sick. We had just agreed to prioritize a particular feature that wasn't even our core focus, simply because it aligned better with their roadmap. Walking out of that Zoom call, I felt like a sellout. It took me weeks to admit that it wasn't betrayal—it was strategy.

To sell, you have to temporarily trade creative control for positioning. That means making peace with decisions that aren't pure to your original mission but increase your company's attractiveness to others. It's not selling out; it's just how this business works. The faster you reconcile that truth, the smoother the process becomes.

Another lesson: take full responsibility.

In fundraising, you can lean on investors to open doors. In M&A, you're on your own. Your board won't find you a buyer. Your investors won't negotiate on your behalf. Your bankers, if you have them, can amplify interest but can't create it. Nobody knows your business better than you, and nobody can sell it better than you. That's your job—to articulate the story, rally your team, and steer everyone—employees, investors, and yourself—across the finish line.

It's easy to fall into the illusion that someone else will "make it happen." They won't. You started this company. You're the one who has to land it.

You also have to learn to let go of expectations—especially the ones others put on you. When investors write their first checks, they believe that you have the potential to be the next Mark Zuckerberg. When the media covers you, they call you "the next big thing." But markets change, and reality rarely plays along. Even Google kills billion-dollar projects. Your worth as a founder isn't tied to your company's outcome. I had to remind myself of that constantly. Someone who sells for ten times your price isn't ten times better than you—they just landed in a different market at a different moment.

The only metric that matters is whether you did right by your people and left the company better than you found it.

Once you're in exit mode, flexibility becomes your superpower. Your previous roadmap no longer matters; the only roadmap that does is the one that gets you to a close. Buyers will ask for proof of partnerships, product adjustments, and even small integrations that fit their ecosystem. Roll with it. Treat every interaction as both a negotiation and a rehearsal for working together. Deals die when founders cling to plans that no longer serve the goal.

Before you engage, clean your house. Buyers can smell dysfunction from a mile away. If you have an underperforming team, fix it. If there's a product that's dragging you down, cut it. If you've been putting off tough decisions for months, make them now. No one buys a fixer-upper. When you're preparing for an exit, imagine you're staging a house for sale—fresh paint, uncluttered rooms, clear story. Even if the deal falls through, your company will be stronger for it.

And as the process drags on, distance yourself emotionally from the day-to-day noise.

During M&A, you'll disappear from your own company for stretches at a time. You'll have to. Most of the discussions, due diligence, and negotiations happen behind closed doors. Your team won't know what's going on, and you won't be able to tell them. That can feel dishonest, especially if transparency has been your cultural mantra. But oversharing creates false hope—and nothing kills morale faster than a deal that collapses after you've already let the team in on the details.

The truth is, silence is a form of protection. You're protecting their focus so they can keep doing their best work while you navigate chaos in the background.

Finally, accept this sobering truth: sometimes, there's simply no buyer. You can have great revenue, cutting-edge technology, and a loyal team—and still find yourself in a market with no demand. That's not failure; that's timing. You can't control who's buying, only how ready you are when they are.

Going through an M&A is like walking a tightrope between hope and heartbreak. The only way to stay balanced is to build a mindset that can handle both.

Once you've rewired your brain to accept that reality, you can start preparing for the hardest scenario of all—the one most founders never want to think about: what to do when no acceptable offer ever comes.

That's where we go next.

PART I: BEFORE YOU BEGIN

Chapter 9

Prepare for the Most Likely Case of No Acceptable Offer

It was near the end of the summer in August 2022 when the last plausible lead finally came back with an offer sheet—and it was a complete non-starter. The terms were so bad that everyone would have been better off if we'd simply returned our cash balance to investors and operated independently indefinitely. Everyone else had already said no.

That day, it finally hit me: we might not sell this company. Not this quarter. Maybe not ever.

It wasn't a dramatic realization—no shouting, no meltdown—just the slow, heavy feeling of gravity returning after a year spent chasing something that never materialized. For months, I'd been living in deal mode: back-to-back meetings, rehearsed pitches, bankers promising that "next week could be the one." And now, there was only silence.

If I'm being honest, I thought it was going to be easy. When we first started responding to inbound inquiries in September 2021, we were convinced we'd have a term sheet by Christmas. We had more than five inbound M&A conversations with major industry leaders and roughly twenty additional prospects through banker-led outbound. We were profitable, had strong partnerships, and had even hired bankers to manage the process. Everything pointed to momentum—until it didn't. Month after month, each promising lead fizzled into a polite "we'll circle back" or "timing isn't right." Instead of building products and delighting users, we spent nearly a year chasing meetings that went nowhere, building custom demos that no one remembered. By the time we realized none of it was going anywhere, the damage was done.

I was reviewing that final term sheet with Borui over Zoom. He stared at the screen in the same quiet daze I felt. "We just wasted a year," I said. He nodded.

That was the moment I realized what no one tells you about M&A: most exits don't happen.

For every acquisition headline you see, there are a hundred stories like ours—companies that try, wait, hope, and eventually move on. Finding a buyer isn't the norm; it's the outlier. The real work, if you want to survive the process, is preparing for the most likely case: that no acceptable offer will come.

The hardest part was facing the team. We'd been so confident that an exit was imminent that some employees had exercised their stock options early, anticipating a payout. When it became clear that no deal was materializing, we had to make the brutal decision to do another round of layoffs and pivot to an entirely new product. That was one of the lowest points of my career.

It taught me a simple but painful truth: you can't set deadlines on something you don't control. Founders love to say things like "we'll find a buyer by summer" or "we'll close this quarter." But M&A doesn't follow startup timelines—it moves at the pace of bureaucracy. Even when everything goes right, an acquisition requires dozens of internal approvals from finance, legal, product, and engineering teams. Every "yes" spawns three more meetings. Every signature takes weeks. The idea that you can enforce a deadline is a fantasy. When you pressure a buyer with an arbitrary date, you usually end up with one of two outcomes: a rushed, unfavorable offer—or no offer at all. The better approach is to remove the clock entirely. Let the relationship develop organically. The right deal happens when both sides are ready; forcing it rarely ends well.

So what happens when you've talked to every potential acquirer, followed every lead, and still can't find anyone willing to issue a term sheet? There are really only two paths forward: continue building, or wind down gracefully.

If your company is generating positive cash flow, staying independent isn't the worst outcome. You can buy out your investors with existing cash or future profits, bring in a professional CEO, and reorient the business as a lifestyle company. Once you remove the pressure of hyper-growth, you might find a different kind of freedom—the kind that comes from running a profitable, sustainable business without outside expectations. It's not glamorous, but it can be deeply rewarding.

One of the most difficult contingencies, however, is trying to go back to business as usual with the same governance structure after a failed M&A. Once you've publicly committed to selling, the psychology inside the boardroom changes. If you were pressured to sell by investor board members, it almost becomes a one-way door. Even if you can't pull off a deal, expectations have been set. The right thing to do in that case is often to provide some form of liquidity for the investors—either through existing company cash, a new fundraising round, or, if none of that's feasible, by stepping down and letting someone else reset the narrative. Personally, I found it nearly impossible to continue operating under the same board dynamic after failing to deliver an exit when liquidation was what they expected. Once that trust line breaks, continuing on feels like paddling against the current.

If your company isn't cash-flow positive, the decision gets even harder. You're burning money, and the runway is shrinking. The question becomes not "can we survive?" but "should we?" Many founders hang on, convinced that a miracle round or last-minute acquirer will save them. Occasionally it happens, but most of the time, the responsible move is to confront reality. Winding down gracefully isn't failure; it's leadership. Return any remaining capital to your investors, treat your employees with dignity by offering severance, and help them find their next opportunities. The majority of startups fail. There's no shame in accepting that. What matters is how you fail—on your own terms, with integrity intact.

It took me years to make peace with that truth. During the process, I kept telling myself that every company that tried long enough would eventually find a buyer. But time isn't always the cure. Sometimes markets change faster than you can adapt. Sometimes buyers simply stop buying. And sometimes, no matter how well you've executed, there's just no fit. Accepting that reality isn't defeat—it's maturity.

The good news is that this clarity gives you control. Once you stop chasing phantom timelines and start planning for contingencies, you can make clear, grounded decisions: how much to invest in the next product cycle, how to communicate with your team, and how to protect your own sanity. Setting "no offer" as your baseline doesn't mean you've given up—it means you're running the company grounded in reality, not what you wish would happen.

And once you've accepted that possibility, only then can you start thinking clearly about what comes next—what the company is truly worth, what you're willing to walk away for, and how to evaluate an offer if one finally arrives.

That's where we go next.

Chapter 10

Valuation Fantasies and the Art of Disappointment

During Polarr's hypergrowth phase, when we were interviewing candidates on a weekly basis, people would often ask about potential exits right after they saw the proposed equity package. It made sense—everyone wanted to do the payout math. I still remember one early interview when a candidate asked, "So, what's the end game for you guys?" Without hesitation, I said, "We wouldn't sell unless it's for a billion."

I said it so casually and convincingly that the interviewee might have thought there were some deep insights or metrics behind this ostentatious claim. It didn't. Borui and I were two recent grads with no idea how valuations worked, no real understanding of M&A, and far too many TechCrunch headlines rattling in our heads. Back then, billion-dollar outcomes didn't feel extraordinary—they felt inevitable. We thought if we simply continued hacking and growing, someone would come knocking with an offer sheet.

What I didn't understand then is that valuation isn't a reflection of your effort, your product, or your team. It's a reflection of timing, buyer strategy, market cycles, and sometimes pure luck. It took me years — and an avalanche of no's with a couple painful termsheets— to finally appreciate how M&A valuations actually work.

Most acquisitions fall into four categories: acquihire, asset sale, revenue multiple, and strategic. Each one has its own logic, risks, and emotional cost. And while the billion-dollar headlines all come from the last bucket, most deals live and are a blend of somewhere in the first three.

When founders imagine exits, they picture the last type — strategic. The kind where a visionary Mark Zuckerberg calls you up and says your company is the missing piece of his grand plan. But statistically, most acquisitions happen for far less glamorous reasons. The buyer needs a team, a technology, or a customer base. Understanding which lane you're in will save you a lot of heartache and wasted energy.

Acquihires are the simplest and, in recent years, the most difficult to pull off unless you are a frontier lab full of PhDs working on bleeding edge AI. As the name suggests — "acquire plus hire" — they're about talent, not product. A buyer has a team gap they need to fill quickly, and they buy yours to do it. Their priorities are simple: can your researchers or engineers pass their interviews, and will they commit to working there for the next two or three years? If the answer to either is no, the deal won't happen. The economics reflect that reality — most of the compensation comes as retention, not up-front cash. And since 2025's wave of AI tools has driven engineering supply higher, even those deals have become harder to come by.

When I look back, I wish someone had told me that no one in an acquihire cares about your original vision. They're not buying your product or your mission — they're hiring your people. Overselling your big dreams can actually kill the deal. The buyer expects to shut down your old product, redirect your engineers, and move on. It's not personal; it's just how these deals work. So if you can't see yourself — or your team — working at that company for two or three years, it's better not to even start.

Asset sales generate similar windfalls for the shareholder as an acquihire, but emotionally they can be much harder. They're what happens when a buyer only wants parts of your company — the codebase, patents, customer contracts, or maybe just the brand name. It's the corporate equivalent of a clearance sale. The buyer takes what they want and leaves the rest — liabilities, leases, debts — to you and your board. There's rarely any meaningful equity or cash transfer, and what proceeds you do get are taxed as corporate income before you even distribute them. In some cases, it's the only viable path forward, but it's never the dream ending.

Then there are revenue-based deals, usually driven by private equity. Buyers look at your annual recurring revenue, EBITDA, and growth predictability, then assign a multiple — typically 2–3× in slow markets and 4–5× in better ones. These deals usually happen when a company is doing at least $10M ARR or $2–5M in EBITDA with steady, repeatable growth. In most cases the new board hires an outside professional executive team to run the company, and you can walk away from the deal with a very short transition period with cash in hand.

And then there's the dream scenario — the strategic acquisition. This is where headlines are made and founder myths are born. A strategic acquirer believes your company is essential to their future — the missing piece in a new product line, a defensible moat against competitors, or a key to unlocking a new user base. In these cases, the valuation is not grounded in math; it's mostly narrative. But that narrative can justify extraordinary numbers if the buyer truly believes in it.

The catch is, you can't engineer a strategic acquisition. You can't will it into existence with slide decks or banker outreach. It happens when a specific decision-maker at a company decides you're their solution — and even then, it's still unpredictable. The first offer is rarely the best. And before you celebrate, make sure the buyer can actually close — plenty of "strategics" make generous offers they can't finance. Private stock offers might sound impressive, but they can easily turn into illiquid paper worth nothing.

It took me a long time to let go of the fantasy that valuation was something we could control. At one point, after a couple good quarters, we sketched numbers on a whiteboard and convinced ourselves we were worth nine figures during the boom phase of M&A in 2021. A few months later, we were staring at a term sheet that valued us lower than our cash in the bank. Same team, same products, same metrics — completely different market. That's when I realized valuation is never a verdict on your company; it's a snapshot of a buyer's confidence at a single moment in time.

There are really only two kinds of leverage you can have in an M&A: multiple interested buyers, or the ability to walk away. Most of the time, you won't have both — but you should have at least the latter. The best leverage we ever had wasn't a bidding war; it was the knowledge that we could continue running the company profitably without selling. The moment you don't need a deal, the dynamic shifts completely. Buyers can sense it.

So if there's one takeaway from all this, it's this: know what kind of deal you're really in. Don't compare your acquihire offer to someone else's strategic exit. Don't benchmark your asset sale against a unicorn headline. You're not playing the same game. The work to close is just as hard in all of them, but the outcomes — and the emotional costs — are vastly different.

Now that you have an internal gauge on the expected valuations, let's look at ways to get your personal finances in order before embarking on the M&A journey.

Chapter 11

Get Your Personal Finances in Order

In late 2021, just as we brought on bankers to begin exploring a potential sale, I sat at my desk staring at a spreadsheet that made my stomach turn. To fully exercise my vested stock options in anticipation for a potential imminent liquidation event, I would have to come up with nearly $200,000 in cash, plus another $150,000 in Alternative Minimum Tax. Over a third of a million dollars—just to own something I had already spent six years building.

The irony wasn't lost on me. On paper, I was a successful founder with a company that had raised millions, employed dozens, and was in active M&A talks. In reality, I couldn't afford to buy my own shares. I remember pacing around the kitchen that night, trying to convince myself that taking out a bank loan to cover it was "an investment in my future" and could save potentially millions in taxes as the liquidation of the shares in the transaction becomes long term capital gain as opposed to ordinary income. My wife listened quietly, then asked a single question: "What happens if the deal doesn't go through?"

That stopped me cold.

I didn't take the loan. Looking back now, it was one of the smartest decisions I ever made. Even if Polarr had sold for a billion, I wouldn't have changed that call.

It's a question every founder or early employee faces at some point: should you spend money to exercise your options?

In the U.S., the tax code makes this question more painful than it needs to be. If you hold your shares for more than a year before selling, you qualify for long-term capital gains rather than ordinary income tax. Sounds great in theory—until you realize the cost of buying those shares, plus the tax on the paper gain, often reaches six or seven figures before you see a single dollar back. And the worst part? Most of those shares never turn into cash.

I get this question all the time from other founders: "Should I borrow money to exercise?" My answer is simple: only if you're comfortable losing it all.

If you can afford to exercise without jeopardizing your life, your rent, or your family's savings, go ahead. Think of it like buying a very expensive lottery ticket—low odds, high upside. But if exercising means draining your savings or taking on debt, don't do it. The truth is, startup equity is illiquid by design, and more often than not, it's worthless.

I was lucky that I never had to make the decision under pressure. I stayed at Polarr until the exit, so I wasn't forced to exercise within 90 days like many departing employees are. But I watched plenty of friends take loans or sell assets just to exercise shares in companies that never made it. Some lost years of savings chasing paper gains that never came.

The other rule I lived by—one that probably saved me as much stress as money—was never spend money you don't have.

The M&A process messes with your sense of reality. You start thinking in terms of potential payouts rather than actual cash flow. One week, your banker hints at life-changing numbers, and the next, you're back to wondering if the company will survive another quarter. I learned to manage my personal finances as if no deal would ever close.

Charis and I lived modestly during those years. Even though we were married, we rented a two bedroom apartment and had a roommate for years, we budgeted like any middle-class family, and our biggest splurge before the acquisition was the down payment on our house in 2017. Even after the deal closed and the wire finally hit, our only "big" purchase was a used piano for $3,500—for our kids, not us. We'd spent so long assuming there wouldn't be a payout that when there actually was, we didn't feel the need to celebrate it with anything extravagant.

That mindset—assuming no liquidity until proven otherwise—kept us sane. It also kept our expectations in check during the months of uncertainty that followed the acquisition.

Because even when a deal finally closes, cash isn't always cash. Some payouts come in illiquid stock that may take years to vest or sell. Some are structured as earn-outs based on future milestones. And in some cases, there are even clawbacks and potential personal liabilities if a deal goes south.

So as unromantic as it sounds, before you ever start an M&A process, take a hard look at your personal balance sheet. Ask yourself:

1. If the deal never closes, can I still afford my current lifestyle?

2. If it does close, how much of that windfall is actually liquid?

3. Am I borrowing against a future that might never arrive?

Founders like to talk about risk as if it's heroic, but personal financial risk is different. It doesn't just affect you—it affects the people you care about the most, those who matter a lot more than your company. While we hear about success stories of those who mortgaged their houses in order to fund their business, we rarely hear about those who lost it all when their business failed.

Now that we've covered your own financial foundation, let's zoom out to the next layer of complexity—your cap table. Because getting your personal finances in order is one thing; aligning the expectations and interests of everyone else who owns a piece of your company is something else entirely.

That's where we go next.

Chapter 12

Herding Cats: Aligning Spouses, Cofounders, Investors, and Employees

When companies fail, they are more frequently due to implosions rather than external factors. Founders fall out. Boards fracture. Key employees quit when trust breaks down. I've seen it in friends' companies and came dangerously close to it myself. M&A doesn't create those cracks —it just exposes them under pressure.

During an acquisition, every hidden tension becomes amplified: every misalignment of incentives, every unspoken assumption about ownership, loyalty, or fairness. What used to be small differences in perspective suddenly turn into existential questions about who deserves what and who gets to decide. Deals rarely collapse because of bad math; they collapse because people who were once on the same side stop pulling in the same direction.

M&A is like a trial by fire that's going to test your closest relationships, and not all of them will make it to the other side, and you may not even see the other side at all.

1. Spouse

> In my case, and perhaps to you as well, the most important person to align with before deciding to explore an exit was my wife. Charis was very supportive throughout the years ever since the founding of Polarr and leading up to the M&A. When I made the decision to sell, we also had a one year old and also a baby on the way. While we never explicitly discussed the company's future and exit plan together, when I did tell her that I was going to explore selling the company, I could feel a sigh of relief from her that there was finally going to be some potential predictability and perhaps a sense of normalcy after years of hard work. Aside from getting support from her on selling the company, she also made it explicitly clear that she had no expectations for any potential payout from the exit. I don't know how normal this is from other marriages, but because Charis also worked and consistently made much more money than I did working in big tech, her stoicism and the stability of her income also freed me from additional pressure to land the company.

Some of the loneliest times that I ever felt was also during the M&A, when nothing was working, and I was on the brink of throwing the towel and walking away from it all. I also realized that there were days when I became completely insufferable where the tiniest inconvenience or annoyance would trigger me to have a complete meltdown. Unfortunately, that's what M&A did to me, it was impossible not to be emotional about it when the stakes were so high and margins of error were infinitesimally small. Charis was my bedrock throughout that entire time. For things that I couldn't talk to my cofounder, my board or my team about, I talked to Charis. She acted as a sounding board and a damper to my raw emotions. It would've been a whole lot harder to have gone through this process alone.

For cofounder Borui, he actually planned on marrying his longtime girlfriend in 2024 and starting a family, but unfortunately broke up in the same year, and that was three years into our M&A journey. I don't know how much of a toll M&A had on their relationship, but I know for sure that he too had gone through similar episodes of intense emotional rollercoaster from the M&A. One minute we expected the deal to close, the other minute we were informed that they were no longer interested, and the majority of the time was spent waiting for a response or preparing for an all-important make-or-break meeting with the potential buyer. And Borui was a lot less emotional compared to me and did a much better job compartmentalizing different areas of his life to different sections of his brain. He rarely let work get to him and lost his cool, but still, M&A was a whole different beast compared to running a company.

So perhaps a few words of caution with respect to alignment with your significant other when going through an M&A is this: be transparent of what you are going through but also try to be a bit more patient and stop taking yourself so seriously. Be quick to listen and slow to judge, and take a deep breath first before reacting.

2. Cofounders

If you think marriage is complicated, try sharing a company with someone through an M&A. Every founder relationship has buried friction: equity splits, differing risk tolerances, family priorities, compensation histories. Those differences rarely matter when things are going well. But when you're staring at a term sheet—or worse, when no term sheet arrives—they can erupt.

For Polarr, the tension was structural. Borui and I are both founders, but because I joined a few months later, there was an uneven equity split. This might not be an issue when the exit terms are favorable and the spoils are plenty, but would become contentious when the deal is small or when it doesn’t even clear the preference stack. In our case, Borui owned nearly 5 times as much as my equity in the company, so say there was a $600K proceeds for the founders, it would have meant that Borui would walk away with $500K while I only got $100K. To add insult to injury, the majority of his shares were given on day one while mine were options. So his windfall would have little tax implications while I had to pay ordinary income tax to every single dollar. To me, this did not feel fair especially given the amount of effort both of us put in in building the company but also preparing the company for an exit. There was also this other dynamic in place where because Borui had more ownership and also he did not have a family and liquidation pressure, he was more incentivized to keep building the company with the remaining cash if no buyer was found, and I would be faced with the decision of either breaking the bank to exercise my vested options, or potentially walk away from it all with nothing.

The two of us had a series of uncomfortable conversations regarding this dilemma, and they were probably the toughest but the most important conversations we ever had for expectation setting and alignment. Now the thing to understand is, for most M&As, especially if the acquiring company intends on keeping the team around, the deal needs buy-ins from all the cofounders who are still working at the company and have significant ownerships. Hence, for us, the mutual agreement was that we would come up with a scheme that was fair that both of us would feel comfortable accepting. Here are some practical guidelines for us and hopefully it would also be helpful to you.

Regarding the existing unequal split of the equity portion, we agreed that it was not something that would be worth fighting over, especially given that it would require additional board approvals and lawyers drafting up new vesting schedules. Furthermore, even though we did have a large option pool, our vested shares still dwarfed the pool, and it would not be prudent to issue additional shares to dilute existing shareholders just so that we could settle the scores on the equity portion. We aligned that in the case that if the closing considerations did in fact clear the preference stack, then we would follow the existing waterfall structure, and Borui would get four times of my proceeds. However, as there typically there were two parts when it comes to proceeds for a M&A, considerations, which was cash or stocks paid upfront, and also retention, which was cash and stocks paid after the acquisition, my ask was that my retention amount needed to make up some of the difference in the closing considerations. Of course, this would still require approval from the acquiring company, but at least we had alignment that an outcome with this type of structure was something that we would both be comfortable signing and committing to sticking together until the end when a buyer was found.

Now the easy part was done, the more difficult discussion surrounded what would happen when the considerations did not clear the preference stack, meaning the common shares gott wiped out and Borui and I received nothing from our equity portion. In such a case, a buyer would still put together an attractive retention package for the team, but how would that get divided, and should equity still be a consideration in such a case? There were a number of heated debates Borui and I had for this particular scenario, where my argument was that retention was a function of how important an individual is to the acquiring company, and not a function of the cap table, which would be underwater and meaningless when preference stack is not cleared. Borui's argument was that the cap table still is reflective of the importance of the individuals' values to the acquiring company, albeit only as a proxy. And in these debates, I was grateful that Borui eventually made concessions and agreed with me that retention allocation was a function the importance of the individual to the acquiring company, and for that, because both of us would play equally critical roles in the integration post M&A, and we should get equal amount in the case we were bought but not clearing the preference stack. While the final allocation was slightly different to what we initially agreed upon when we finally sold in 2025 (I made some concessions to the initial proceeds as I was getting paid more than Borui since our Series A in 2019 because I had a growing family, Borui took a higher signing bonus based on the total salary differences we had over those years), past alignment conversations served as the cornerstones on how the proceeds should be divided. So when we finally got down to the numbers, the discussion was smooth and neither of us saw any surprises from where we each stood. I was thankful that we had those heated debates before and during the M&A process as it aligned us to both wanting to get a deal done in anticipation that if a deal did happen, it would have been one that both of us were content with.

The thing to avoid here would be to not let each other know how we felt about how the considerations and retention should be allocated. Or worse yet, when the deal is ready to be signed, surprise each other with demands that could potentially jeopardize the deal. Now, these typically are not issues when a deal of gargantuan returns is on the table and everyone walks away as a millionaire, but the fact of the matter is, majority of acquisition deals do not generate crazy returns, if at all, and it is important to set the appropriate expectations for those cases with your confounders.

3. Board of Directors

Most of the time a startup board is made up of the cofounders and major investors, and later on when the company grows bigger, independent directors as well. The board has a fiduciary duty to all of the shareholders of the company, which is the highest level of care and loyalty in the best interest of the company. Typically in early stage startups, the founder/CEO reports to the board and the board has the power to fire the CEO.

For Polarr, the board members were Borui, myself, Heidi Roizen of Threshold Ventures, Mar Hershenson of Pear VC and Bangaly Kaba who was independent. Now in the case of an incoming acquisition inquiry or a potential offer, it's the duty of the CEO to report it to the board and solicit input before acting further. The CEO doesn't have to follow the board's directives, especially if the board members do not have certain rights or hold majority of the company stocks. However, it is still paramount to inform the board of any such developments and keep them in the loop.

We made the rookie mistake initially when a big pre-IPO company reached out with an acquisition inquiry where we forgot to immediately let the board members and advisors know of the engagement. This was a big no-no, and could be grounds for breach of fiduciary duties.

At the end of 2021 when Borui and I decided it was time to sell, we spoke to each board member individually before an upcoming board meeting and told everyone our rationale - there were a good number of inbound inquiries and we wanted an exit. Both Heidi and

Mar were very supportive, but also gave us the lay of the land that it wasn't going to be easy even though we thought we had actionable inbound interest. They did not explicitly say what their expectations were from the sale, as both of them were ex-entrepreneurs and perhaps both had the foresight that an exit would be difficult. Nevertheless, they signed off on the plan for us to bring on bankers and begin engaging in the M&A explorations.

Perhaps the best advice that I got from an advisor during this time was that an exit did not have to be the only option we explored in case the M&A market was cold. She suggested that given we had a very healthy cash flow, lots of cash in the bank balance, and a lean team, we could also look into buying out the preferred shares and continue operating the business or pivot into something else. In retrospect, this maneuver could have helped us in the M&A market, as a cleaner cap table and no investors in the mix could entice more potential buyers to give offers as less stakeholders would mean less friction for completing a deal.

Anyway, I was glad that we had a board that was involved every step of the way during our M&A process. While they weren't involved in any of the reachouts or conversations with potential buyers, they did provide us with the right set of bankers and advisors who we leaned on heavily during this time.

Now I should mention there were two other ways the conversation could have turned out when we approached the board for their blessings for selling the company. In one extreme scenario, if the company was burning cash, had no traction, and very short runway left, the board would have responded by prescribing the founders to wind down the company gracefully to minimize litigation risks. Pursuing an M&A under such circumstances would be improbable, and at a very least, major restructuring or layoffs need to take place first to extend the runway. On the other extreme end, if the company was doing really well, making big strides and growing like crazy and the founders asked to explore the M&A market, the board naturally would question the rationale for selling and may instead opt to change the CEO and executive team instead. Unless the acquisition offer provides a return that is tens or hundreds of times higher than initial investment, the board likely would recommend continuing operating independently with or without you as the person running this business.

4. Investors Outside of the Board

Nothing needs to be disclosed to investors who are outside of the board at this stage. Most of the time, small time investors would follow the lead investor and no action needs to be taken. In fact, preemptively informing preliminary M&A activities would most likely be a distraction as naturally these investors would want to understand the likely returns and the impact to their portfolio and tax situation in the coming year. The bottomline is, however, nobody knows what's gonna happen, especially at this stage. The right time to inform them is when a term sheet is actually signed, and only at that point let them know the terms and considerations and answer any questions they may have. Now unless it's a full stock purchase, which would require every shareholder's approval for the deal to be consummated, typically just the majority of the shareholders are needed to approve a deal. Your lawyers will recommend you to get approvals from all the shareholders, but the bottomline is you only need the majority, and make sure that the major shareholders are well-informed and kept in the loop and as long as they are onboard, a deal can be signed off.

Also do not purposefully withhold this information from our outside investors. If you have regular syncs with them, it's totally fine to let them know that you are exploring a sale and ask them for guidance and advice if you need it. Sometimes things work out serendipitously with these types of conversations. They may introduce you to the right bankers, or connect you with a potential interested party. Just avoid setting expectations on the actual sale terms.

5. Key Employees

Every situation is different, though the general message to the team should be to not disclose them of any pending M&A activities. This is because in most cases the deals do not close and it would cause irreversible damage to the trust and morale of the team. Furthermore, When you do start engaging with potential buyers, the company still needs to be operational and continue serving existing customers. Giving the team this additional information would be a huge distraction and cause unnecessary drama, and once you tell the team, they will ask the progress of the M&A at every interaction you have with them whether it's 1-1 or company all hands. More often than not, the information you have is also just a snapshot of what your banker or point person provides from the potential buyer, no one can really read the tea leaves except when it's a definitive agreement with terms and considerations spelled out.

The mistake that we made when starting the M&A process was that we told this to the entire team. This wasn't done frivolously, as there were mainly two considerations we had. Firstly, we were in the midst of a failed pivot towards building a social product that saw very little traction that was also extremely costly to develop. It was clear that this strategy was not working. We needed to do another layoff in the middle of 2021 when we just did one early 2020, and the logical thing at the moment was to go back to double down on the products that were generating meaningful revenue for us, and look for a buyer. We felt at the time it was unfair to the team to announce the layoffs and pivot without providing the necessary context, and there was also a fear of mass attrition coupled with loss of confidence would result in the company's demise. Secondly, because we did have a number of inbound interests from companies at the time that would require Borui and I to be unavailable for extended periods of time for meetings and preparations, we wanted to be transparent to the team on why we would not be reachable during work hours.

One other thing that we put into place was a retention bonus that we allocated from our existing cash balance to be paid out at a future date to keep key employees for the M&A. Because we did have a large cash balance, we earmarked a total of $377,000 to be paid out to our employees on May 31, 2023 or the date when the company was sold, whichever came earlier. This coupled with the news that we would be exploring the M&A market as well as another workforce reduction was communicated to the team in April of 2022, which got the team refocused on working on our core products, and we saw no turnover for nearly two years.

Now looking back, the retention piece was not without its own issues. Due to the fact that we did not sell the company by May 2023 (we were way too optimistic), we saw voluntary turnovers in 2023 after the bonus was paid out. Furthermore, when we did due diligence with various potential buyers, the topic of this one time payout was heavily scrutinized and reduced our negotiation leverage as the buyers knew that we intended to sell the business, so all of the initial offers were mediocre as a result. In retrospect, the right thing would probably be to just communicate to the team that we had to reorient the company back to products that made money and left out the part about M&A. Alternatively, we should have thought much harder regarding the contingencies when the company is not sold when the retention payout deadline is reached. This would have drastically reduced the pressure we faced during the M&A process, and put the company in a much better position.

However the benefits that we enjoyed from being fully transparent with the team was that there was a clear sense of ownership and operational excellence from the team. Even though Borui and I were practically unreachable for the majority of the working hours, the team operated independently on the product and engineering goals, and did not need any input from us.

6. Other Equity Holders

Finally, we had ex-cofounders who held meaningful shares as well as past employees who exercised their shares when they left the company. In the lens of an M&A, there is no input needed from this group unless it's a full stock purchase deal, of which every shareholder even if they held one share needs to approve the sale. But very rarely, that is the case. And no communications need to be made to this group of shareholders until when a deal is about to be closed. Even at that point, a shareholder vote only requires a majority depending on the company bylaw, and most likely these votes would not matter at all. The thing to watch out for is to make sure the discovery as well as engagement with potential buyers are fully documented, as there could be disgruntled ex-employees or ex-cofounders who litigate on the grounds that they did not receive the rightful returns from their shares either they felt the company was sold for too cheaply, or simply because they did not leave on good terms. Thankfully, this did not happen to us, but I have heard numerous stories from other founder friends whose ex-cofounders or ex-employees block M&A deals because of either legitimate concerns or frivolous reasons just to spite them. If you are in the unfortunate situation where you foresee potential blowbacks from ex-employees, the best is to onboard a reputable law firm early during the M&A process so that everything is documented and operated in the bounds of law.

Now one thing to call out is that you may never reach perfect alignment across all the stakeholders during an M&A, and perhaps, when a deal is consummated, there are folks mentioned in this chapter that you may never want to talk to interact with again. The learning here is that we are all humans first. We have our own needs, wants and insecurities. The best way to avoid these ugly fights is to treat each other with respect and empathy, and try to help others out even if it means going out of your way. People rarely remember exactly how much money they gained or lost from a liquidation event, but they will always remember how you treated them.

Now that shareholder alignment is out of the way, let's look into other areas of the business you have to work on in preparation for an M&A.

Chapter 13

Paint the Walls: Nobody Buys a Fixer-Upper

A number of years ago, when my wife and I were in the market for a starter house, we toured a number of open houses on the weekends. We lived in Silicon Valley, so there was never a shortage of potential homebuyers. One of the things we noticed early on was that all of the houses that we toured, even as old or as dilapidated as something built mid last century, all of them had a fresh coat of paint and a new set of floors. The majority of them were staged with premium-looking furniture and delicious snacks. Now this was an area where the houses always sold over asking with multiple competing offers, sellers and agents still made the effort to stage the house to give potential buyers the sense that the house was move-in ready.

The same cannot be overstated when it comes to M&A. As a buyer for any business, the ideal is always a zero-risk, turnkey, cash-generating company that requires little integrations. The only thing that hopefully ever needed to change is the logo on the company product or services. This is what you should strive for before engaging in M&A discussions.Here are some practical areas that you can work on so that it is more attractive to a potential buyer.

1. Actionable Inbound Acquisition Offer/Interest

Perhaps the strongest signal you can send to the M&A market is when you already have an actionable offer from another company unsolicited. As explained in earlier chapters, this means that the initial terms and considerations are all spelled out, and you are willing to accept and work for this company based on those terms. Inbound emails from big company corporate developers does not constitute an actionable acquisition offer. Furthermore, a great offer from a company that you are unwilling to work for is also not actionable . One other nuance here is that the offer is from an inbound inquiry, meaning you did not solicit or ask a company for such an acquisition offer. This is important because you as the seller have all the leverage when it comes to an inbound inquiry, and the interested buyer potentially has more patience and goodwill to you as you fulfill your duty by finding out the best possible return for all the shareholders.

When you do have this unsolicited inbound offer in hand, typically the buyer imposes a tight deadline as well as an exclusive period once you sign the initial offer, making it close to impossible to get even an interested buyer to spin up a process to issue your company an offer. So the best course of action would be to quickly reach out to partners and potential acquirers who are already familiar with your business, and directly talk to the key decision maker and let them know that you received a good offer to buy your business. Do not disclose the terms but do let them know that timing is tight and you will likely take this offer. This would also be an excellent time to onboard an experienced banker who can help you negotiate and discover the true market value for your company. Again, do not take the first offer presented to you, take your time and talk to the board and do your research. We will cover more on the tactics and negotiations in the next section.

2. Actionable Inbound Investment Interest/Offer

The next best thing if you do not have an actionable inbound acquisition offer is an inbound investment offer. Potential buyers know that once a new investor is brought onboard, the cost to acquire the same company would be significantly more expensive and also become more complicated as more stakeholders are involved. So if an exit is something you are considering, seek out what the capital market has to offer first to build leverage before going into the M&A market. Again, similar to what I explained in the prior section, ideally the investment offer is inbound, actionable and then it is best to approach existing partners with prior relationships to explore possible exit plans.

3. Product/Service/Technology Differentiation and Specialization

When presenting to a potential buyer, while there is no formula for success, typically one thing they always look for is some type of market differentiation. Is there something that is truly special about what you offer in the market? Is there a close second, or are you one amongst the pack? For Polarr, we worked on a number of products and services over the years. But one thing that remained tried and true was our specialization in leveraging low level web technologies that does not require any server infrastructures in building highly sophisticated photo editing tools for professionals. While this limited our potential target buyers to a short few, it nevertheless provided us with a differentiation that buyers saw as unique to Polarr.

While coming up with a thesis around what product/service differentiation your company offers, it is critical to come up with metrics that measure the impact or effectiveness of these offerings. If in fact this differentiation is industry leading, its metrics and downstream customer impact and growth rate should speak for themselves.

Having this differentiation may require shelving a bunch of products or services that do not have traction or are not central to your core expertise or business. Having too many specializations can be intuited as unfocused. However, one thing to be cautious about is that what a buyer sees as differentiating about your business may not necessarily be what you believe to be. So it is best to do as much homework as possible before doing outbound reach out and come up with potential theses on what joining forces look like, and what unique value propositions your company can bring to the table.

4. Personnel

Your team plays a major role in the acquisition. What acquiring companies look for are domain expertise, culture fit/add, efficiency, locality, and willingness to work for them down the road. It is important for you as the entrepreneur to identify and reduce roles that do not fit the criteria. For example, supporting functions such as HR and marketing often are not value add in an acquisition unless you are a HR or marketing company. At the same time, for team members that are disgruntled, flight risks, or poor culture fit, it is best to offboard them before engaging with the buyers as such personnel issues could only make things complicated later on. One thing that is potentially problematic for a M&A is when you have a distributed team that is fully remote as opposed to one that all goes to a physical office. Believe it or not, I personally think the reason why Polarr was turned down by so many Silicon Valley tech giants was because we had a distributed team post pandemic and not enough of the core team were physically in the Bay Area. During the pandemic, a good chunk of our local employees moved to remote locations, and we unfortunately made the mistake of not asking all our employees to return back to the office when the pandemic ended. As all the other companies returned to office, when they ran due diligence on my company, they found the remote nature of our business becoming a sticking point. While there are always companies that are fully remote, having a remote-first work setup reduces the number of potential acquirers significantly. Finally, there may be advisors who are still being issued stock grants that add little or no value, or past cofounders who own majority stakes. It is important to be thoughtful and try to clean the cap table as much as possible and also reduce unnecessary advisorships as all of these will come up during personnel due diligence. Even though most of these will not result in any issues for the buyer, it would make the process a lot smoother when everything is tidy on the cap table and it's clear to the acquirer who and what each person does in the company.

5. Reduce Your Burn Rate

Finally, and probably one of the most important areas to work on, is to reduce burn rate by slashing pet projects, unnecessary marketing spend, and redundant roles. The bottomline is, M&As take time, and sometimes it may not happen in the first few iterations. You need to make sure there is enough cash reserve to live and fight for another year. Furthermore, if you are burning cash and the prospect of fundraising is not great, you will be at the mercy of the potential acquirers and the terms will be dictated to you. You need to have the option to walk away from an offer, and the best leverage for that is having a cash flow positive company or one that at least is breaking even.

Now I understand that this doesn't apply to deep tech companies or those whose business models require raising a ton of cash before they can become profitable, and in that case, it is still prudent to be frugal and reduce cash burn, and also look for bridge loans and alternative financing options like debt to extend the runway so that the right acquisition offer can be found.

Now these are only a handful of areas that you could potentially improve before hitting the market. Nobody knows your company better than you, if there is one aspect that is not mentioned but keeps you up at night, then you should address it before approaching acquirers. Now let's take a look at how to come up with a list of potential acquirers.

Chapter 14

Come Up with an Outreach List of Potential Acquirers

In 2018, when my cofounder Borui and I were raising our Series A financing, we reached out to thirty-eight venture capitalists, met twenty-eight of them for a first meeting, of which around a dozen had a second meeting, and finally had one offer of which we signed from Draper Fisher and Jurveston (DFJ, now Threshold VC). The whole fundraising process was completed in a couple months. M&A is a completely different beast. Unlike fundraising where most of the hundreds of venture capital firms on Sand Hill Road are willing to hear your pitch, the list is significantly shorter when it comes to acquiring companies for your business. If you are lucky, you will have twenty potential targets who are willing to talk to you. The fundamental difference is that for company buyers, they are looking for a specific combination of strategy, product, technology and team that solves an immediate pain point. This need is so dire that they have already exhausted other potential options like building in-house or partnerships.This is why outbound inquiries typically never result in anything. The acquiring company is too busy executing, or even if your company helps them get to their goal faster, you are not differentiated enough or have enough street credit for them to take notice.

So how do you come up with an outreach list? Start with companies that you already have a strong relationship with, whether that's your customer, partners or suppliers. Focus on those companies that are familiar with your offering and team. Write down the person who you have a personal relationship with and who could vouch for you internally at the acquiring company. Statistically speaking, if you do not have any inbound interest, those companies that have had a relationship with you would be the next best shot in landing your company. If anything, you could almost bank on a meeting from your contact, because they have a business relationship with you, where a liquidation event for your company undoubtedly would have an impact on their day-to-day. One caveat here is if the potential acquirer is a large customer with sizable accounts, soliciting them about M&A interest needs to be dealt with care. Sending such a signal could trigger them to look for other suppliers to derisk you from being acquired and hence losing this customer for good. The litmus test here is to gauge how critical you are to their business, if your business vanished tomorrow, would there be severe headwind for their business. If the answer is yes, then you have leverage and they should be in the game for M&A, and chances are they will pay top dollars for your service. But if not, it's best to exclude them from the outreach list as the risk of losing their account far outweighs the possibility of getting acquisition interest.

The next set of folks to put down are those that have a strong personal relationship with you and also hold executive positions in large cap companies that potentially have overlapping theses. Now these personal relationships should be those who have worked with you in the past and have high regards for you. They may not be the right person to lead such a deal, but they can route your material to the right department and put in a recommendation. Weak introductions via weak connections are worse than having no introductions. Such introductions could often backfire and jeopardize a potentially synergetic strategic partnership. It is better to leverage your existing network who already have strong connections with the person you are trying to connect to make an introduction than reaching out directly.

Lastly, it's coming down with a list of potential acquirers that have an exposure to your space and who could potentially benefit from acquiring a combination of your product, team, or technology. Once you get here, be liberal with the list of companies especially if you are in a competitive space like AI or SaSS. Do your research on which companies are making moves in the news. Moreover, big tech companies like Google, Apple, or Meta will almost always have a team that works on a similar or adjacent space, so if they are not already on the list, put them on and you can always rely on your network or investors to find a contact from these trillion dollar cap companies.

Finally, should you put down your competitors on the reachout list? Depending on how desperate you are to land the company, I would refrain from having them on the list unless you are willing to sell for cheap. Reaching out to a competitor asking to be acquired will never fetch a respectable offer, and almost always they will take this opportunity to extract as much proprietary information as they can. So unless you are determined to sell for scraps, do not approach your competitors.

Now let's work on your outreach deck.

Chapter 15

Outbound Slide Decks: Incomplete Canvas with Details To Be Filled In

Contrary to a fundraising deck that includes the vision and concrete set of steps on how you are equipped to get there with an infusion of capital, a M&A deck focuses on the existing body of work and how your company could be the missing puzzle piece that realizes the grand vision of the acquiring company. Now this is completely unnecessary if all your acquisition interests are inbound or from private equity, but could still be a helpful exercise to help align how you fit into the buyer’s overall strategy.

In the case you are catering the deck to an outbound target who you are trying to convince to buy your company, come up with a few theses on how this specific acquiring company could use your platform, technology, product, or team to reach a certain business goal. Now this is a complete shot in the dark, as what you believe to be their strategy may be completely off base. So the idea here is to establish a common set of beliefs from your slide, that could be a vision for the future, an untapped market that is up for grabs, or a specific pain point that the target company is trying to address that you are uniquely qualified to solve. Put these down as the first set of slides of your outreach deck as the hook to get your acquirer’s attention, and make sure they are customized to specifically cater towards the company you are targeting.

Once you have your hook slides, put in a few slides that uniquely differentiates your company in this problem space. Make sure they are indeed noteworthy as generic information such as headcount or a vanity metric like number of downloads would get your deck discarded immediately. Put yourself in the situation of a Corp Dev who receives tens of these slides of failing startups who are trying to find a buyer, how do you become the signal from all this noise. Put down things like the explosive growth rate you have in revenue or user traction, user net retention that is above the industry standard, domain expertise of your current team with a number of PhDs in fields that are difficult to hire, or anything else that separates your company from the rest. Typically, unless your revenue is in the hundreds of millions and your daily active users are in the tens of millions, big tech acquirers would not care as your revenue and user base are simply a drop in the bucket to their scale. Instead, focus on growth rate, domain expertise, or unique value propositions that only your company can offer.

To finish off, add a couple slides on future outlooks and how joining forces would get to the desired destination faster and quicker. Again be specific here in terms of a few bold predictions on how the market is shifting, and why the acquiring company needs you to stay competitive or thrive in the midst of change. Sell the buyer on a combination of fear and opportunities. Once you are done with the slides, practice it with your co founders, board members or advisors and get feedback.

I can't stress enough on doing homework on the potential target acquirer and try to look for signals from their executive team on what space they are after, what is the problem they are trying to solve, and what kind of investment they are making in this space. Look for interviews and news articles and use the same language as the acquirer. The goal is to invoke interest for a first meeting and tease out if there is a potential for an acquisition.

See appendix for a sample outreach deck that I used when selling Polarr.

Chapter 16

Should You Hire a Banker?

Frankly, bankers are only helpful when you have a great company in a hot space where multiple buyers have lined up with strong acquisition offers. In such a scenario, a seasoned banker can help you discover your true market value and handle all the intricacies of negotiations without damaging your relationship with the acquirer. Very often, you know you are in this situation when an interested buyer reaches out to you through multiple channels and presents you with a verbal offer unsolicited. And if you respond that you have a fiduciary duty and would need to run a process and this does not deter the interested company, then this is the perfect time to hire a banker.

Ask your board members for recommendations for bankers they have worked with in the past. In the banking business, it's all about referrals and past clients. Talk to a few bankers and get a feel for the rapport and how well you work together. The first and most important questions you need to figure out is who you will be working with exactly and does this person have the necessary network where she can create a bidding environment. The premium that you pay for bankers is their network to discover the true market value of your company. If you only have one potential offer, then that becomes the market price. You might be tempted to work with a big firm whose named partners have indeed made headlines. Be warned, unless you have a sought-after company with a high price tag, the person working with you might be a fresh out of school MBA who is inexperienced and not well connected. Not to say that you wouldn't get a great outcome from this relationship, you might not get the level of experience and expertise you expected when the named principals sold you on why you should pick their firm. Secondly, would they still stick around when things get tough and the market turns? Ask about a company that they couldn't sell, and try to understand how persistent and creative they are when it comes to working with buyers. Bankers have a tendency to boast their biggest deals, which is equivalent to a lottery winner telling you their lottery number. This is not helpful as every deal is different and the M&A market changes on a whim. There is also a survivorship bias as some bankers only take on clients that they know they can make money from, so it's important to vet for the cases where the deals fell apart and what they learned from them. As much as bankers hate to admit, these happen more often than what is talked about. There are also cases where the bankers give up after a few rounds of outreach or negotiations after realizing that selling a particular client's company is not an easy lay-up. Sometimes this is not their fault simply because the market is not there, but there is clear evidence that they knocked on every door possible. Finally, can they articulate the mission of your company and understand the intricacies of your business? Ask about the most difficult clients they worked with in the past, what made that experience difficult, and check for references.

Bankers are expensive, and if you have a successful exit, they will make the most money out of everybody on the cap table based on the individual return on investments. Typically, they charge a percentage of the final sale consideration plus the retention package given to the team. Even if you sell to a private company and get paid in private stocks, they would value the private stocks as cash and be paid in cash. And this percentage floats anywhere between three to five percent. Top bankers charge on the higher end whereas up-and-coming or boutique bankers may charge a bit lower. You can typically negotiate these rates, but don't expect to get it any lower than three percent. Finally, some bankers also charge a retainer fee that could either be one-time or paid monthly. This is to protect them from risk exposure of discovering that a market is not there and cover their opportunity cost from working with other clients. The one-time retainer fees range anywhere between tens of thousands of dollars to hundreds of thousands dollars. The retainer fee could be credited in the final payout when the deal closes. The monthly retainer model is usually applied when the market is weak and the banker needs to do a lot of discovery work to find suitable buyers. In such a case, the bankers almost serve as an outbound Biz Dev who works on creating partnership opportunities and building relationships. Bankers typically never take on stocks and they will get paid first just like lawyers when a deal closes. Send the contract you have with the bankers for lawyers to review before you sign them. Figure out precisely if there are any clauses around termination or tail period. There are instances where bankers do not pull their weight and you need to fire them down the road, so it's best to make sure those situations are addressed in the contract so it does not lead to litigation down the road.

Now should you hire a banker when there is no actionable inbound interest and you have no prior relationships? I would recommend no, as in such a case bankers would typically rely on their network of Corp Devs and present your company to a laundry list of potential companies that likely have nothing to do with your space or business or you have no interest working for. It's not to say that you won't get lucky, but the probability of those conversations leading to a M&A is close to zero. It is best that your money is spent on building products or developing relationships by yourself. In any M&A scenario, the acquiring company would rather speak to you as the founder as opposed to a banker. They want to build rapport and understand if they can trust you and work with you from firsthand interactions. Looping in bankers too early could send the wrong signal and jeopardize your chances. Just remember that there's nothing that your banker does that you wouldn't be able to do. They can only help you move the deal along when there is a deal to be had. They cannot create a deal out of thin air. A deal that you are willing to take needs to come from an inbound interest.

Chapter 17

Find a Law Firm Who Knows M&A

While bringing on bankers for a M&A is completely optional, onboarding a competent and knowledgeable law firm who specializes in M&A is absolutely critical for the success of an exit. It's okay to cheap out on other things when it comes to selling your company, but definitely spend the money to hire a good and reputable law firm that either specializes in M&A or has a dedicated team for doing this. A bad law firm will give you bad advice for critical issues on things like indemnifications and liabilities, or could bill you to oblivion that the transaction proceeds couldn't even cover the invoices.

The incentives when it comes to lawyers are purely based on the billable hours as opposed to getting the best sales price for the company. Because the payout for the lawyers are not tied to the financial outcome for the stakeholders, even if the deal falls apart and the company doesn't get sold, the lawyers would still get paid for the hours they worked on your deal. The criteria to look for when vetting for a law firm is efficiency, prior deals, and who you get to work with. A good law firm will assign you a veteran M&A partner who is knowledgeable and efficient, they will set an overall budget, and navigate through the complexities and nuances of the transaction. In a nutshell, the job of the lawyers is to formalize the transaction in a series of legal documents and also ensure all the mechanics and procedures are followed to limit risk exposures and liabilities. Depending on what type of transaction you end up going through, the documents include all the stock/asset purchase agreements, disclosures, employment contracts, stockholder approvals, 280G analysis, and others.

M&A law is complex, geography-specific (depending on where you incorporated, Delaware has different laws compared to California), and often involves multiple stakeholders with competing interests and tax implications. It's worthwhile to spend the money on a reputable and experienced law firm, and preferably they have had a working relationship with you in the past. When it gets to the disclosure phase, the acquiring counsel might ask for a wide array of documents and disclosures, and when your lawyers have worked with you, the process can be a lot more efficient as they already have all your legal documents and should be able to quickly respond to any request. Onboarding a brand new firm with no work relationship in the past would lead to a lot of hours spent on reading your data room and past legal documents like certificate of incorporations, fundraising docs, etc.

If you are already represented by a law firm that is reputable, you like working with them, and they have a dedicated M&A team, then it's best to not switch and continue working with them. Otherwise, ask around for M&A-specialized boutique firms. You typically work directly with the senior partners at these firms and because they solely do M&As, they can be very efficient and knowledgeable and also provide better prices.

Finally, it's important to set a budget early on so that expectation is known on billing only on important legal matters and the company or you handling the auxiliary tasks. Those that you could manage yourself include reviewing your own employment contracts from the acquiring company, supplying the waterfall structure from your cap table, or handling the wiring of the final proceeds to respective stakeholders. Lawyers hate to admit it, but you can set a budget with them, and you can also negotiate with them on the rates, so when they provide you with the invoice, study each line item carefully and pay only for the work that they actually did.

Chapter 18

Get Your (Data) Room in Order

Perhaps the most important set of documents you need to get ready before engaging with interested parties is your data room. It is a fairly mechanical artifact that contains all of your capitalization table, incorporation documents, material contracts, employment letters, financial statements, debts, etc. Things could move quickly, and you don't want to be caught flat-footed when the buyer wants to move quickly and you don't have a complete data room for review. Perhaps the most important piece of document they want to see is your cap table along with the waterfall for liquidation. This would dictate who gets how much in the event of a liquidation and the buyer needs to make sure that the considerations and retention are designed so that all the decision makers for the deal can sign off the transaction and also use it as a proxy to understand the relative importance of employees in the company. Perhaps the second most important folder which in the ideal case is empty is legal proceedings or litigations. Ongoing legal disputes with any company or individual could be the number one reason to derail a deal. The best case scenario is to settle these before you begin the process. Or in any case, make sure you include anything and everything in those matters in your data room. It's always better to disclose upfront than to have the acquiring team discover on their own later.

The other thing to call out here is that you don't need anything fancy or dedicated software for your data room. Dropbox or Google Drive is sufficient. Put all the documents in the appropriate folder structure, and when you get into actual due diligence with a company that shows interest who asks for your data room, create a copy and send the copy over. This way, if there are any acquirer specific items that this particular company asks for, you can simply put it in the copied folder.

See appendix for a list of items to be included in your data room.

Chapter 19

Checklist Before Engaging with Potential Buyers

The below list is ordered based on importance, please only proceed to engage with potential buyers until ideally they are all checked off.

1. Actionable inbound inquiries from companies for deep partnerships or M&A

2. Existing partnerships or relationships with companies that can be potential buyers

3. Cash runway for at least one year

4. Backup plans for when you get no acceptable offers

5. Alignment on expectations with your cofounders and the board

6. Mitigations of all known issues with your companies that could derail the M&A or affect valuations (below are some common ones)

    a. Let go all disgruntled or high-flight risk employees

    b. Clean up your cap table of stakeholders that could potentially be adversarial

    c. Relocate remote employees to headquarters

    d. Drop periphery products and only focus a one or two key areas

7. List of potential buyers

8. Law firm that does M&A

9. Data room

Chapter 20

Don't Forget You Still Have a Company to Run

Perhaps the first thing that you need to do before engaging with any potential buyers is make sure your lieutenants are set up for success so that the company metrics are still going up to the right while the company is exploring M&A. The best way to do this is designate one of your executives to hold down the fort while you and your cofounders attend various meetings and interact with the buyers. The amount of time it takes for meetings is not much, but you will have your hands full from doing market research and preparing for meetings. A lot of these meetings you only get one shot to make an impression, so it's absolutely critical to prepare to the fullest so that all the demos work as expected, even the most obscure metric about your company rolls right out of your tongue, and you appear to be genuinely excited about the prospect of working together with the acquiring company.

In the meantime, set clear goals and objectives for your lieutenants so that the company still operates autonomously while you and your cofounders become unreachable. Give them the leeway to make their own decisions but check-in regularly to see how things are progressing along. Furthermore, once you tell your board you are engaging in an M&A discovery process, it's a good time to cancel your regular board meetings and instead offer email updates on the progress as well as key company metrics. Furthermore, withdraw yourself from unnecessary recurring meetings, and stretch out the frequency of your 1-1s. Your calendar should be as light as possible in the coming months to focus on M&A completely.

As mentioned in previous chapters, it is not ideal to explain to the team on why your calendars are blocked off and you are at times unreachable. Even to your closest lieutenants, they should only be looped in when they actually need to be involved in the due diligence or interview process as the possibility of the M&A becomes more of a certainty. Looping the team too early in the process would put them through a rollercoaster ride that they do not have the full visibility and also agency over, and could lead to employee churn if things are not going well (oftentimes they will not) or expectation mismatch when the deal is finally announced. They may be expecting to be raking in millions but instead find themselves laid off and without health insurance. So instead, reset your communication expectations by proactively letting the team know that you will not be available for a lot of synchronous meetings because of some upcoming partnership discussions, but instead communications are transitioning to asynchronous messages which folks may expect slower response rate. Also work with your lieutenants to determine a roadmap for the next couple quarters, and give them the full authority to execute once you sign off on the plan. It will be tough not being able to share this with the team, but trust me, it's tougher when you do share it with the team, the excitement and anticipation will wear off in a couple days, and you'll be haunted with the question of what is up with the M&A at any interaction you have with folks you disclosed this with, and they will undoubtedly be disappointed and jaded when they find out that the company did not find a buyer, or what they expected to be a billion dollar exit turned out to be much much smaller.

Chapter 21

Engage Inbound, Lean In and Learn

This is the most exciting part of the M&A. To be desired and coveted, to be showered with praises on how phenomenal you and your cofounders have trailblazed a new path, how the acquiring company loves the strategy of combining together to become a multiplicative force, how this is a marriage made in heaven… Take a deep breath, none of this is real, and not all inbound inquiries are created equal. For all you know, the inbound could be just the spur of the moment from an impulsive executive who would forget about this whole idea of buying your company in a couple days and off to chase her next phantom big idea. Or, the inbound could just be from a lowly analyst or junior Corp Dev who is doing market research and wants to get some first hand knowledge from you as the founder. In any case, stay even keeled and put your best foot forward to lean in and learn. As you engage with these inbound inquiries, the goals are to:

1. Figure out if you are talking to the key decision maker for a potential M&A? If not, figure out who is the decision maker.

2. Once you are engaging with the decision maker, determine if she is interested in collaborations, partnerships or an acquisition.

3. It is fine to engage with a partnership initially, and in fact oftentimes it is necessary before these relationships are borne into an M&A, but make expectations clear to the other party that your goal is an acquisition.

4. I do not recommend aligning on a price this early in the process, as pushing for a price tag without enough discovery could lead to the potential buyer misinterpreting you being primarily pursuing this acquisition for financial gains, or in the other extreme getting into a non-binding exclusive term-sheet period where the buyer has all the leverage and you are prohibited from talking to any other potential suitors.

Let's walk through a real example. We received the following cold email from a tech giant in late 2021,

> On Sep 29, 2021, at 4:33 PM, *** <***@***.com> wrote:
>
> Hi Borui –
>
> I support our *** initiatives within ***. My team is responsible for the *** Platform shared across all of our *** product offerings.
>
> I am impressed by the work you and your team have been doing at Polarr on photo editing. I was wondering if you would be open to have an introductory chat with me and my Director of ***, *** (cc'ed), on the work that you are doing, with the objective of finding potential collaborative opportunities. We would love to learn more on the fun stuff that you are working on at Polarr!
>
> Please let me know if you would be open to this and we can coordinate the logistics around this. Looking forward to connecting!
>
> Thanks
>
> ***

To an untrained pair of eyes, this may just appear to be another one of those cold introductory emails that quickly gets discarded into the trash can, as it is a cold email from an unknown sender completely out of the blue. But, a couple signals to pay attention to, firstly, it did not come from a Corp Dev, it was coming from a Research Manager who has a technical background and his Director was also copied. This also indicates that this likely will be an acquihire scenario as engineering leadership reach outs typically mean they are short on staff and are looking to quickly onboard additional manpower. Product or senior executive level inbound inquiries are more likely to be strategic. Secondly, his role within the organization has a clear parallel with the SDKs and services that our company sells, and he has done his research on our product offerings. Lastly, the giveaway here is the word collaborative opportunities. Very rarely on the buy side especially coming from big tech companies do they explicitly mention acquisition in the email, especially coming from a non-Corp Dev role. It is a way to save face in case the founders turn it down right off the bat, where nothing can be learned without even a conversation. In any case, the objective is clear that they are looking at companies in this space and are looking to shore up their bench.

To reply to such emails, keep the message short and also make sure you do some market research on their product offerings and offer ample availability so that a meeting can be scheduled quickly. We replied with the following:

> Hi ***,
>
> Thanks for reaching out. We were just looking for AR SDKs to integrate into one of our apps and definitely happy to chat. How does next week look for a call?

Things will tend to move fairly quickly at this point. Depending on how well the potential acquirer knows about your company, they may email back quickly to ask for a short presentation in advance on your background, team, mission and vision, product roadmap, technical capabilities, and long term goals. You can make modifications to the slides you made from Chapter 15 and customize it to the other party and their products or technology. Set a date that is ideally one week out so that it's not too far away that they completely forget about this opportunity, or too soon that it sends out the wrong signal that you are desperate to sell. For the same reason, I do not recommend sending over overly-polished M&A themed slide decks prior to the first meeting, as it sends the wrong signals. If they do ask for some pre-reading materials, it is totally fine to put everything in a Google Doc that only includes the things they asked for.

Now chances are you may not get all of these inbounds at once, but it's good to try to line everything up when you are ready to engage in the M&A market so that all of these conversations happen simultaneously. If you have had relationships with companies that previously reachout about M&A or are completely outbound targets, this is the perfect time to reach back out and ask for meetings (we will talk about it in Chapter 23). Now they don't all have to happen at the same time, but it would be good to align these conversations so that when the offering phase is reached, all of the due diligence is already complete and you are not waiting for stragglers for them to reveal what a potential offer looks like. Now let's take a look at what the inside looks like when an inbound company reaches out regarding possible M&A.

Chapter 22

The Inside View from an Inbound Reach Out

The only thing that matters in an inbound reachout is who sent the inbound email. The sender dictates how serious an acquisition interest is. Let's rank them in the order of the most actionable to the least.

1. CEO/Founder

> The buck stops at the CEO/Founder. There is no one else at a company that has more power. So when she personally reaches out to you, either directly, or most likely through a proxy like your board member or investor, much deliberations have already been made to assess a possible acquisition of your company. Likely she'll jump right into business at the very first encounter, as her bandwidth is often very limited, and the acquisition will be extremely strategic to her current execution plan. When you get an inbound like this, take it very seriously and prepare to give direct answers on whether you are open to an acquisition and what the price tag you are looking for. Again do not give an answer on what the price tag is right off the bat, the right approach is to punt this later by saying that you would like to consult this with the board and run a due process to let the market dictate what the right price is. And if the interest is indeed genuine, in this case, it most likely is, the inquiring CEO/Founder should have no issues with it and could potentially preemptively provide a strong offer. It would be worthwhile to hire a banker to handle the negotiations and also to potentially gauge overall market interest to maximize the return for all the stakeholders.One caveat, if what you are working on is strategic to the acquiring company that their CEO/Founder is directly involved in the acquisition, chances are, she is also engaging with your competitors having similar conversations. So don't overplay your hand, if the opportunity makes sense and is signed off from your board, proactively engage with the founder and strike the iron while it's hot.

2. Board Member/Investor

Sometimes the CEO is too busy or inexperienced in doing deals, and in such cases, she would delegate this over to a Board Member or Investor who is more experienced in M&As. This is the next best thing when it comes to actionability. The board member could also serve as a noise filter and make a recommendation back to the CEO after your initial meetings. Likely this Board Member will be quite involved throughout the process to help out with areas that the CEO delegated over. They could be negotiations of the terms, parts of the due diligence. Still expect the CEO to make the final decision on whether an acquisition will happen.

3. Product Executive

Typically in large companies, product executives at the VP or Director level have the autonomy to pursue acquisitions. These deals could still be quite lucrative as they likely will be strategic in nature, but could still require sign offs from senior executives in the C-suite. In such interactions, ask your point of contact whether she has done deals before, and who would be the final decision maker. Based on the answer, work towards a strategy to ensure that you are talking to the decision maker, and if she is new to doing this, that's usually a bad sign and most likely you'll have to convince folks upper up in the management chain in order to make sure a deal actually happens.

4. Engineering Executive

Engineering executives mainly engage with startups when there is an acquihire opportunity where they need to quickly fill-in headcounts that could not be easily hired externally. The deal sizes are typically smaller, and the interview process will be rigorous. They will ask you point blank on whether it's acceptable to you to abandon your current product and work on theirs. If that's something you are open to, the process will likely move quickly, and the key decision maker will just be the engineering executives. Again, confirm whether they have worked on such deals in the past, and ensure you are engaging with the final decision maker.

5. Bankers

Sometimes acquiring companies also hire bankers to inquire potential acquisition targets about possible M&A deals. If the acquirer is specific about your company, likely they would have approached you directly or used a proxy. It's only in the case where they are looking for a company with a set of constraints, they offload that work over to a banker to identify and engage with companies that meet those constraints. The good thing here is if your product, services, tech or team fit the bill, then things could potentially move fairly quickly and you will be connected with the acquiring company executives. However, also understand that the inquiring bankers are talking to a number of companies, and also, because they are a proxy, they do not have the decision power, and the acquisition thesis could only become clear after the acquiring company executive did her due diligence on your company.

6. Corporate Dev/Analysts

This is likely the least actionable engagement you will have, nevertheless, it's important to take such conversations seriously and build relationships. Typically what happens is that certain product organizations have a new initiative that they are inexperienced in and are looking to gather information. They would activate their Corp Dev or Analysts to do market research and probe companies in such space on insider knowledge like market size, customer discovery, technology gap, etc. Don't give out anything that is sensitive to your business when engaging in such conversations. Explicitly ask the purpose of these inquiries, and treat this as a learning opportunity to understand what the needs of the inquiring company have, and study for possibilities to strike up or be introduced to actual decision makers in the executive team for future conversations.

Chapter 23

Activate Outbound, Plant the Seed

This is the most exciting and perhaps the most straightforward step in an M&A. The bottom line is, you spent months if not years preparing for the company to be ready to be presented to potential suitors, now it's finally time to send out the emails to everyone on the target list (see Chapter 14) and gauge the interest level for your company. The goal of the outbound reachout is to keep it simple and actionable, you can use the templates below for your email.

First, if you have actionable offers, then it's super simple. Make sure your email has only one recipient. Too many recipients will dilute the urgency and ownership of your reachout.

```
Subject: [Your Company] M&A Update

Hi [Executive of Potential Acquiring Company],

I wanted to be the first to tell you that we are starting a M&A process.
Recently, our board received an actionable M&A offer, and wanted to run a
process and invite you to be part of it as we value our relationship and
feel that the potential of teaming up with [Acquiring Company] could
create the biggest impact.

Let me know if this might be an actionable opportunity for you.

Thanks,

[Your Signature]

[Your Phone Number]
```

Now only send the above email if in fact you already have an offer you are willing to accept. And absolutely do not mention who has made this offer to you. This maximizes your leverage and also protects against reputational and legal risks. Furthermore, don't send the above email if the offer you have is weak or non actionable, and definitely do not lie when you do not have any offers. The above email may all of a sudden become the highest priority task of the recipient, and if that's the case, she would work overtime to pull in the right decision makers and resources to analyze this opportunity. Expect thorough follow-ups which if you lied, you will need to make up more lies to cover the initial lie. Eventually, everything will come crashing down. So the simplest thing is, just don't do it, your reputation will be preserved and you will also sleep better.

Alternatively, if you do not have any offers but are starting a M&A discovery process anyway, use the template below:

> Subject: [Your Company] M&A Update
>
> Hi [Executive of Potential Acquiring Company],
>
> I wanted to give you two updates on [Your Company].
>
> First is our latest [key business/product update that is relevant to the acquiring company, something that is short and sweet and noteworthy. If the acquiring company cares about a particular market, tell them your ARR or growth rate in this market crossing a key threshold. If they care about a particular technology, mention a breakthrough in your R&D or a big product launch with this technology deployed, etc].
>
> Second is that we have decided to fully explore M&A starting this quarter. This isn't driven by operational constraints (we have a strong balance sheet), but rather our desire to find a larger platform to make a bigger market impact.
>
> In advance of that effort, I wanted to reach out and see if this might be an actionable opportunity for you, and we wanted to give you an early look at the opportunity.
>
> Attached is a short deck.
>
> Thanks,
>
> [Your Signature]
>
> [Also attach a shortened version of the deck you prepared in Chapter 15]

The first key idea is to get straight to the point. Contrary to popular advice from most bankers and advisors, where they tell you to keep the message vague and instead of explicitly mention M&A, to use words like partnership or synergies. I caution against this approach as executives' time is precious and emails that are vague or take too long to get to the point are ignored or left unread. If you have a relationship with the potential acquirer, don't beat around the bush and jump straight to the point. Tell them exactly what you are looking for.

Secondly, give the recipient something to chew on. Place a bet on a strategic direction that the acquirer cares about, and put down some milestones that you recently achieved that would get her to read this email a couple times.

Finally, I would not recommend doing a mass email campaign to any and all companies that may have anything to do with your company with the above template for an outbound reachout even if you already have a strong actionable offer. It firstly sends the wrong signal that this could be interpreted as a firesale. Moreover, M&As are built on trust and relationships. For a company that does not have a relationship with you to begin with, I would try to first work on establishing a relationship with them first before approaching them with a solicitation for M&A interest. Quality trumps quantity in the M&A game, it’s always better to be selective and personalized when it comes to outbound reachout.

Chapter 24

The Inside View from an Outbound Reach Out

Depending on how strong your relationship is with the outbound recipient, the way it is handled would in turn be dramatically different. Let's rank them from the strongest to the weakest once again. The key assumption here is that you either already know the recipients personally, or you can be introduced by someone who has a strong relationship with the recipients. Sending out cold emails does not work for M&As, this is different compared to any other type of sales as M&As require a much higher standard of trust and are built on prior relationships. Cold email outreach implies desperation and would never yield an outcome that's acceptable.

1. Direct Personal Contact

> Due to the fact that M&As are built on prior relationships, how seriously your contact pushes your inquiry forward within their organization would be a function of how high she ranks within the acquiring company and how strong your relationship is with her. Nevertheless, because this is an outbound inquiry, unless you have leverage via an existing actionable offer, the likelihood of this conversation turning into a M&A offer is miniscule. Moreover, if your contact is not in a product or engineering leadership position (director or above in publicly traded companies) with strategic influence, it's better to resort to an intro through your investor or board to someone with that decision power. When the outreach email lands on her desk, if this M&A is actionable for her own organization or team, then it's most likely to lead to more conversations and can become fruitful. If not, the best your contact can do is to forward your email to other product organizations or the corporate development department who serves as a catch-all for these types of inquiries, and at that point, there is little chance that this could become actionable. Hence, it is absolutely critical to ensure that the person you are reaching out to is already in a product or engineering leadership role where this opportunity is actionable for her own organization, so it's best to do your homework early on to identify and build such relationships early on before activating these conversations.

2. Intro to Senior Executive

Just like in the previous case, the onus is on you to first identify the right company with strategic alignment, and then find the right senior officers or executives with strong connections to your board or investors that would be open to an initial meeting. Do not expect your board members to do all the work for you when it comes to identifying the target company and the right contact. At a minimum, you need to figure out exactly who the key contact is, study her LinkedIn mutual connections, and if your board members are not connected, prune the connection list to see if their partners or associates are connected. Next, provide the blurb about the company and why an initial discovery meeting is warranted, and then check-in with your board member and ask if she would be comfortable in making an introduction. This is absolutely critical as your board member will not have as much context about your business or the angle you want to approach the key contact, and very likely if you delegate this completely over to her, she might be busy and not do it in a timely fashion, or identify the wrong person or approach with a weak angle that would jeopardize any potential M&A with this target company. So, at a minimum, do the work. Now if the introduction is strong and the senior executive has the right fit with your company, you will get a first meeting.

3. Intro to Corporate Dev

Corporate Developers' job is to meet and identify potential interesting acquisition targets and serve as the gatekeeper initially and lubricant in latter stages when it comes to a merger and acquisition. However, they work for their business units and typically do not take on meetings unless they are directed by their BU leads on doing discovery for a certain company or space. When you reach out directly or through an introduction to a corporate developer, depending on how keen she is, she could do a first read of your material and do some research and make a determination on whether there is a potential fit or not. If she thinks the opportunity could be interesting, then she would forward the intro material to her respective BU leads, and solicit for feedback. In the rare case that a particular BU is interested in learning further, the corp dev would schedule the first meeting and serve as the initial phone screen for an interview. Now this type of reachout is typically the least effective because corp devs see these types of M&A solicitations all the time, some from founders directly, some from personal connections, and a lot of times from bankers. Just like the HR of a company that is hiring, except in this case there are no explicit job postings, the probability is close to zero for a potential match when it comes to sellers approaching buyers. Hence, as explained in earlier chapters, M&As are a buyers market, companies are bought, never sold.

Chapter 25

Expect Radio Silence from Outbound Reach Outs

Now as exciting as your outbound email may sound, that the darling startup that was never for sale is now finally on the market and contemplating offers, and that everything is already in motion and not acting now will cause the potential buyer to miss out on the opportunity of a lifetime… Take a deep breath, the base scenario is not that you will get an avalanche of nos, it's worse than that, it's you getting no responses at all from all of these outbound emails. These could even be folks you have had a relationship with, folks who have partnered with you and you thought would at least take a meeting. But the unfortunate truth is, people's priorities change, and whatever your company is working on may no longer be the missing puzzle for the target acquiring company's big strategy. Plus, their roles may have changed, and they may not be in a position to be helpful this time around.

Instead of having your ego bruised, understand that this is the norm when it comes to M&A inquiries. Strong connections may jump on the prospect of partnerships, but M&As are a different beast, and often require a huge amount of effort to pull off. It's completely normal to get anywhere between one to two responses for every ten outbound inquiries. Do not be discouraged, in the end, you only need one yes. And if you are having trouble getting replies, try to iterate on finding the right contact or connection, or recalibrate on whether the target company still makes sense. It might be because you are not hitting the right targets, it could be because the connections are not strong enough, or it could mean that the material you are sending needs further tuning. When we did our outbound reachout, we had perhaps a dozen iterations on the introduction slides based on the market response. And when these continuous pings don't work, leverage your board or investors to see if alternate contacts can be reached out. Another possibility is to hire a banker if you are having trouble getting responses. Now a great banker should have a rolodex of contacts of various high ranking executives at companies you are trying to break into, and this would be a place where the money is worth spent on hiring a banker who is well-connected and articulate to look over your pitch and do the outbound on your behalf.

Finally, it could be that the M&A market is simply not there, as we saw in 2022-2024 in tech, and if that's case, instead of pitching for M&As, ask for a call to see if there's anything that you can offer in terms of help in exchange to learn what are some strategic initiatives the target executive is thinking about or working on. People tend to love to talk about themselves rather than to listen to your pitch. And if you can get a meeting, then it's a great opportunity to build relationships and understand ways to potentially break in and perhaps carry out a M&A in the future.

Finally, M&A journeys are never linear, as long as you have a great company, a great team, the opportunity will eventually present itself. The goal of the outbound reachout is to plant the seeds for target companies, you never know down the road, one of these seeds could germinate and become an inbound inquiry for a M&A.

PART II: THE OPENING MOVES

Chapter 26

First Meetings Are Typically Smoke Tests

Congratulations, you got a first meeting with a potential acquirer. Hopefully this will be the first of a series of meetings that eventually result in an M&A offer. As you progress through the process, you will realize that every subsequent meeting carries a higher significance than the previous one. This will be the most important meeting you can have with the target company, until the next one.

You and your cofounders should attend the first meeting. And sitting across on the other side of the table could be anybody ranging from the company's CEO, key executives, down to just the Corp Dev. Install the correct video conferencing software ahead of time and make sure the right permissions are given to the software. You'd be surprised how many companies do not use Zoom and you have to spend the first few minutes installing WebEx and figure out how it works. Ask for an agenda if it's an inbound inquiry. If it's an outbound inquiry, provide an agenda and be sure to cover topics like overview of your company vision, products, differentiating tech, unique value prop, and joint opportunity.

There will be a lot of information exchange in the first meeting. If the buyer reached out to you, expect them to spend time to pitch the opportunity and talk about in detail how you fit into that thesis. Quick to listen and slow to speak, ask clarifying questions that show you are engaged and excited about the opportunity, but also show that you have unique insights on the potential challenges and tailwinds in the prospective plan.

You will be expected to talk about your company irrespective of whether it's inbound or outbound. Depending on where the audience asks questions, spend more time dwelling on those topics rather than trying to cover everything in a short time.

Quality trumps quantity in these high level interactions. Through the interactions, demonstrate that you are thoughtful, articulate, and strategic. That you are the domain expert in the space you are operating, and no one comes close.

Here are some questions that will always be asked at the initial meeting, make sure you prepare for them, or refer to the sample answers I provided. Some bankers like to keep the answers ambiguous when it comes to talking about the purpose of these meetings and refrain from mentioning words like M&As or acquisitions and instead mask them with words like partnerships or strategic alignment. I disagree with this approach, as it should be crystal clear why these meetings are happening in the first place and it's better to just jump right into the endgame. This saves time on both sides and allows both parties to talk frankly. The worst case scenario is to say you are looking for a partnership when it gets interpreted literally as a partnership where you end up spinning the wheels and not exactly get to the outcome that you actually want.

> **Q: What exactly are you looking for? Why are we having this meeting?**
>
> A: We believe that there will be consolidation in this space and we are uniquely positioned with an opportunity to team up and create a new platform or market that best serves our existing and future customers.
>
> **Q: Do you have a timeline for the M&A?**
>
> A: (Answer truthfully truthfully here, if you have an exploding offer, let them know, otherwise, answer the following) We do not. We are looking to find the best fit and would love to have deeper conversations with the responsible teams to see if we can develop a thesis together.
>
> **Q: What is your expectation for the M&A?**
>
> A: (Do not provide a number, that's for later after diligence is done) We do not have a number in mind if that's what you are asking. Again, we have a fiduciary to the company to discover the best possible opportunity. And we can certainly have this conversation once we align on the strategies and also this is something that I will need input from the board.
>
> **Q: Who else are you talking to at the moment?**
>
> A: Sorry, I wouldn't be able to disclose this information just as this conversation is only between us.

> **Q: Tell me about your team?**
>
> A: (You have to emphasize on the domain expertise here) We have a team that is uniquely qualified in their respective domains and are considered experts in their respective fields.
>
> **Q: Tell me about your proprietary algorithm/tech.**
>
> A: Here is a high level overview on what it is. If you would like to dig deeper, we are happy to do so during the due diligence phase under a mutual NDA.

It's unlikely that the first meeting will get into the weeds about any particular trade secret or IP, but buyers do have more leverage during M&As especially if you are pitching the sale, and in such a case, you would need to provide some high-level view on what it is. Nevertheless, it is totally okay to play the NDA card if they press on specifics.

Now as the meeting is wrapping up to a close, take the opportunity to ask questions on their strategic initiatives, or views on a potential M&A. For interactions with large companies, expect cagey responses that could be seen as non-answers. This is completely fine, as long as they got the message that you and your cofounders are smart, capable and hardworking, and your company is a potential fit, that's all it matters. Your job is done for the first meeting. There may be a set of action items for you from the first meeting. Make sure to summarize them at the end. They could be answering a particular clarifying question on metrics, providing supporting documents, reviewing a mutual NDA, or scheduling a subsequent meeting. It's always better to end the first meeting with action items than not, it shows that the other party is interested. There are times when the other party ends with saying that they like to huddle internally first before providing future action items. In this case, politely respond by saying that you will circle back in a couple weeks if you do not hear back from them and check in.

Likely this will be the only meeting you would ever have with this particular target company. You may think you crushed the meeting, and walk away with a lot of confidence. Nevertheless, M&As are a long shot business, even if you do everything right, the buyer holds all the cards, and sometimes they just do not want to do an acquisition. This is the classic case of it's not you, it's me. So treat it as a process, give your best shot, and pat yourself on the back after each meeting. Have low expectations, and you'll be set up for success.

Now there are rare instances when a potential acquirer comes in hot and the first meeting stretches from an half hour intro to a full-on three hour meeting, and at the end the they are discussing about putting an offer together. Do not let this get over your head, any M&A offer is typically exclusive and non-binding and jumping into one this early would put you in a world of disadvantage. This means you cannot talk to any other buyers and you also give them the right to walk away from the deal at any time. Let them know that you are eager to continue the conversation, but politely let them know that you do need to work with the board on anything related to the terms, and it's best to align on the terms when both strategic alignment is in place as well as majority of the due diligence is complete.

Chapter 27

Second Meetings Are When Things Get Real

Most M&A-themed conversations do not get beyond the first meeting, so if indeed a subsequent meeting gets scheduled, it is a huge deal. The stakes just get higher and higher starting at this point. Even if the other party were a competitor trying to get the lay of the land about your company, typically they would simply request some materials after the initial meeting and ghost you afterwards. And if you are speaking to big tech companies, typically getting all the stakeholders in the same room requires a ton of coordination and weeks in advance for the scheduling, so unless there is something actionable, a meeting would not be scheduled.

A bunch of additional materials may be requested from the potential acquirer before making a decision on whether a second meeting is warranted. They include, and are not limited to, prior fundraising and valuation documents, an org chart along with a roster that describes each employee's role as well as prior experience, company P&L statements from the last three years, product growth and retention metrics, product roadmaps, technology stack, overall architecture amongst others. Some may even request access to your data room at this point. Before handing shipping these materials off, be sure to execute a mutual NDA from the acquirer. It is typically better to request the NDA from the acquiring company side and make suggestions to that as opposed to requesting one from your lawyer. This ensures the process has less back and forth, and you can get to the meat of the discussion without spending weeks of negotiations over an NDA term. Be liberal when it comes to providing supporting docs once the NDA is signed, withholding requested info could lead to the potential buyer losing interest or misinterpreting you as being not serious about the deal. The fact of the matter is, the advantage is always on the buyer in terms of having an information asymmetry.

As an aside, if the potential buyer is eager to share their financial statements, forecast or future roadmap this early on in the process, this actually spells as a red flag as they are more desperate to complete this deal than you are. You are in a great situation if they are rich in cash or have great future prospects like an imminent IPO or funding round. However, more often than not, the reason why the potential buyer is eager to share all this info at this stage unsolicited could mean that they are desperate to complete a deal for the sake of doing a deal (the board has given a directive to expand to a certain sector, or in order to raise funding they need an acquisition in your space), or in the worst case scenario, they are looking to do a rollup, where they issue you a bunch of private stocks in the hopes of absorbing your revenue and cash balance.

So, at this point, expect the actual decision maker to be present in the meeting, as well as those whose input would matter for this M&A subject. If it is a highly strategic acquisition, expect a C-level officer to be part of the conversation along with her lieutenants, most likely one of the lieutenants will end up driving the conversation on at this point if you are engaging with a big company. Typically, the way to gauge that is if the acquiring company has a head count ten times or more that of yours, then a lieutenant (typically a VP of product) would manage the process, and if the acquiring company is not ten times bigger, then typically the CEO herself or COO or CPO would be your direct point of contact. In other cases, if the acquiring company is one of the magnificent seven or equivalent large cap tech companies, you will be working with a Director of VP who is likely to be the person absorbing your company into her org.

Expect the corp dev to play a secondary role starting at this point. Depending on the seniority of the attendees from the other party, the conversation will be highly strategic and forward-looking at one end of the spectrum if the C-suite executive is in attendance, while tactical and deep on the implementation side if the most senior ranking people are engineering or product managers. Treat this just like a highly technical job interview, everything is fair game. Company metrics, customer personas, user journey, user interviews, UI/UX, positioning can all be asked from the product side. Technology stack, engineering tradeoffs, implementation details, specific usage of a framework can be inquired from the engineering side.

Ask for an agenda in advance to prepare for this call, and spend ample time to prepare and practice for this high level due diligence. Figure out beforehand between your cofounders who will field which questions, and make sure everybody gets a chance to present if there is a presentation portion. It is not a great sign when only one person speaks during this meeting.

Questions from the potential buyer could become more pointed at this point regarding deal expectations, again, refer to the previous chapter and punt this over to your board. The goal again is to maximize information exchange, and ideally line up all the M&A conversations so that offers are made around the same time, or at least enough conversations are already had, so that when an offer is made, other companies are in a position where they have what they needed to also make a competing offer.

There likely would also be a myriad of questions outside of financial expectations, focusing on human elements and operational alignment. Expect questions about product discontinuation or rebranding, and detailed inquiries about your team's strengths and dynamics. Try to avoid aggressive responses that paint you as someone who is difficult to work with or overly attached to your company and ego. Conversely, submissive responses can be misinterpreted as you are desperate to sell and lack vision. These questions assess your adaptability and leadership as a future partner. Be yourself, be authentic, thoughtful, and focus on a mutually beneficial future for a successful outcome.

The meeting typically ends with the buyer asking for a few days to huddle and sync up on their thoughts before discussing the next steps. If everything goes well, there will be a meeting scheduled to discuss financial expectations in parallel with a formal due diligence process. This typically will happen very quickly. It could even happen at the end of the meeting if the buyer is super motivated.

You may be asked for more supporting materials right after the meeting. Most likely the data room will be requested at this point if it hasn’t been already.

If you don’t get a response within a couple days, however, likely you will not hear anything back for weeks, or it could be some vague response like certain folks are on vacation, they remain excited about the opportunity, but please stay patient. Normally a decision is made right after the meeting and tasks are set in motion if the potential buyer would like to proceed further. If a consensus cannot be reached, or the consensus is a ‘no’, then typically the internal champion from the buy side would take the action item to inform you of their decision. However, there is no longer an urgency on their side to inform you this and this task gets deprioritized to the bottom of her list, hence you won’t hear back for weeks or at all even with persistent pings.

Chapter 28

Should You Run an Official Process?

In M&A terms, an official process typically means setting a timeline and reaching out to all likely buyers and soliciting interests/offers. However, it only makes sense to do them in two particular scenarios, let's look at them.

1. Firesale

One type means the founder or a banker sending out an email merge to a mass list of email addresses of chief executives and corp devs soliciting a request for interest with a deadline that includes a blurb about the company looking to get acquired. This email includes a short presentation about the company on the financials, governance, personnel and technology, and some inexperienced bankers or founders would even include a line or two about the company having fictional strong interest in the market from other potential buyers or even blatantly lying about having offers.

The truth of the matter is, if indeed there is an actionable offer for this company, the founder would be wise to be strategic and pick only a handful of companies that would be interested in putting in an offer. And with that, the email will lean heavily on prior relationships and utilize strong introductions if the relationship is weak. It wouldn't be sent via a mail merge. Plus, if there is strong interest already, why purposely put your company in a weaker position by broadcasting that you are soliciting offers.

This is usually done when a company is running out of cash or the founders have decided to quit. If you are in this position, you are looking to get any offer in the hopes of softlanding the company. It would take a miracle to actually get an offer from this exercise, and my recommendation is, unless you are already prepared to shut everything down, then do not do this.

The most likely outcome is radio silence from all your recipients with an occasional "thanks, but no thanks".

2. Bidding War

On the other extreme, if you are approached by more than one strategic acquirer with an unsolicited offer that you cannot refuse and a light due diligence requirement, this is the perfect time to hire a banker and run a process. The banker would be very selective to run analysis on companies that are either in or adjacent to your space and also having the bankroll to outbid your existing offer. Based on my conversations with founders who were in similar situations, they all appreciated having a banker who managed a process. In the case of Wattpad, Allen Lau the CEO hired bankers when they received their first offer. They were able to discover two other companies that were put in offers and all three offers all arrived at nearly the same price in the end.

Now unless you are in either situation, my recommendation is do not run a process. This is because by setting an artificial timeline, you are forcing acquiring companies to make a decision on whether to pursue an acquisition. This should only be done when you have leverage, and given that the first scenario will likely end up in a trainwreck regardless, it's best to discover without a timeline on whether you have that leverage or not. Plus, no executive would feel comfortable engaging in M&A conversations without adequately knowing and trusting you and the company for a long time horizon. Hence, stay patient and spend the time to engage in the conversations individually, do not set a deadline, and let the interactions grow organically and do not apply pressure until later in the conversations.

PART II: THE OPENING MOVES

Chapter 29

Common Pitfalls in the Opening Game

Here are a list of antipatterns and pitfalls during the opening game when it comes to engaging with potential acquires

1. Not setting the team up for success by not setting clear expectations on communications, management, and roadmap while you are heads down working on M&A.

2. Not having done the homework when choosing the right contacts in the initial conversations.

3. Not preparing for the meetings.

4. Spending too many iterations on the NDA.

5. Not providing requested information or supporting documents in a timely fashion.

6. Being overly rigid in your vision for the future or how acquisition and integration should play out.

7. Being ambiguous or playing hard to get when asked about M&As from the potential acquirer.

8. Getting into the deal terms without sufficient discovery and information exchange.

9. Having unrealistic expectations on conversion rate between initial intro email to first meeting to second meeting.

10. Running a process prematurely.

Chapter 30

The $$$ Expectation Alignment Conversation

The next conversation that the potential buyer would likely engage in is the expectation alignment meeting. Explicitly, the first thing on the list would be the considerations (cash vs stock), retention and potentially other incentives. Other items that could come up at this point if they are important to the buyer, can potentially kill the deal, or materially change the valuation or terms. One could be the work location if they expect you and your team to relocate in order to complete the deal.

Nevertheless, the main emphasis is on what would be the amount of money and/or stocks that would take you to sell the company. How should you answer your price? Let's first understand the basics of a deal when it comes to considerations and retention. There are other more complex forms of payments, but most commonly they are purchase-price considerations and retention / stay bonuses :

1. Considerations

This is what you get at the close of the deal. This could be cash, stock or a blend of the two. If the acquiring company is private, the stock offered would be illiquid until a liquidation event like IPO or a M&A. Depending on when their last fundraising event was, the valuation could be stale and you also need to discount the value against the risk of a future liquidation event. Another thing to consider is, if you have raised capital in the past, there is a liquidation preference stack that needs to be adhered to if your company is bought. The preferred would get paid first and the common stocks only get paid after the preference stack is cleared. So model out the scenarios on how much money/stock you would actually get for different considerations.

Cash is almost always preferred as considerations for a M&A. The only exception to the rule is that if the acquiring company is a high-flying startup with private stocks coveted by investors and is not available to the public market, then it may make sense to pick private stock over cash. In such a case, the acquiring company may also ask you what your preference is when it comes to stock vs cash. As for blue chip publicly-traded companies, their stock is as good as cash, with the caveat of a lock-in period typically placed after an M&A so that the stocks could not all be immediately sold. So there is a discount to be put for the valuation based on stock-price.

Sometimes depending on the balance sheet of the acquiring company, they may not have the cash balance to complete a deal, and would try to maneuver a creative financing exercise like debt financing, promissory note, or a SAFE (Simple Agreement for Future Equity) in order to convince you to take the deal. These types of financing could get rather complicated quite quickly and could be disastrous for you as the seller. If the buyer brings up these topics at this conversation unsolicitedly, it goes to show that the buyer is in fact short in cash and your alarm bells should go off and try to vet whether you are better off staying independent or left holding the bag when the deal closes.

Finally, when a deal is complete, you will need to pay the lawyers, the bankers, any outstanding debt, and invoices as well. So be sure to factor those in when modeling your payout at closing as well.

2. Retention Bonus

One thing to note when it comes to the buyer when it comes to M&A is that they would much rather pay all of the money to the team retained for the acquisition, than paying a single dime to others who are on the cap table but would not be working for the acquirer, like the investors or ex-employees who had exercised their shares. The logic is simple, the buyer would like to use the least amount of resources possible for this transaction, and to them, the money is better spent to motivate and incentivize those who are kept in the transaction. Of course, no investor would agree to this and the deal would not pass a board vote. On the other hand, if there is no retention and the headline purchase price consideration does not clear the preference stack, the founders and employees get nothing from this deal, and while the investors may be happy to take this deal with a small loss, this would also not pass a board vote because the founders would not agree, and the employees would not agree to work for the acquiring company. So this is where the negotiation comes into place to ensure that all the parties are taken off in the transaction, and you need to find a sweet spot between the considerations and retention that all the parties are motivated to take the deal.

The buyer would typically offer a two to four year retention bonus for the team as a way to incentivize everyone involved to stay for the integration. The difference here is that retention will be treated as ordinary income and is subject to a higher tax withholding, compared to stock purchase at closing which would be considered as capital gain as long as the stocks were exercised and held for more than a year.

There are instances that the buyer also pushes for a performance-based bonus structure, also known as earnout in the retention. This means the team would only get paid when certain sales or milestones are met. This needs to be avoided, not just because it's unfriendly to the team, but understand that market change and strategies deviate, you as the founder would never want to have your incentives tied on some target set years ago when the company already abandoned the strategy and moved to something else.

So now that we've explained what considerations and retention are, how would you answer what your expectation is? Your answer to this question is largely a function of how much leverage you have in the negotiation. While buyer will scrutinize your balance sheet, your P&L, and past fundraising history, and potentially pencil in a valuation from their analysis, understand that everything in an M&A is a negotiation, and a deal cannot be completed unless you, your cofounders and your board agree on that price. Let's take a look at how you answer the expectation question based on which scenario you are in, which dictates how much leverage you have.

1. Competing M&A Offers.

Simply tell the acquirer that you have competing offers in the market and they should put their best offer forward if they would like to acquire your company. Do not disclose who else you are talking to. Also do not tell them what the best offer is until they have provided a number themselves. If you give the number too early, you may end up leaving money on the table as the buyer may be willing to offer much more or send the wrong signal that the number you give is what it takes to close the deal. Do not get into negotiations just yet at this point even if they provide you with a number, if anything, you can thank them and tell them politely that you'll discuss their proposal with the board and defer the negotiations at a later time.

2. No Competing M&A Offers, But Have Investment Offers.

Similar to the first scenario, let the acquirer know that you have a pending fundraising offer and the purchase price would be a whole lot more expensive once you sign that term sheet. Politely ask them to put the best offer forward and you'll discuss the proposal with your board. Again do not offer any numbers.

3. No Offers, But Comfortable to Continue Staying Independent.

Let the acquirer know that you are excited about the opportunity of working together, but at the same time, the company is doing very well. You are completely comfortable with running the company independently and have the full support from your board and your team. The acquirer would need to put together a really strong offer in order to be considered. I would again refrain from providing a number at this point. But if they insist and press you on a headline price, use the models that you used in the past and come up with a ceiling for a purchase price that you would be comfortable with if the final sale price is half of that initial quote. So say that your absolute minimum is $10 million for the cash price at closing and $6 million for retention, then tell them that you are looking for $20 million at close and $12 million for retention. Note that once you give the numbers, the actual payout will always be less or equal to what you quoted, regardless if the company all of a sudden achieved bigger milestones or landed new customers. So definitely think carefully before providing a number.

4. No Offers, No Desires to Stay Independent.

This is the case where you have no leverage, and would take any offer out there. But that is not true. Think about how much you would get paid in the open market, and the freedom to pick and choose your next job or endeavor. You can always put a price on that. In such a case, you tell the acquirer that you are absolutely ecstatic of the opportunity working together, and would be interested in what offer they had in mind. At the same time, you would want to make sure that the offer takes care of the team and keeps everyone motivated during the integration period, and is also a good outcome to the investors. And ask them to put together the best offer. And again, if pressed on giving a number, calculate the opportunity cost for you to work for the acquiring company for two to three years, and multiply that by two, and then work that out in the considerations or retention.

Personally, I don't believe it's a good idea in this conversation to bluff and claim having offers when there are no offers or saying that you would stay independent when you have to wind-down. The acquirers are sophisticated, they will conduct more due diligence, and they will talk amongst competitors. And very rarely would a company buy another one just because they think there is competition. When deals don't work out, and often they don't anyway, you want to live to fight another day or potentially sell to the same buyer in the future when the right circumstances arise. Hence, it's better to follow through this process truthfully, not all companies find a home, and that's okay, but your reputation and integrity matter a whole lot more in the long run.

Chapter 31

Initial Due Diligence

Due diligence in various threads will likely happen simultaneously at this point. While you may have dedicated leaders handling each function inside the company, it's best for you and cofounders to handle them yourselves instead of involving employees in the process. Or if you must, keep the privileged information circle as small as possible. Reason being, at this stage, the probability of a deal closing with this buyer is low, and getting employees involved too early may set the false expectation that a deal is imminent, which will be devastating for morale inevitably when the deal falters at a later stage or moves at a snail's pace.

Another point on DD, answer every question asked truthfully. If there are things that you are unsure of, take it as an action item and provide the correct answer after you did your homework. Treat this as an exercise not for how much you know about things, but how seriously you take each question, and the acquirer will appreciate it when you say you don't know and provide a precise answer later. This is a process of building rapport and trust between you and the acquirer. If there is no trust, there is no deal. In that vein, if there are changes to the company that could materially alter the deal terms, it is always better to proactively provide those updates rather than letting the acquirer find out themselves.

Let's take a look specifically at each area of due diligence. Your key point of contact (or internal champion who drives this deal) will likely attend all of these meetings, however, depending on her area of responsibility, she may ask other leaders to help drive some of these conversations that she doesn't manage.

1. People

Attendees from Acquirer: Head of HR, People Managers

Materials Under Review: Cultural Docs, Cap Table, Roster, Org Chart, Past Performance Reviews, Leveling Guideline, Compensation History, Employment Contracts

Of all the due diligence, the people one is perhaps the most straightforward. Typically if the process already has gotten to this point, there is already a good rapport and some level of cultural fit between the two companies. Nevertheless, this is an opportunity for the acquirer to spot any red flags or potential personnel issues with the company. When asked about your culture or values, be sure to provide anecdotes that back them up. The acquirer HR will also walk through your roster and ask about each employee in detail. Questions could include what this person works on day-to-day, what is her domain expertise, how critical she is for the acquisition, and likelihood of her wanting to be part of the acquisition. At the end of the meeting, the acquiring company will make an overall determination on whether the team is a potential fit, what the reporting structure would look like, and finally a list of key employees to retain, those who will be given transitional contracts, and those who will not be part of the acquisition. The hope for you as the founder is always that everybody gets retained for the acquisition, this would be the ideal case. However, for any M&A, there inevitably will be positions that are redundant or unnecessary post acquisition. Some of the most likely positions to be eliminated are your internal HRs, marketers, and support team. On the other hand, top engineers, product leaders, or design talents that are difficult to hire for even in the open job market will be highly coveted in any acquisition.

2. Financial

Attendees from Acquirer: CFO, Analysts, Third-Party Accountant/Auditor (Optional)

Materials Under Review: Past 3-5 years of Balance Sheet, P&L, Cash Flow, Bank Statements, Credit Card Statements, Tax Returns, Future Financial Projections/Forecasts, Large Customer Contracts, Large Vendor Contracts, Debt Obligations

This is the least fun due diligence of them all. I have heard people comparing the financial DD to a cavity search. Depending on how keen the acquirer is, they may bring on a third party auditor to go through all your books and ask painstakingly about every expense you had in the last three to five years. This is where having clean budgets and balanced books in the past make a world of difference. If you have a CFO or bookkeeper, this would be the only instance where it's advisable to include someone who is not a founder in the due diligence process. Again, when they get you on questions that you don't remember or don't know, take an action item and provide the answer after the meeting. Never lie, and never mislead, a deal cannot happen when there is no trust.

The acquiring company will likely ask your financial forecast for the coming quarters or year and you may be tempted to provide an optimistic figure in the hopes of getting a better deal. This would not be a wise move, as the process of closing the deal could take quarters if not a year. If you are unable to deliver on the promised forecasts, it would cast a bad light on the deal terms, and could even jeopardize the deal from closing. Hence, it's best to give conservative estimates, and over deliver on them.

Based on this information, the acquirer will model out a projection of future revenue and expenses, and use that as one of the key levers for the considerations and retention. Nevertheless, as good as this math is, M&A is more emotional than it is rational, and the projections only serve as a reference.

3. Governance / Legal

Attendees from Acquirer: General Counsel

Materials Under Review: Company Bylaws, Litigations, Cap Table, Court Orders, Incorporation Documents, Board Meeting Minutes, Fundraising Docs, Other Legal Contracts

The exercise here is to ensure that your company is properly incorporated, under good governance and there are no outstanding litigations that could derail the deal.

4. Product

Attendees from Acquirer: Product Executives, Design Executives

Materials Under Review: Access to Products, Metrics, Descriptive Materials, Roadmaps, User Interviews

Expect some white board sessions to talk product strategy, user personas, go-to-market, positioning, and integrations. Have an open-mind about what the rebranded version of your existing product may look like. The acquirer may completely scrap your brand and your logo, and instead erase everything on the internet about whether your company and your product ever existed.

Part of the DD could also involve digging deep into your metrics and understanding any trends and how they affected your product decisions. You may receive critical feedback on your existing products and ask to provide justifications on the UI/UX or feature prioritizations. Do not get defensive on any decisions, provide your rationale on the product decisions and treat it as a discussion and feel out what working together in the future may look like. The acquirer is doing this exact exercise also to vet what it's like to work with you.

5. Technology

Attendees from Acquirer: Engineering / Research Executives, Tech Leads

Materials Under Review: Access to Codebases, Engineering Dashboards, Technology Stacks, Descriptive Materials

Your CTO or VP of Engineering may be asked to present key technology stacks, engineering processes, upcoming roadmap and walk through code with the acquirer's counterparts. The acquirer wants to go through your code and commit logs to vet the level of complexity of your codebase, as well as how robust the build and deployment process is, and at the same time how clean the codebase is, who are the key contributing engineers and how productive they are. Expect the conversation to be very technical, and the discussions could take a few meetings to complete depending on the scope the acquirer would like to cover. As you prepare for this meeting, think about how to answer the "why" with each engineering process, architecture or tradeoff you instituted.

6. Miscellaneous

Depending on the specializations or certain quirks of your business, there could be other areas that are scrutinized during the due diligence process. For example, if your company has a business operation in China and generates significant revenue there, then this would likely be an area of due diligence carried out by the acquirer as it is unique to your business and may be the reason why they would like to acquire you.

Chapter 32

Key Employee Interviews

As part of the technical due diligence, the acquirer may ask to interview a few of your key employees, and in the extreme case, your entire roster. This is very common for acquihire scenarios as the acquiring company does not place any value on your existing set of products or technology, but solely cares about whether the team makes the cut in the technical interviews, which is a proxy for whether the team would be able to deliver on executing the planned product or feature post acquisition.

The level rigor of the technical interview is inversely proportional to how strategic the acquisition is. If the acquisition is a straight-up strategic buy, then the interview with the team will almost shift primarily to a cultural interview with no technical vetting. This is because the acquirer in this case typically wants to keep the product and strategy intact, and does not want to rock the boat in terms of letting technical personnel focus on the execution.

Most of the times the interviews are done after the term sheet is signed or at least terms are agreed verbally in principle. If the acquire pushes for interviews, this is a great leverage to push for a term sheet. By getting the team to interview with the acquirer, you end up implicitly informing the whole company that a M&A is in progress. This is risky for morale, so you want to avoid that. If anything, limit the exposure to only a handful of key employees, and do the full company interview only after the term sheet is signed.

So let's break down the two aspects of the interview into technical and cultural below:

1. Technical

Depending on the leveling guideline of your company, the acquiring company would try to map the leveling of your PEDs (product managers, engineers, and designers) to their internal levels. In doing so, they would either have a full fledge interview like the one you would get if you are interviewing for a Google or Meta for the respective levels when it is an acquihire, or a watered-down version where they ensure that everyone is properly pegged and there are no red flags in the technical interviews.

Technical interviews are very different compared to day-to-day tasks, so it is important to take them seriously and get your key employees to prepare them well-in-advance. Do mock interviews with them where they need to whiteboard, code or design things from scratch. Sometimes people do fail these interviews, and it could have dire consequences at this stage of the process. Enough of your key engineers couldn't code in real time for acquihire interviews, there will be no deal.

2. Cultural

For the cultural interviews, the acquirer cares mostly about whether the seller's employees are culturally good fit post acquisition and if they are motivated to join the acquiring company. Some employees only like to work in a small company environment and have no desire of working for a big corporation. Your job is to make sure you prepare these folks and make sure there are no surprises during the actual interview.

Chapter 33

Surviving the Middle Game

At this point, the only thing that separates you between the middle game and the end game is an offer. As much work has been put into this transaction by both sides, a deal does not become real until the considerations and retention bonuses are aligned between you and the buyer. Some acquirers may be eager to get into the exclusive period by issuing you a term sheet right off the get go, while there are others that slog along and request for every single bit of information but are in no hurry to discuss the terms. Well, once the initial due diligence is complete, this becomes the checkpoint for a term sheet. Ideally, at this point you have run the process in parallel amongst multiple suitors, and they have all sufficiently done their due diligence so that all of them can issue their offers around the same time. You also want to avoid the situation where you end up getting no offers because you were hoping to get an offer from one of the slow moving acquirers that you end up declining other preemptive offers. So how do you get all the ducks in a role, here are some practical tips in dealing with each type of an acquirer:

1. Tech Giants

Companies like Apple, Google or Meta typically operate at their own pace and are not swayed by outside influence when it comes to acquisitions unless your company is the talk of Silicon Valley with multiple suitors, and Zuckerberg himself becomes the internal champion for sponsoring a deal. Due to internal processes and bureaucracies, decisions are often made by committees, and oftentimes the delay is caused by scheduling as it takes weeks to get all the decision makers in the same room. Unfortunately, there is not much you can do as the founder in this case to expedite the process. The only thing you can do is to proactively touch bases with your point of contact, and provide any requests in a timely fashion. Do not delegate any of the requests to your bankers or lawyers, do all of them yourself to make sure they are sent promptly and accurately.

If there is another company that is issuing you an actionable offer that you are willing to take, only in this case would it make sense to apply pressure to the tech giants. In all likelihood however, they will not get their act together, and you will have to end up accepting the other offer. Even if you do end up getting a timely offer from the tech giants, understand that this is different from a job offer as the terms are often non-binding and there is still much to do before the deal can actually close.

So the ideal scenario is to engage with these potential acquirers early on and give them plenty of time to do their own due diligence. Let them work at their own pace and at a point where an offer feels imminent from these tech giants, then do you engage with other acquirers who will likely move at a much faster pace.

2. Stragglers

There is another class of potential acquirers that are tiny compared to the tech giants, but move slowly in a similar fashion when it comes to scheduling due diligence and providing responses. Perhaps it would be helpful to put things into perspective and define what slow is. In M&A terms, from initial meeting to completing the due diligence and getting a term sheet in three months is considered typical, and this process could take as long as half a year or even longer. This speed of course is completely different compared to how quickly businesses are conducted normally in startups.

Understand the fact that the acquiring company has a business to conduct outside of completing the M&A, and as much as they are excited about the prospect of working together, buying a company does not occupy the same mental space as selling a company. The process of deciding to buy a company almost always requires alignment amongst the highest ranking executives at the acquiring company.

As long as communications are on a regular basis and updates are frequently given, then it is best to give the potential acquirer the benefit of the doubt even if it feels everything is moving at a snail's pace. The worst thing you can do at this point is to force your hand by giving the potential buyer a deadline when there are no other competing offers, or lose any negotiation leverage by sounding desperate. Check in on a bi-weekly basis, and let the buyers drive the process.

Only if there is a competing offer that you are willing to take, would it then make sense to inform the straggler that you will be moving on if they do not get their act together quickly. In all likelihood however, there will be no offer from the straggler, and even if they manage to put one together, think twice before contemplating accepting it as their slow pace will likely continue post offer acceptance stage all the way to closing.

3. Lurkers

There is another class of companies who are either your competitors or operate in adjacent markets that are taking the meetings just to extract information. They actually have no desire to put an offer together. The tell-tell signs for these types of companies are usually that the people representing them at the initial meetings are junior-ranking product managers or marketers. They will typically be very cagey when asked about what they are excited about with respect to a potential M&A. Nevertheless, they would ask very detailed and specific questions about your product roadmaps, metrics, and technology stack.

Unfortunately when it comes to market discovery for an M&A, you will need to take every meeting seriously, even if it means talking to competitors. The best way to guard against divulging trade secrets and other information that may jeopardize your position is to ask for stricter NDA terms, and also withhold top secret information until terms are agreed, or even wait until the money is in the bank.

Typically a competitor would not go through the hassle of spending months on a fishing expedition to extract trade secrets, but if you feel that the acquiring company gives you that vibe, ask for the term alignment early on, and set very clear expectations on certain trade secrets like key algorithms or models will be only handed over when the deal closes.

4. Midsize Companies and Startups

Companies that are typically in the hundreds of employees or other startups can move a lot quicker when it comes to the M&A process. However, the caveat here is that they are usually inexperienced when it comes to executing a deal, and sometimes, this may be their first time attempting an acquisition. This inexperience could mean a number of things, but pay attention to those to your detriments. First, you need to do as much due diligence if not more on whether the acquiring company even has the funds to pull off a deal. Even if it is an all-stock transaction, understand that you still have to pay your lawyers in cash.

Lean on your investors and board members to scrutinize over the acquiring company's books and financial statements. Secondly, the potential acquirer may not be familiar with the acquisition process and over-promise on the timelines and ease of a transaction. If anything, enough time needs to be allotted for lawyers to draft up all the legal documents and to be reviewed by counsels on both sides. Furthermore, there could be holdups from the board, government, banks, app stores (if you have apps), or cloud providers that require additional time. So even though you may be having regular meetings with the acquirer's CEO discussing integrations and strategies, be sure to do your own due diligence and hold a healthy sense of skepticism on anything that is promised to you. Finally, the due diligence process may also be overbearing as the acquiring company scrutinizes every little financial or legal detail that is immaterial to the actual deal. In such a case, always remind them of the overall goal and not lose sight of the prospect of building a company together.

5. Exploitative Buyers

Finally, there is a class of buyers who simply want to get all your assets, intellectual properties, revenue and core team members and not pay a single dime. They will be more excited about the transaction than you are, and often prey on companies that have decent revenue but are stalling out on growth, where they attempt to use their private stocks to purchase real assets. They will promise you of an imminent fundraising round or a potential IPO, when in fact, their CEO is put on a short leash by their board, and is trying anything to boost their top line revenue to keep her job.

Do not fall for this type of buyer. You are better off staying independent or even returning the remaining cash to investors and winding down the company than giving away your company for nothing, where the exploitative buyer takes all of your assets and revenue, fire most of the team members, and you get a pat on the back.

Look for companies that have a track record of hypergrowth and meeting key fundraising and revenue objectives. In any case, if a potential buyer can only buy you based on issuing more private stocks, that should give you pause on the prospect of joining forces. If anything, they should be able to secure debt financing from banks based on their revenue and assets. Alternatively, if they are hitting their growth goals, there should be no issues of first closing a fundraising round and then offering to buy your company. If they can't do either, then most likely you will be the one holding the bag if you sell your company to them.

Chapter 34

Staying in the Race

If running a startup is like a rollercoaster where the highs are really high and the lows are really low, running the M&A middle game is a rollercoaster ride on steroids. There will be days when you feel like you are crushing it with the buyer agreeing with you on all the due diligence meetings and they singing praises that this is a match made in heaven, while the following weeks when you get no email replies and no returned calls where all hope feels lost.

I've been there, I know exactly how it feels. When we were engaging with an Australian company for a potential M&A, every meeting felt great, and to say that our team killed the due diligence meetings would be an understatement. The acquiring company's leaders as well as their technical experts were all thoroughly impressed by our customer-centricity, level of technical prowess, and our ability to execute. Nevertheless, for some reason, the replies were always weeks apart after every interaction. It has gotten so bad at one point where I personally could not fall asleep for more than ten minutes at night and would check my phone for emails because of the time zone difference. Food had no taste during that time. And when I was spending time with family, I would not be present, as my mind would be wandering elsewhere, overthinking and overanalyzing on what is the potential holdup. There were days I wanted to just show up at their headquarters, and confront our point person on what the hold up is. I would be happy for a couple days when he finally replied to our email with some superficial excuse that they are working hard on the deal, or they just needed one more sign-off before sending over the term sheet, but that day never came.

Now thinking back, I don't know how I even made it through that period, but the following were some techniques that helped me to get through those dark moments.

1. Figure out a routine

Working out in the mornings and reading at night were my refuge that got me through the middle game. Given that the due diligence phase before the term sheet is very much a function of the progress made by the buyer, there were days when I felt that I accomplished absolutely nothing because there were no replies from the buyer after a promised update. Instead, I set a goal for myself to always complete a 10K run or a 100 lap pool swim in the mornings, and read a chapter of a book in the evenings. As trite as it may sound, these tiny milestones helped me psychologically as baseline accomplishments when otherwise no progress feels to be made.

2. Still allocate time each day to work on company products and technology

We started companies as founders because we wanted to work on interesting user problems, and work on interesting products and technology that serve these users. Being in an M&A does not mean that we can't still work on them. In fact, it is absolutely critical to still spend time building because the M&A game can become all consuming and it's easy to get burned out by the lack of control and progress. This was the mistake that I made initially, as I expected the M&A to complete within a quarter, and after half year of working on M&A decks and preparing for due diligence with nothing to show for, it led to massive shock to my identity and I was confronted with the reality that the company must remain independent in order to survive the winter of deal making. Instead, I should have still spent a good chunk of every day building products and technology, which was what I ended up doing after realizing that a deal was not imminent. This actually helped significantly to reorient myself and got some of the joy back in running the company after all.

3. Lean on your cofounders

Oftentimes, the only person who knows and appreciates what you are going through is your cofounder during the M&A. You cannot talk to the employees about any of this, and your family members would be living saints if they can tolerate you giving updates on the ups and downs of an M&A for more than a week. So it is best to lean on your cofounders and talk regularly about how you are dealing with the stress of the M&A and other creative paths to slog along in the process. It's moments like this where you need your cofounders. During our M&A phase, my cofounder Borui and I talked everyday, sometimes for hours, and sometimes for a few minutes, but at a minimum, we checked in and saw how each other was doing, and analyzed the latest situation. We are emotional beings, all of us are, and having partners that support each other during this difficult time is invaluable. There were numerous times when I was very close in sending out an email to a straggling buyer that I would for certain regret later when Borui talked me down. And there were also instances when Borui was losing his mind and second guessing on whether our eventual buyer was actually interested in doing the deal and wanted to confront the acquiring CEO and I had talked him down.

4. Find your support group

M&As are unique in that the experiences rarely transfer from one to another, so I actually did not find it helpful when talking to other founders who sold their company as their lessons did not apply to my case. Plus, these conversations are typically highly confidential, so for me, I did not divulge that I was going through a process even to the closest friends. This is where it was helpful for me to have bankers and advisors on my team, folks who have actually done these in the past. I feel that the main value added from our bankers was actually their therapy sessions as opposed to them helping us negotiating the deals and finding the buyers. If it weren't for our bankers, I would have likely accepted the worst deal on the table early in the process. So be sure to find that support group or advisor for you.

5. Know that failure is an option

This is probably the most difficult thing to accept as a founder, that the years of hard work and sacrifices may in fact not result in any financial return. Nevertheless, take solace in the fact that you learned so much in this process, and you will come out stronger on the other side. What I found helpful was that if I spent any time running calculations on what the payout should be in order to match the compensation I would have gotten had I worked in big tech, I became bitter and self-destructive. Instead, when I took on the perspective that look, the worst possible option is not finding a buyer or even winding down, it is not as scary as it sounds. There are plenty of opportunities out there for the next company or work in other tech companies. There is no shame in swinging for the fences and striking out. At least I took my shot and did everything I could.

Chapter 35

It's Not You, Not Your Bankers, Not Your Board, It's the Market

In mid August 2022, after close to a year of intense reach outs, due diligence meetings, and endless iterations of our M&A decks, it was evident that the bubbly M&A market we first saw in September 2021 was a thing of the past. Borui and I initially had five actionable inbound inquiries from three tech giants and two unicorns, we were on friendly terms with a couple companies that previously reached out to us about potential acquisitions that we turned down, as well as having existing partnerships with a number of Android OEMs, eventually all of them said no. What I previously anticipated as a quick one quarter sprint to find the buyer with the most attractive offer, turned out to be no offer. Well, that was not completely true. We had one offer from another private company that raised over a hundred million dollars but was struggling to grow and raise their next round. Their offer consisted of taking all of our assets, IPs and some team members in exchange for the lowest tier of common stock in their options pool. We would've been better off remaining independent or even returning our remaining cash balance to our investors. The investors would get a better payout, and the existing team members would have had better job prospects.

I went through the seven stages of grief over the span of half a year. After the shock of having no offers after a couple months of what I originally thought as extremely positive meetings with the inbounds as well as those that we reached expressing our desires to pursue M&A opportunities, it moved quickly to denial and anger. M&As were still happening up to mid 2022, but then everything dried up in the market. And then it was bargaining with anyone who had shown interest in the past or had done any form of due diligence with us, asking for any offer even if it was below the amount that the investors put in. I felt guilty that we went on this path, there were weeks of intense depression, and the final moment where I grudgingly accepted that this was the outcome at the current time. We had to continue to operate independently until the foreseeable future. There was no longer a market for our company.

Even to this day, I still carry some guilt in thinking that it was partly my fault that we could not find a buyer in 2022. Perhaps I did not speak up enough or be prepared enough during the initial meetings. Or I was too inflexible on what I thought the vision was for a joint venture, and ignored the signals from the other side in terms of what the acquirer was looking for. Nevertheless, this was the expensive tuition I had to pay for my first startup where inexperience definitely handicapped us in getting to a deal that could have been much better than the deal we had in 2025.

I also at times questioned if it was our bankers' fault, where perhaps if we just interacted with the acquirers directly, the talks would be straight-up and there was no false sense of posturing or unrealistic expectations from our side.

I would blame the board on a number of things, but they have been nothing but supportive during the entire M&A process. They never had any expectations in terms of what the multiple must be in order for them to approve the deal.

The fact of the matter was, we not getting an offer was a direct function of the market at the time. The original thesis we had was doubling down on creator economy and the metaverse, but half way through the pandemic the market was shifting towards crypto and there was very little interest in what we had to sell. At the same time, companies are always bought, not sold. I had to accept the fact that as good as the company metrics we had, in order to sell, there had to be a buyer with an actionable offer.

If you are in the midst of an avalanche of nos and a bunch of emails that never got replies for, take solace in the fact that this is completely normal for an M&A. In fact, even the best of companies with positive cash flows and deep technical expertise do not get offers. This is not a function of you, your company, or your banker. It is purely a function of the market at the current time. This however does not mean that the market will never come back, Take what you learned from the past conversations, and recalibrate on what kind of product or technology that actually got positive feedback. Go back to the drawing board, work on the next iteration of your product. As long as there is a path to profitability and you have the patience and persistence to make it out on the other side, a buyer will eventually emerge.

Chapter 36

There is No Shame Approaching Your Competitors

Perhaps the most gut-wrenching thing you could do when there are no offers but you still want to sell is to reach out to your most bitter competitor and seek for a potential consolidation. This should be the last resort, as engaging in a conversation with your competitor proactively would always put you in a spot where you have to share your metrics and some level of trade secrets that would benefit your competitor. Plus, they have no obligation to buy you even after you share all of these insights that normally they would have to pay top dollars for. Nevertheless, certain times the only way to find a M&A deal is to approach your rivals.

Swallow your pride and understand that businesses can be bought or can be sold, there is no shame in two competitors joining forces, in fact, such deals happen all the time and some of the most successful companies were the byproducts of competitors consolidating (Paypal and X, Pixar and Disney, United Airlines and Continental, Exxon and Mobil, Sirius and XM, etc). However, because this will have to be an outbound reach out, expect your competitor to be keen to extract all the information you have, and if in fact there was a segment or product that they like to absorb into their portfolio, expect the initial offer to be a lot worse than what you normally get for even an acquihire type of deal. In fact, you will most likely get an all stock deal if the competitor is also privately held.

Nevertheless, it is commendable to find a home for your employees, and if the prospect of your competitor is much better than yours, or that of the joint venture has better prospects, your privately held options or stocks would have a better chance of liquidating in the future. While it is always more satisfying to beat your competitor than to join forces, sometimes it is the best option to combine as you get to consolidate and streamline duplicate functions, pool talent together, and lift pricing power. So before you pull the chords and call off the M&A effort, ask yourself, have you talked to all your competitors, and would there be an one plus one equals more than two situation if you joined forces with a bitter rival.

PART IV: MANAGING A LOSING POSITION

Chapter 37

Act on What You Learned

The whole time you spent meeting potential acquirers and doing due diligence even when you get no offers is never in vain. As long as you are not the only person talking in those meetings, there has to be invaluable insights you drew from the interactions. It could be as explicit as, "here is one area that we are spending a lot of time and resources working on and we could really use some help", where naturally you should look into ways where your company can serve as the knight in shiny armor that helps address this need. Alternatively, there could be implicit hints and signs where the potential acquirer leans in and asks more questions on a particular product or technology, or they request additional materials or metrics on a certain topic. All of these could be useful as you go back to the drawing board and work through the next iteration of your product and strategy that ideally would have a better reception at the next round of M&A reachout.

At the same time, you have to make the distinction that there are certain things that you have control over and others you have no control over. It's best to focus your time and resources on things you have control over, which could inevitably improve your prospects in selling your company next time around.

1. Things You Can't Control

1. Market Conditions: The market is the market, and it could be a result of global macroeconomics, regulatory policies, change of fiscal or monetary policy by the central bank, or investor sentiments in general. A vertical that was once the darling in the eyes of investors on Sand Hill Road may all of sudden get shunned on because there is a more interesting technology or market out there. This unfortunately is something you have no control over, and it would be foolish to try to spend money or resources creating a market that does not exist. PR firms would be glad to take your money to do blitz campaigns on your company, but most likely they would not get anywhere and the money would be spent in vain.

2. Acquirer Strategies: Buying companies must be the acquirer's idea, you can never engineer a sale as a seller. Just think of the last time you ever bought anything from a cold call. As quoted in the Red Little Book of Selling, "People love to buy, but hate to be sold". So don't expect your target acquirer to all of a sudden change their strategies just because your company is available in the market. That strategy always comes from within.

3. Regulatory Shifts: Government policies around federal subsidies, grants, or immigration policies can have a huge impact on a startup's fortune, but unfortunately is again one of those things that you have very little control over. The best way to handle such changes is to be adaptable and work with the policies as opposed to spending your valuable time to lobby politicians or gather signatures.

4. Executive Turnovers: M&As are a relationship business, and the decisions are made by people. People leave and join companies all the time, which may mean that you have to start a relationship from scratch. This is part of the game, and it's better to accept the fact that a deal will likely not happen when your internal champion leaves the acquiring company. You can try to salvage the deal by trying to figure out the next person in line who would sponsor your company, but unfortunately it does mean you may have to start from the beginning again.

5. Acquirer Culture: Don't expect to change the acquirer's culture when your company gets acquired. In all likelihood, if a deal does happen, your team will be expected to acclimate to the new culture and fit within the existing framework of the company. This is why cultural diligence is a big part of the overall due diligence. If there is a mismatch of culture, even if there is a great value in combining forces, savvy acquirers will likely pass on the acquisition as such cultural clashes likely would result in conflicts and deeper divides down the road.

2. Things You Can Control

1. Your Product Roadmap: You always have agency over what products you work on right now. Companies evolve and pivot all the time. Just because you strike out now does not mean you have to keep working on the same products and technology. Take the feedback you get from the market and recalibrate on products or services that actually had good feedback from the potential acquirers. When we struck out in late 2022, the feedback we

got from the market was that the persona we were serving was not appealing, and instead, everyone was looking to go after the professional audience. The potential acquirers all liked our technology stack, but we needed to build a product for customers with higher lifetime values. So that was what we did, starting in 2023, we ended up pivoting and building a brand new product serving the professional photographer audience. This ultimately became the reason we received term sheet in 2024 and eventually acquired in 2025.

2. Your Resource Allocations: Desperate time requires desperate measures. If you are still spending time and money on developing products or services that do not appeal to the M&A market, it would be time to take the medicine and think hard about why you are still working on them. It is never too late to stop working on something, beware of the sunk cost fallacy. Never throw good money after bad money, as investors would say.

3. Quality of Your Narrative: One small reason why you are not getting offers may also be a problem with your narrative. You may be too stubborn on what the vision of the future market looks like, you may miss the cues from the acquirer on what they envision the combined forces should work on. Remember, when the acquirer buys your company, they want you to solve a problem that they have, they don't care to the extent that you care about your vision and mission of the company. Talk to board members and advisors and get feedback on your pitch. Be flexible and thoughtful when questions arise on the joint mission if you are determined to sell.

4. Team Morale: Your team will look to you as the leader for directions and morale. As tough as the M&A market is, do not let the negative energy sip into your team. For all they know, they should keep doing their work and focus on delivering happiness to the customers. Very rarely does it help when you prematurely disclose the M&A prospects to your team. Naturally, your employees would wonder about their own job security and whether the company will cease to exist imminently. Carry out every day as normally as you would and do not let the team in on anything with respect to the M&A.

5. Personal Resilience and Mental Health: It is very normal to not receive a bad offer during the M&A process, it is even more common to get no offers at all. This does not mean you failed as a founder, nor should it affect your identity or values. Be strong and go

about each day with the best of your ability. Understand that what doesn't kill you will always make you stronger, and you will be a better founder, executive, and person on the other side. Spend time exercising, eat well, and be part of a community. Catch up with your families and friends that you have neglected for a long time, know that you are loved and valued by others. And finally, just be grateful. Be grateful that you still have agency to decide what you do, be grateful that there are always worse situations you could be in, it will get better, and in a year or two, you will look back to this period and say, "I'm glad I stuck it through".

6. How You Spend Your Time: For me, during the time period when we were waiting on offers for a couple longshot acquirers after everyone else had passed on us, I was completely depressed and there were days I would wander aimlessly about what I should work on. Every time I would try to code, write or learn something new however, I would freeze and then helplessly resort to my vices which was either scrolling endlessly on the internet, or spending hours playing chess on Chess.com. Then I would even feel worse after that where I knew that time should have been spent on more productive tasks. To pull myself out of this. I ended up deleting the chess app on my phone, and also made sure I set a goal for myself to spend a fixed amount of time exercising, reading, and accomplishing a specific goal. This was how I got through the M&A phase, but in retrospect, the right expectation should have been that a deal was not going to happen, and we should have instead still focused on building our products as the primary goal. Working on M&A related tasks should be supplemental to the day-to-day of building the company and products.

Chapter 38

Managing Stakeholders When You Can't Sell

There are mainly three classes of stakeholders you have to manage when you couldn’t find a buyer, they are the following ranked based on the order of importance, your cofounders, your board, and your employees.

The most important people to align on are your cofounders. Now is the time to get real and figure out what everyone’s personal situation and goals are. Everyone is in different life stages, perhaps you want to continue operating independently but your cofounder wants to cash out and do something else. The best thing to do here is be transparent and honest about what you want to accomplish and try to find alignment amongst the cofounders. In my situation, when we could not find a buyer in 2022, both Borui and I felt comfortable continuing running the business as we had positive cash flow and the team was excited about working on a new professional product. In 2024 however, when we were waiting on the eventual offer, both of us knew that if we couldn’t sell this time around, we were too emotionally scarred to continue on and would likely pursue other endeavors. The great thing was that we were in constant communications about our situations and goals during these difficult times, and it was great that we managed to figure out the alignment and work towards an endgame. There were heated discussions and debates, but things never got acrimonious and never spilled over to the team or the board. We each stated what we wanted and we reasoned and eventually aligned. I’m grateful that this relationship worked out between Borui and I. As I know, there were other founders who were not lucky when they went through the M&A process and even when things were going well, the cofounder relationship soured that blew up the deal or caused all types of damage, and I think the number one reason was because the cofounders were not transparent with each other, or could not resolve conflicts and find compromises. This would be the biggest and most important relationship you manage during the M&A, and especially when things turn tough.

Next, you have your board members who you have to manage, and they likely include your key investors. The bottom line is, if you have institutional investors, they have seen this game played out a hundred times and if there is no deal, they have already marked this investment as a loss and are just interested in recuperating their loss by taking back the existing cash balance of the company. If your company is burning cash and you have no M&A offers, you would be under a world of pressure to return any existing cash to your investors in order to maintain your reputation in the VC world, even if your investors do not have a majority. This would mean either buyout your investors and continue operating independently, or return the investor leftover cash and wind down the business. You could try fundraising or doing a recapitalization, but that would be an even tougher lift than doing an M&A now that you experienced M&A first hand. So your best leverage here when it comes to managing your investors is to try to turn your business to cash flow positive. Only if your company earns more money than it burns, would you have the right to continue building the business and retry the M&A market in a future date. So if your goal is to continue operating independently with the investors tagging along, then make the necessary cuts first.

Finally, it's managing your team. Ideally, you have kept the circle of confidantes as small as possible, so that when you receive no acceptable offers, there is only a handful of key executives who would ask you what happened from the interviews or due diligence. Ideally, before they even get involved in any of the process, you already set proper expectations that a transaction is almost always an outlier event and the most likely scenario is the status quo of remaining independent. Nevertheless, there is always a greater likelihood of these key employees leaving if a deal does not materialize. Nevertheless, as the leader, your job is to rally the troops and lead in the mission with or without the M&A. Give them the confidence that the future is bright and greater things can still be accomplished without an acquisition offer.

Chapter 39

What Not to Do

Here were some mistakes that I made personally when we were going through the M&A discovery process and ended up receiving no acceptable offers in 2022. These mistakes caused the company to waste valuable time and resources working on the wrong thing, key employees leaving, and a world of pain as a founder when all of it could be avoided.

1. I spent full time on M&A-related tasks and detached myself from the company day-to-days, resulting in an identity crisis when no deal happened. Instead, I should have still regularly contributed to areas that were enjoyable to me when it comes to company building.

2. We got too attached to the original thesis when the market signal is clear that it is no longer in fashion. Even though we have had a number of inbounds based on the original thesis, when the tide turned and the market was no longer interested in the creator economy thesis, we should have pivoted quickly, and gone back to the drawing board.

3. I was not being open-minded about what the joint venture would look like. Each acquirer had their own ideas on what the joint venture looked like, and there were instances when we were too insistent on our version of that future. For example, a company was looking to acquire us because of our expertise in building software tools, but we insisted that the future was all about community, which they were not interested at all and ended up passing up on us after a full due diligence.

4. We set up a carve-out bonus to the entire team prematurely in anticipation that a deal was imminent. We were really confident that we would be able to find a buyer before June 2023. When that date came and went and we had no acceptable offers, everyone was paid a one time bonus but also made aware that we could not find a buyer. This resulted in two key employees leaving voluntarily.

5. We told the whole team we were exploring M&A. This was the worst of mistakes. It gave everyone false expectations that we were going to be imminently bought for an insane amount of money. We actually had multiple employees who preemptively exercised their options

anticipating that they would get better tax treatment from capital gain. The initial excitement for a week or two turned to anxiety and eventually despair. Every 1-1 with the employee was no longer about product building but ended up becoming I giving updates on the M&A. Also in a perverse way, it felt like the employees were no longer working for me but instead I was working for them. As soon as I told them that the company was going to be sold and the goal was to get everyone retained, certain employees got the notion that they became unfireable. So in any case, do not tell the employees that the company is for sale.

Here are a couple other mistakes based on anecdotes from other founder friends that you should avoid making.

1. I have heard countless stories of founders prematurely jumping into a term sheet without doing enough due diligence or properly discovering the market. What they did not realize is that term sheets are often non-binding and also exclusive. And instead of having done majority of the market discovery and due diligence, once a term sheet is signed, the potential buyer held all the cards, and oftentimes stopped responding to emails and purposely let the term sheet expire after doing some diligence and realizing that it was not a good fit. Instead, it would be much better to have alignment on the joint strategy, complete with all the necessary due diligence, and then jump into the term sheet, which improves the likelihood of the deal closing and also ensures that the maximum number of potential acquirers are involved in the process.

2. Rage quit when things weren't going well. This is perhaps the worst thing a cofounder could do. It meant that the other cofounders or even the investors would have to step in and clean up the mess. This would be detrimental to one's reputation and likely would result in the worst financial outcome. If anything, make sure the succession plans are all drawn out and think through this decision seriously before throwing in the towel.

Chapter 40

It's Okay to Shut it All Down, But Do it On Your Own Terms

Startups should not be a trap, and by all means it is not a life sentence that you have to serve until your last dying breath. Sometimes the only option if no potential buyers are found and cash balance is low, is to shut down the company. There is no shame in that, in fact, most startups die. However, do it on your own terms.

What does that mean? Do not let the bank be the one shutting you down because you couldn’t make payroll. Do not let the board fire you because you couldn’t see the writing on the wall and wanted to run the company to the ground. Do not let your customer find out that you are out of business because your app or APIs all of sudden stopped working without prior warnings.

Instead, discuss this with your board and get a consensus. Check in with your lawyer on proper procedures if the goal is to shut down the business. Get the lawyers to draft a wind-down plan and thoroughly list out the action items. Inform your employees, your vendors and customers and what this means for them.

This way, you still get to write your own eulogy and life still can go on after that.

PART V: THE END GAME

Chapter 41

Pre Term Sheet Negotiations with the Buyer

It's been weeks with no replies after the latest request for information when due diligence feels like years ago. You are questioning whether the potential acquirer is still interested in putting down an offer. At last, you see a text message or email asking for your closest availability for a call or a face to face meeting. Now what is this all about?

Chances are, this scheduled call is to discuss the terms for an offer. It would be incredibly easy to pass on an acquisition via an email. In fact, I have been personally rejected probably a hundred times, and only one was a rejection via a phone call because the potential acquirer was asking for some metrics just hours ago. So if you made it this far into the game, and your point of contact is asking for a meeting, expect this to be a deal term discussion.

At this point, you have already had the expectation alignment meeting, and the buyer has had an idea on what you are looking for, so it is time for them to show their cards. The conversation would go something like the following:

> **Acquirer: Exchange pleasantries, talking about vacations, weekend plans, etc for 3 mins, then jumping into business... Obviously we looked at this opportunity and the entire executive team is very excited about the prospect of working together. We would like to put an offer together.**
>
> You: Okay, great.
>
> **Acquirer: We love the products, the team, and also we think it's gonna be a great fit. But still, there are a bunch of risks still involved with the strategy and given there needs to be a lot of integration work, we will be eating a huge amount of capex and also increasing our opex with little upside in the beginning. Plus the market has been volatile and investor confidence is mixed on future prospects. Plus, there are risks that we**

> **discovered from the due diligence on your customer churns, technology defensibilities, flight risks of key employees, etc.**
>
> You: Okay.
>
> **Acquirer: We are thinking of doing an Asset Purchase given that there are a number of liabilities associated with the company that we don't want to assume.**
>
> You: Okay.
>
> **Acquirer: So here's what we like to offer. For closing considerations, we are willing to pay $X in cash and $Y in stocks for the assets. As for retention, we are willing to offer $Z in cash and $W in stocks over a 3 year term for key employees.**

That's it. The actual conversation literally lasts five minutes, and now you have to figure out whether this is worth negotiating or reject outright. So let's break down the key components.

1. Deal Type

In a nutshell, there are three types of deal structures. Stock purchase, merger or asset purchase. Stock purchase is typically avoided on both sides as this would mean the acquirer company would go and purchase every single share that your company has ever issued at an agreed upon price. The problem with that approach is that any stockholder could potentially hold up the deal, whether it's an investor that you are no longer on speaking terms with or a disgruntled ex-employee who holds very few shares. Instead, the ideal case is to push for a merger, where depending on where you incorporated, the threshold for approving the deal could only be the majority of the board along with more than 50% of the shareholder vote. In both scenarios, the acquiring company purchases the entire company. In both cases if it's a full cash deal, then the proceeds would be considered capital gain, which has more favorable tax treatment depending on the holding period.

The last class is an asset purchase, where the acquirer picks and chooses which parts of the company they want to acquire, and which ones they don't. The drawback of this type of purchase is that the proceeds paid for the assets are considered ordinary income, and are subject to corporate level taxes. And when the proceeds get distributed amongst the investors and the team, they are also considered as income, so it essentially becomes double taxed. Typically startups have R&D tax credits or carry losses that can write off some if not all of the proceeds, but the distribution to the team would get taxed as ordinary income regardless.

If your company still holds significant cash in the balance sheet, it is imperative to clarify whether the company cash is also included in the deal with the acquirer. Your cash balance will make a material difference to the closing considerations.

If you have gotten this far in the process, this is also where you need to get on the phone with your M&A lawyers and tax lawyers will help you a lot in navigating the complications of the potential transaction. The headline is to push for a merger from the acquirer as a seller.

2. Considerations

This topic was covered in the expectation alignment chapter. Again, fundamentally, this is what the acquiring company gives to your company at the close of the transaction. It could be cash, stocks, or a blend of the two. The main thing to consider here is alignment amongst your key stakeholders on the preference or blend of cash versus stocks. In most cases, cash is preferred over stocks but if you get acquired by a private company, they may not have much cash on their balance sheet. In certain scenarios, your investors actually prefer getting stocks over cash for a hot private company whose private stocks are difficult to access in the secondary market. It could also help your investor's brand for their fundraising purposes when they present to potential LPs that they hold certain stocks in their portfolio. Or it could be the scenario where it's more tax advantageous for the investors to take stocks than cash. Be sure to ask your board member investors explicitly what they prefer during the negotiations in order to minimize conflicts down the road when it comes to the actual vote of the final deal documents.

The other dynamic in play here is that the acquirer would want to maximize the incentives for you, your cofounders, and your team and not pay a dime to your investors or ex-employees on your cap table if they can get away with it. The reason is simple: to the acquirer, the value is all in the team that is absorbed to their company, there is no value from your investors or ex-employees. So, what they would potentially do is minimize the considerations and instead load put the main payout in the retention.

This would put you and your investors in an adversarial position. Nevertheless, even if you have supervoting rights or hold a majority of the board, make sure the deal you get is fair for everyone involved. Silicon Valley is a small place, you never know the next time you'll be starting a company and need to raise money again. Take care of your investors and value all the relationships you made.

3. Retention

Retention is a combination of cash and stocks that the founders and team would get spread out over typically a two to four year period. If it's cash, it typically follows the structure of some amount payable at deal closing, and then evenly paid out on an annual basis until the conclusion of the retention period. And if it's stocks, it typically has a one year cliff and then vests either on a monthly or yearly basis until the end of the retention period.

And that's all there is to it when it comes to an offer. Now here comes the difficult part of negotiating this offer with the acquirer. Now here are a few things to keep in mind:

1. Don’t negotiate at this meeting, instead, ask for clarifying questions, and make sure you write down all the key terms and considerations. Do not show any reactions even if it’s a really great offer or a super bad one. Simply ask all the clarifying questions and let your point of contact know that you discuss this with your board and get back to her. Also, do not just accept the offer on the spot, this type of decision will almost always require board approval.

2. Make sure you have a waterfall ready along with a precise set of revenues and expenses factored in so you know exactly how much each employee will get at closing from the considerations. Triple check these numbers as you don’t want the nasty surprise that any key

stakeholder is getting significantly less than what she anticipated at the moment when you sign the term sheet.

3. This is one of the rare occasions that having bankers actually adds value as they take the role of negotiating. By this point, you could be already exhausted by the process and wanting to get a deal done to take a bad deal, or you could be having unrealistic expectations and pass up on a great deal. Having bankers who have done these negotiations in the past can serve as a buffer between you and your future employer, where there is no ill-feelings when the negotiations get contentious and potentially acrimonious.

4. Your negotiation leverage is ultimately a function of how important your company is to the acquirer and if there are competing offers. Even if you do not have other acquirers in the mix, your runway, cashflow, quality of your product, expertise of your team and potential future fundraising prospects can serve as your leverage.

5. M&A valuations are rarely based on sound math or robust calculations. You can take any spreadsheets made by an analyst and change one single cell and the final output would be off by a mile. Instead, valuations are based on emotion. So the best way to manage that is to have a bottom line for what you are willing to take, and be prepared to walk away if that number is not met. Of course, don't just come up with any arbitrary number as your bottom line. Make sure you can provide some justification whether it's opportunity cost, comparable transactions, or price of remaining independent.

6. Typically a term sheet does not need to be produced by the buyer until the deal type, considerations and retention are all agreed upon.There is no need to rush the buyer to put everything on paper, as having these terms on paper gives these numbers a certain level of legitimacy, and hurts your chances of negotiating for better terms. Instead focus on negotiating the key terms with the acquirer over the phone or face to face.

7. Understand that whatever numbers you end up agreeing with at this point, they will be the best possible outcome you could get when it comes to closing. As the deal progresses past the term sheet phase and more negotiations and diligence are done, typically the buyer would find and take discounts on any missed quarters, key employee departures, or other business events that put you in a weaker position.

8. A book that I found useful when it comes to negotiations in general is Chris Voss's book "Never Split the Difference". There are tactics in the book that could be helpful for your negotiations.

9. Keep your board in the loop during the entire negotiation process. Ultimately, they need to approve the deal. If there is any feedback from the board regarding the economics, make sure to get alignment quickly and then pass those expectations back to the acquirer in the negotiations.

10. Because the cap table waterfall governs how the proceeds will be distributed at closing, there is often no ambiguity on how that money or stock gets divided up, and typically the acquirer would have already had your waterfall at this point. You will realize that how retention bonus is dispersed amongst the founders and employees are not yet discussed, this will typically be negotiated after the term sheet is signed.

11. Finally, don't short change yourself or your team when it comes to this negotiation. Presumably everyone has worked super hard to get to this point, and unless you have absolutely no options but to sell, hold your head up high and act as equals at the negotiation table to get the best possible deal for your team and investors.

Now after rounds of negotiations, you and your acquirer have finally agreed on the deal structure, considerations and retentions, they are ready to send you the term sheet. Let's look at how to study a term sheet in the next chapter.

Chapter 42

Term Sheet Received - Where to Go from Here

It is the moment that you have been waiting for, after weeks of negotiations and finally agreeing on the terms, an email from the acquirer with the term sheet in a word document. Let's take a look at a sample term sheet.

1. How to Read a Term Sheet

Below is a sample term sheet that includes all the key terms you would expect in a term sheet. While some term sheets are dozens of pages long, things can typically be boiled down to something like the following.

SUMMARY OF PROPOSED TERMS

Date: January 1st, 2030

Acquirer: Big Acquirer

Purchase Price: Big Acquirer will acquire the assets (other than cash and cash equivalents) of Acquired Company for the following:

1. $1,000,000.00 in cash at the closing of the acquisition, payable to the target company
2. $2,000,000.00 of Big Acquirer's common stock based on the latest 409A price issued as stock certificate to the target company at the closing of the acquisition
3. $1,000,000.00 in cash as management retention plan payable to the founders and key employees with the following schedule:
    1. $200,000.00 paid at closing
    2. $200,000.00 paid at the first anniversary of closing
    3. $200,000.00 paid at the second anniversary of closing
    4. $200,000.00 paid at the third anniversary of closing

5. $200,000.00 paid at the fourth anniversary of closing

4. $2,000,000.00 of Big Acquirer option grants to the key employees at closing, exercisable based on Big Acquirer's latest 409A valuation as of the grant date.

Governing Law:	Delaware, USA
Conditions to Close:	This Summary of Proposed Terms, except as specifically provided below, is non-binding. A closing of the acquisition would occur simultaneously with the signing of the transaction documents along with the following conditions: • Satisfactory completion of remaining legal, accounting, business due diligence • Review of technology and operations • Big Acquirer's determination that no material adverse change to the business, financial or prospects of the target company occurred • Employment contracts with key employees
Transaction Docs:	The parties will negotiate in good faith mutually acceptable transaction documents. The transaction documents will contain the terms summarized herein and such other representations, warranties, covenants and other terms that are customary for transactions of this kind. The equity holders receiving considerations from the target company will indemnify Big Acquirer on customary terms.
Target Closing:	On or before 60 days from the date this document is executed.
Binding Terms:	The following terms shall be binding upon the Acquired Company upon its execution of this Summary of Proposed Terms: Acquired Company shall work in good faith expeditiously towards a closing on or before the target closing date specified above. Acquired Company and its subsidiaries will not for a period of 60 days from the date this Summary of Proposed Terms is accepted (the "Exclusivity Period"), take any action to solicit, initiate, encourage or assist the submission of any proposal, negotiation or

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offer from, or engage in negotiations or
discussions with, any person or entity, or engage
in any similar actions, relating in any way to
the sale or issuance of any capital stock of
Acquired Company or the acquisition, sale, lease,
license or other disposition of Acquired Company.
No press release or other public statement may be
issued by Acquired Company, its subsidiaries or
any of their respective employees, directors or
stockholders relating to this Summary of Proposed
Terms or the transactions contemplated hereby
without the prior written consent of Big
Acquirer.

The offer contained in this Summary of Proposed
Terms expires on January 2nd, 2031.

This Summary of Proposed Terms is not a
commitment to invest and non-binding on the
parties hereto, except as provided above in
"Binding Terms."

    SIGNATURE BLOCKS
```

In the term sheet, it will include the key terms previously negotiated which include the type of the deal, considerations and retention. A couple other things to call out in this document is that there is a binding section of exclusivity as well as information embargo placed upon you, while terms for the acquiring company are completely non-binding.

Furthermore, the term sheet outlines expectations on the closing date, typically the same as the exclusive period. It also includes a set of closing conditions which are things that still need to be completed. It finally includes the transaction documents and provides expectations on what type of documents are needed to close the deal.

2. Things to Negotiate in a Term Sheet

Even though the key terms are agreed upon already, the term sheet now needs to be forwarded to your lawyers for review and redline any items that could be potentially problematic. For one, if your acquirer is not based in the US, the governing law for which the M&A adheres to would need to be aligned on. This may require you hiring lawyers in the geographic region where the acquiring company does business.

Even though the term sheet is non-binding for the acquirer, there are binding terms for you as the seller. Most notably, there is a no-shop clause baked into the agreement. Expect this clause to be there unless the offer is not serious, it protects the buyer from doing all the diligence work only to find out that you will bolt midway through the process or take a better offer elsewhere. While you cannot negotiate the exclusivity, you could negotiate the exclusivity period down to say 30 to 45 days instead of the stand 60 depending on how much leverage you have. Having a shorter exclusivity period could actually hasten the final closing period which keeps everyone focused on the deal and the risk of deal fatigue if the closing drags out.

Furthermore, there will likely be a set of closing conditions, where you should consult with your lawyer on the feasibility of meeting these conditions. Most of the time they are rather standard, but watch out for those terms that are beyond reasonable that are outside of your control. For instance, a buyer could impose a 100% retention of your customers before closing, which you should push back as such a request is unreasonable and having minor customer churn does not bring material difference to your business.

There is a sweet spot in terms of how much you should negotiate the term sheet with your potential acquirer. If the terms are clean and reasonable, then there are no issues with executing and moving on to the next phase of due diligence. However, if the terms are unreasonable and ambiguous, definitely push back as the negotiations done during the term sheet phase set the appropriate expectations for the final negotiations on the definitive agreement. If you come off as pushovers at this stage and accept key terms without contest, expect the definitive agreement negotiations to be lopsided where you or the company directors fronting all the risks and indemnifying for all liabilities. The goal is to arrive at somewhere that's reasonable for both sides, and also set appropriate negotiation expectations as you move forward to the next step of diligence and finalizing the transaction documents.

At this point, negotiations on the term sheet should be handed off to your lawyers given that you have an experienced M&A counsel. They will be much better and more efficient at spotting potential landmines in the legalese with respect to reps and warranties, indemnification caps, and other critical terms. They will also be able to play the bad cops in negotiations while you maintain a good relationship with the buyers as ultimately you still have to work for the buyers once the deal closes. Finally, in the unlikely event that you do get litigated down the road by an existing shareholder, the plaintiff will almost always attack the process and conflict management. Having outside counsel steer the redlines builds a discoverable record that the board acted with due care independence, demonstrated reliance on expert advice, and unlikely negotiated in bad faith.

3. You Are Still Miles Away from the FInish Line

Now you are finally ready to sign on the dotted line, but little do you know that this momentous day in months if not years in the endless M&A preparations, meetings, and negotiations is only the clearing of the opening hurdle. You and the potential buyer have simply moved from courtship to actual audit phase, with the buyer having the right to walk away at any time.

Now it is not unusual to close a deal in the targeted time frame if the deal is small, your board is aligned, and the transaction is not subject to regulatory or third-party approvals. Nevertheless, there is still a mountain load of work that needs to be done in order to close the deal. See table below for some of the big ticket items and why they can potentially drag on.

Remaining Task	What Actually Happens	Why It Can Drag On
Confirmatory Due Diligence	• Deep-dive into financials, tax, legal, IP, HR, technology, cyber, ESG, commercial contracts. • Third-party quality-of-earnings (QoE) reports and technical code reviews. • Site visits and key-employee interviews.	Uncovers surprises (mis-booked revenue, IP gaps, pending litigation) that can reset price or kill the deal. Each new issue spawns follow-up digs and outside experts.
Definitive Agreement	• Drafting the stock/asset purchase or merger agreement, plus disclosure schedules.	Every rep or indemnity dollar shifts risk. Lawyers redline for weeks;

Remaining Task	What Actually Happens	Why It Can Drag On
Negotiation	• Arm-wrestling over reps & warranties, indemnities, caps & baskets, escrow size, earn-outs or holdbacks.	specialty insurance (RWI) may add another negotiation layer.
Regulatory & Third-Party Approvals	• Antitrust/Hart-Scott-Rodino, CFIUS, foreign-investment, sector regulators (FDA, FCC, FINRA). • Shareholder votes (full vote vs. majority vs. board consent), lender consents, key-customer "change-of-control" waivers. • 280G Approval	Government timetables are outside everyone's control. One competitor complaint can kick reviews into months-long investigations.
Financing the Buyer	• Buyer syndicates debt, lines up equity co-investors, or draws on credit facilities. • Bridge-to-bond or private-equity capital calls.	Turbulent markets make lenders skittish; terms can shift or dry up, forcing renegotiation or price chips.
Tax & Structure Optimization	• Decide between stock, asset, reverse triangular merger, F-reorg, etc. • Model step-ups, NOL utilization, 280G "golden parachute" fix-ups.	Requires tax counsel opinions, sometimes foreign rulings—adds iterations.
Pre-Close Integration & HR Workstreams	• Draft day-one org charts, retention packages, option rollovers, benefit plan transitions, work visa transfers. • Data-room refreshes and employee-communications plans.	Culture fit and retention become deal-breakers; renegotiating key-employee packages takes time.
Closing Mechanics	• Closing checklist, circulate officer certificates, wire instructions, FIRPTA forms.	One missing certificate can push out the closing date.

Work with your lawyers to list out all of the outstanding tasks and ask them for an estimate on the cost as well as schedule for each. As daunting as the next couple months look, experienced M&A lawyers have templates and playbooks for how to keep everything running on a tight schedule.

Chapter 43

Term Sheet Signed, Start of a Thousand Paper Cuts

Congratulations, you have signed the term sheet and entered into an exclusive no-shop period with the potential acquirer. You exchange pleasantries with your future boss and chat about how excited the shared future looks like. Everyone is optimistic for a fast close and looking forward to working on the joint roadmap and drafting a press release. Nevertheless, I can't stress this enough, as you work with each respective party, the communication should be optimistically cautious that the deal could still potentially fall apart, and nothing is guaranteed until the money is wired to the bank. So brace yourself, this is the beginning of a thousand papercuts, and let's first look at the interactions with the key stakeholders and how to work through them in the next phase of negotiations.

1. Key Stakeholder Management

1. Cofounders

Up to this point, chances are that your relationship with your cofounders are tight knit and encouraging as you have been all aligned on getting to a term sheet and seeing the company land. However, as soon as a term sheet is produced and signed, as all the key terms are in broad brush strokes, naturally questions come up amongst founders on how to divide up the payout, what types of roles are acceptable, and personal risks such as reps & warranties or non-compete that hit one founder harder than the other. Still, it is absolutely paramount that you and your cofounders are fully aligned and work in complete harmony to close the deal as any fragmentations or acrimony spilled over to the buyer can spook them and call off the deal.

In the ideal case, the considerations clear the preference stacks by a mile, the result is a home-run outcome for the founders and early employees. The conversation becomes fairly easy between you and your cofounders. Liquidation follows through the cap table waterfall, you and your cofounders get paid accordingly. The retention at this point serves as an equalizer to incentivize those key employees who likely would cash out and leave on day 1 without enough retention rewards and those have little upside from the sale but are still critical to the integration. You and your cofounders simply need to align on who those employees are and make the recommendation to the buyer.

The conversation with your cofounders gets very difficult when the headline price does not clear or barely clears the preference stack, meaning that the common stock holders are wiped out completely, and even the investors take a loss after the lawyers and bankers get paid. The only source of any compensation from this transaction for the founders now comes from the buyer retention pool and potentially a carve-out (which I will cover in the next section) from your board if they are nice.

The cap table at this point plays virtually no role in the determination of how the retention pool is divided among founders and employees. In the eyes of the buyer, it is simply a function of the criticality of the domain knowledge of the retained employee and replacement cost. So even though a cofounder historically may have owned an outsized number of shares, if she does not serve a critical role to the integration, the buyer would not sign off on her getting the lion's share of the retention bonus. Understand that the retention allocation needs to be approved by the acquirer almost all the time. In such a case, and I am well aware that each founder may feel that her contribution is more significant than the rest, I recommend proposing an even split among the founders for the retention pool to the acquirer, where the founders receive anywhere between 50% to 80% of the total retention, and the rest of the team receives the rest 50% to 20% depending on the size of the team. Bigger the team, bigger the allocation, and vice versa, smaller the team, smaller the retention. An even split between the founders spells out an united front when negotiating with the buyers as long as the alignment is that every founder is staying for the entire duration of the retention period. This leaves nobody’s ego bruised and also indicates that every founder pulls her own weight in the acquisition.

Again, in this negotiation, understand that your biggest allies for this entire transaction are going to be your cofounders. In the same token, if anybody could destroy the deal, it would also be your cofounders. As difficult as it may be, put the needs of your cofounders as high as your own needs, compromise and come up with an outcome that everybody feels good about. Chances are, this won't be your first company together, and you will call upon your cofounders in the future.

2. Board of Directors

Before signing the term sheet, it is customary for you to send over the final redlined version to your board to approve. This is not required because the term sheet is non-binding, but it is critical to have alignment with your board throughout this process. Your board of directors likely will have your lead investors, where they have a fiduciary duty where they need to act in the best interest of the company and its shareholders. During a M&A, this means overseeing a due process of discovery and finding the best possible deal, and also ensuring that all the necessary counsel and precautions are made.

There are two sources of potential conflicts at this point with your board. Firstly, it is the allocation of considerations versus retention. In the eyes of the buyer, they would much prefer a deal where not a single cent is paid out to the investors or ex-employees on the cap table, and all the cash spent is on the team that is retained to be incentivized for a successful integration. Of course, this is a conflict of the fiduciary duty, as shareholders include investors as well as those who are no longer working at the company. Again, this is less likely an area of contention if the considerations are significantly more than the preference stack, and everyone is swimming in the upside. There could still potentially be board members who expect an outsized return on investment, and have veto rights that can potentially block the deal. In such a case, the work should have been done at the beginning to set alignment on expectations so that there are no surprises at this point. In the case where the consideration barely or does not clear the preference stack, an interesting balancing act needs to be made so that a fair deal can be done so that the investors still get some returns and the team still feel motivated to complete the deal. Imagine a scenario where the upside for the team is zero and all the money is paid out to the preferred shareholders, in this case, the founders would not sign off on the deal as the opportunity cost of joining the acquirer would be greater than just seeking employment in the job market or starting a new company. Experienced board members would instead offer a management carveout, that ranges in the 5-10% of the total proceeds the investor would receive, and offer that to the founders and key employees as extra motivation to ride out the deal. How this money is divided is largely a discretion of the founders. My advice here is similar to the last section where you treat others the way you want to be treated. Moreover, if a management carve-out is offered by your board, this information needs to be disclosed to the acquirer. The additional incentives will need to be voted by the board members, and would also affect the 280G analysis. There is also the potential issue of an escrow, where some percentage of the proceeds may be put aside to cover any unforeseen lawsuits or expenses post M&A. The size of the escrow directly affects how much distribution investors get at deal close. In the ideal case, they all want everything all at once, but the buyer may insist on having an escrow to protect the buy-side from any potential risks. This would be another area to account for and align with your board on how much money to set aside.

The second biggest piece of contention, and perhaps matters a lot more to the directors, is the cap on indemnifications and reps and warranties. When a company is sold, typically the board dissolves, and the board members want to move on with their lives. The last thing they want is an unlimited cap on indemnifications that a future lawsuit wipes out any of the upside plus some. So in such cases, your board would not sign off on any deals with these types of terms and it is critical to have your lawyers flag anything that potentially puts your board members at risk in the definitive agreement. This would also mean that you and your cofounders may have to front some of the risks personally when it comes to indemnifications as well as reps and warranties. Do not be surprised if your retention bonuses are used to backstop any future lawsuits so that your investors are off the hook from these litigations.

Aside from these two areas, typically the board members are fairly empathetic of the M&A as long as you ran a clean process and they were all informed along the way. Nevertheless, you want to make sure there is unanimous board approval on the actual deal terms. While only a majority is needed to pass a resolution, having even one board member dissent could lead to litigation risks and the buyer having low confidence that the deal can get through, in fact sometimes buyers put unanimous board approval into the closing condition to limit their exposure to such risks. Having dissenting board members could also mean that critical deal information may get leaked, or they go rogue completely and try to sabotage the deal. Hence, be sure to spend the time to meet each board member individually and understand their needs. This way you will not have any surprises when it comes time for the actual vote. Be sure to start providing weekly email updates to your board at this point and keep them informed on the latest progress leading up to close. Next let's take a look at those investors who are not on the board.

3. Outside Investors

Depending on how many outside investors you onboarded throughout the lifetime of the company, if the number is large, then most of them will not get a board seat or even an observer seat and have very little visibility in the M&A process. If you have not informed them on the potential exit, now would be the time to do so. Failure to inform them any later could cause a hold up during the actual shareholder approval process, or even lead to litigations if these outside investors feel that the board did not fulfill their fiduciary duty in finding the best possible deal for the shareholders. To approve a M&A (not a share purchase), typically as there is one vote per share, only fifty percent of the shares need to vote yes in order to approve the deal. The main thing that these investors would care about is again what the waterfall looks like with the agreed upon headline considerations. In other words, what would they get at close, cash or stocks, and how much they would get.

Typically non-board member investors behave in two distinct ways when it comes to M&A. The vast majority of institutional investors in Silicon Valley vote in the same direction as the lead investors who are typically board members, and they either led the last round of financing or owned the majority of shares outside of founders. The reason is quite simple, institutional investors are friends and share a very tight network, it’s not uncommon for partners to switch firms or start their own funds, being a naysayer in a deal when the lead investor already approved the deal could signal the dissenter as difficult to work with and hurt access to future co-investment opportunities. If you took investment from institutional investors on Sand Hill Road, chances are, the work is already done as soon as the lead investors are onboard with the transaction.

However, there is the other class of non-institutional investors who could be your family offices, internet celebrities, early advisors, rich uncles, wealthy friends who do not have large ownerships of the company but still hold preferred shares. Typically these investors do not follow the unwritten customary rules of Silicon Valley, and could be a potential holdout for the deal for a number of reasons. For one, they may not be as responsive as institutional investors, so you may not even get their signatures in time if you would like to have a fast close. And if they do have an issue with the transaction, most likely it would be because they hold unrealistic expectations on what the return multiple should be. This is where having good prior investor relations can be super helpful, where even the smallest investors are in the loop with company financials and latest strategies and initiatives. In any case, if you do find yourself in a pickle where an investor of this class is not replying to your emails, dragging their feet, or flat out belligerent with the top line deal terms, first analyze if you have the necessary votes to pass the deal. If so, then be as courteous as you can and that you will try to address any concerns that they may have, but also make it clear that this deal already has the necessary votes and that unless other major shareholders are on board, do not have expectations that what they ask for will be agreed upon by the buyer or the board. In the case that you do need their votes to approve the deal, then you will need to make sure that the demands by this rogue investor are met either by renegotiating the terms with the buyer and the board. Simultaneously, reach out to your lead investors for help to provide additional context or help mend the relationship. Sometimes having the same news delivered by a fellow investor instead of a founder is easier to swallow. In any case, given that the deal is not closing imminently, you still have time to get everybody on board, and be sure to spend the time to meet, explain and align with all your investors on the upcoming transaction. You want to make sure that everyone will sign the definitive agreement a couple months when the deal is about to close.

There is also the issue of 280G analysis down the road if you and your cofounders and key executives receive compensation or incentives from the transactions that significantly exceeds the typical pay, where the compensation package would then be put under a vote by all shareholders excluding those who would be receiving such pay packages. Guess what, this means those investors who were holding out the deal in the first place could potentially block the vote once again. A failure to pass the 280G vote means an additional 20% excise tax for all the recipients. I will talk more about 280G in a later chapter, but the point again is, be sure to be on good terms with all your shareholders as dissenters could indeed do serious damage to the deal.

4. Shareholders with Significant Ownership

There is a class of shareholders who hold common stocks that account for more than 1% of the company who are neither investors nor employees. Most likely they would be your ex-cofounders or ex-employees who have left the company. While it is unlikely that their shares could sway the shareholder vote one way or another, their vote could in fact be the deciding vote when it comes to the 280G. Ideally the deal clears the preference stack and these shareholders also have some upside and it's less likely they would turn adversarial in the vote. Still, now would be the time to do a tally from the cap table and figure out if there could be a potential issue with any of the upcoming votes, and proactively reach out to those individuals and give them the lay of the land and answer any question they may have on the upcoming potential transaction.

5. Other Shareholders on the Cap Table

No communication needs to be done to folks in this category at this point. They will find out about the deal during the final approval process.

6. Employees

As much as you would like to share the news with your employees, I would again advise you to hold off this communication until the deal becomes a certainty. Your employees do not have half the context that you have on the M&A and will not be able to stomach a failed deal as well as you do, and you do not want all your subsequent interactions with them to always be on the topic of M&A. Plus, the term sheet may even forbid you from discussing the existence of the term sheet with anyone outside of your board, officers, lawyers, bankers and accountants.

If you must, any communications that involve the potential buyer should be on a need-to-know basis and only in the context that's necessary for the due diligence. For instance, if a confirmatory due diligence needs to be done in engineering that requires key engineers to be present, have them sign an NDA and then loop them in with only what's needed for the meeting. Something along the lines of company X is looking to do some deep integration with us, and would like to run a technical review on the area that you are responsible for. That's it, no need to talk about anything else. If they ask follow up questions, simply tell them that you can't tell them much at this point.

7. Bankers

If you have the luxury of being able to afford bankers, they should have done the heavy lifting of getting the term sheet, and will help you greatly with navigating the rest of the process and get the deal to a close. However, understand that the incentives are not always aligned between you and the bankers. Your objective function is to find the best place to spend the next few years at least to work on a joint venture, grow your business together, and develop your career. This would mean potentially negotiating hard on titles, areas of responsibility, or even walking away from a deal if the vision lacks alignment. Your bankers on the other hand, are mainly driven by the financial incentives of closing the deal at the best possible headline price and retention bonus with the least amount of risk. Thus, they would also be significantly more risk-averse than you are when it comes to negotiating for terms that could potentially jeopardize the deal, not work as hard as you want them to when it comes to haggling over terms outside of retentions and considerations, and would even nudge you to take a safe deal as opposed to pressing on with an ultimatum of demands to the buyer threatening walking away if it is not met.

Luckily, the bankers we hired were not these types of nonscrupulous hustlers, but many founders aren't as fortunate. So the best thing to do here is to set clear expectations with your bankers on what you are looking for in the deal. Also understand that they are working for you, and no deal is done without you agreeing. Keep a close pulse with your point of contact from the acquirer, and don't be afraid to step in to steer your bankers even though they may still be doing the negotiations on your behalf.

8. Lawyers

Whenever a company goes through a M&A, especially when representing the sell side, the lawyers get to have a field day. Given that this is likely the last invoice that your lawyers will bill you, expect their team of partners and associates to step in and bill you hours for reviewing anything and everything with respect to the lifetime of the company. Majority of the work will be done by the acquiring counsel in terms of providing the initial draft of the definitive agreement, requests for various disclosures, as well as managing the closing process. Nevertheless, your lawyers will need to step in to redline and negotiate on the company's behalf for any draft documents, prepare the final disclosures, and manage the close process from your end like getting board and stockholder approvals, and running the 280G analysis.

The biggest potential money drain is in preparation of the disclosures, where you should align with the buyer on a tight list of items to disclose that is material to the transaction. That could include your key customer contracts, critical intellectual properties, employment contracts, legal documents, and tax filings. Things that may not be material could include vendor contracts that are below $10,000 a year, open source software usage, or existing employee health insurance plans. Reason being, all of these documents will be read through by the lawyers on both sides, and this could easily turn into an endless discovery process where the lawyers flag random items that require further clarifications or supporting documents. Don't let them play this game with you, each email exchange along with additional disclosure schedules they draft will be billed as hours.

Another potential money drain is overly zealous lawyers being aggressive with terms in the final agreement. While it's helpful to have a strong and knowledgeable legal presence, you have to set the expectations on materiality with respect to only negotiating on terms that matter.

Finally here are some techniques to help you stay on budget. For one, not everything needs to go through your lawyers. Reviewing of new employment contracts from the buyer, preparations of the disclosure schedules, even negotiating of the key terms can all be done by you. The lawyers sometimes are only needed to put the final language in legal terms. At the same time, set a budget and review the billable hours on a regular basis. If at any time you feel like the lawyers are spinning the wheels and not making enough progress, bring the matter directly with the buyer, and drive alignment first and have the lawyers put it on paper.

2. Final Interviews

The buyer may require a final round of interviews with some or all of your employees before deal closing. If no team interviews have been conducted yet up to this point, then please refer back to the Key Employee Interviews chapter on how to prepare your team for the interview. If interviews and technical due diligence has already been completed, then this round of interview mainly serves the purposes of cultural fit and retention assessment. This also means that you will now need to disclose to those who are being interviewed that there is a potential offer in place for the company. Of course, manage expectations to your employees and tell them that there are still a number of big ticket items to be completed, and there is no guarantee that the deal will close even if everyone aces the interview.

The acquiring executive or HR will ask whether your employee is excited to join the acquiring company, and may implicitly get this information by asking how much they already know about the company and what they think a joint strategy would look like. Your employees may also get asked what their day-to-day function looks like, and assess how critical they are for the acquisition. Certain roles may get eliminated based on redundancies, lack of impact, and cost constraints.

It is still critical to prepare your team and potentially run mock interviews. Ideally you have a great culture and everyone is super aligned. Nevertheless, you may still have disgruntled, unmotivated, or even underqualified employees who should not be part of the interview process. It is best to terminate those relationships early on as having them strung along in the process could have catastrophic damages to the deal. Imagine what your acquirer will think if your star engineer told them in the interview that she hates working for you, or has no desire to work for the acquiring company, or has not written any code for the last year. The deal could be killed from a single bad interview.

It is rather bizarre, but some employees do start to act out-of-characterly upon finding out that the company is going through an M&A. People don't really know how to react when they are faced with the potential of either making a lot of money, or being laid off because they don't get to be retained by the acquirer. That's why it is always better to communicate this to the team when the context is clear and the decision is already made. For the employees who are in the privileged circle who you had to share the news with, then you have to spend extra effort and attention to manage their day-to-days and also ensure that you provide them ample opportunities to ask questions and talk through their concerns.

3. Confirmatory Due Diligence

At this point, the acquiring lawyers will be deep in your data room, HR combing through your past performance reviews and internal docs, accountants scrutinizing over your bank statements and budget for the last three years, and senior engineers reading through your code base. You should already have done some level of due diligence, but if not, please refer back to the chapter on Initial Due Diligence.

In addition to what was discussed in the earlier chapter, if you have weekly check-ins scheduled with your main point person from the acquiring company, expect such meetings to be effectively due diligence calls where various members of the acquirer team get looped in and ask you questions on different aspects of the business. They could be as trivial as what is a line item from your credit card balance a year ago, whether an ex-employee has returned their company equipment, or why a certain software library is used over another. Other times, the questions could be a lot trickier and require much thought and deliberations. For example, they may also ask you what is the likelihood of a major customer renewing their existing contract, for such a case, it is always prudent to be conservative and provide the worst case projections. The reason you don't want to be overly optimistic is your retention bonus could be tied directly with projections. This would be disastrous as changes in the company direction post-acquisition could result in this revenue target no longer being a priority, and thus retention bonus that you thought you would get never being paid out. At the same time, it is also not a good idea to sandbag or cast overly pessimistic projections for future earnings. Such posturing could spook the acquirer and lead to loss in confidence for the acquisition.

As frustrating as this process is, understand that all the necessary questions need to be asked by the acquirer in order for the sponsor of the deal to fulfill her duty to her direct manager. Very often the case is that the CEO is actually the sponsor of the deal and she has a fiduciary duty to her board and shareholders that requires her to demonstrate rigorous oversight, eliminate any potential blind spots, and ensure full accountability to stakeholders. Remember, she has personally championed this deal and needs to justify it meticulously, knowing her own reputation and credibility within her organization are directly at stake. Consequently, the buyer's team might seem excessively cautious, even paranoid, as they probe for red flags and hidden risks. They're attempting to uncover anything that could later cause embarrassment, financial loss, or operational disruption. While the barrage of questions may feel exhausting or overly intrusive, it's rarely personal—rather, it's a reflection of the buyer's internal pressures and the high stakes involved. Recognizing this context can help you stay patient, transparent, and constructive during what is inherently a challenging phase of the deal process.

4. Disclosure Schedules

Providing disclosure schedules to the buyer during an M&A transaction is a nuanced task with multiple areas requiring careful attention. A critical starting point is establishing clear alignment with the buyer on which types of disclosures are truly material to the transaction. Without this clarity, legal teams may unnecessarily expand the scope, leading to bloated documentation and potentially extending the due diligence timeline. It is crucial to manage lawyer input proactively to ensure disclosures remain focused, relevant, and manageable.

Precision and honesty are paramount. Each statement in the disclosure schedules should be meticulously verified and triple-checked for accuracy. Errors, omissions, or ambiguous statements can become significant liabilities down the line, potentially triggering disputes or even litigation. Be especially cautious with detailed disclosures such as consulting agreements, employee compensation agreements, vendor contracts, and software licenses, as inaccuracies in these areas can result in substantial post-transaction issues.

Watch out for subtle "gotchas" like ensuring clarity on notice periods or first right of refusal when it comes to liquidation or change of ownership. Certain enterprise contracts give customers the right to terminate unilaterally if there is a change of ownership, or the right to put an offer in place for an acquisition. Additionally, special attention must be given to contracts needing assignment or consent from third parties, as these can often introduce unforeseen complexities.

Lastly, intellectual property and data security disclosures require particular vigilance. Explicitly highlight any dependencies on third-party datasets, models, or tools, including clarifying license terms, commercial limitations, and potential replacement costs. Similarly, gaps in formal data privacy practices—such as the absence of internal security policies or regular audits—must be transparently communicated to avoid future compliance disputes or penalties.

In sum, disciplined management of disclosure schedules—with clear buyer alignment, precise communication, and thorough review—is essential to protecting the integrity of the transaction and ensuring a smoother path toward successful completion.

5. The "Oh Crap" Moment

Proactive and explicit communication is critically important when unfavorable business developments occur during the M&A closing period. Issues such as losing key customers, significant employee departures, lawsuits, or material contract terminations can significantly affect the transaction's terms or even its viability. Rather than burying such developments within dense disclosure schedules, it is always best to communicate these developments clearly and immediately to the buyer. This openness builds trust, maintains goodwill, and can often help mitigate potential adjustments or even termination of the deal.

In my own experience at Polarr, I faced this scenario firsthand during our acquisition by Pixieset. Upon signing the term sheet, there was a closing condition stipulating that no material adverse change to our business would occur. However, about a couple months thereafter, I received termination notices not from one but two of our largest enterprise customers, OPPO and Samsung, collectively responsible for nearly a quarter of our entire revenue. This news was particularly unsettling because of the potential implications for the transaction. Fortunately, this segment was not central to our future strategy, and we had been transparent from the start that this enterprise licensing business would eventually diminish, though the timing was unexpectedly bad plus the two seemingly independent catastrophic events happened simultaneously.

Delivering this news to the Pixieset founders was extremely challenging, but my cofounder Borui and I made the conscious choice to be proactive, honest, and explicit. Alongside communicating the losses clearly, we also presented mitigation strategies. This transparency reinforced the trust we'd cultivated with Pixieset and allowed them to confidently proceed without altering the original deal terms. Despite this positive outcome, the stress of potentially jeopardizing the acquisition highlighted just how pivotal transparency can be during this sensitive period.

Honesty and proactive communication are always the best choices in such situations because they significantly reduce the buyer's perception of risk and uncertainty. Buyers naturally expect some degree of turbulence during the acquisition process, and their confidence in your integrity can often carry more weight than the immediate financial impact of negative news. In contrast, discovering hidden problems independently through diligence can severely damage the buyer's trust, possibly causing them to renegotiate terms aggressively or abandon the deal altogether. Being forthcoming not only demonstrates your good faith but also positions you as a reliable partner, laying a stronger foundation for post-acquisition collaboration and integration.

Chapter 44

More Negotiations with the Buyer

Even though the headline acquisition considerations and retention are already agreed upon, at this stage, the acquiring company will typically propose their own versions of retention bonus allocations, new compensation packages, titles, and the post-acquisition organizational structure based on interviews and HR-related due diligence. As the founder and seller, it's crucial to be proactive and strategic in navigating these final negotiations.

1. Consideration and Retention Allocations

From experience, I've found it's advantageous to preemptively propose your own retention allocation plan to the buyer. Offering a well-thought-out draft based on the criticality of team members to integration and the future roadmap—rather than simply basing allocations on seniority—can serve as a strong foundation for further discussions. Make sure that retention payout as well as stock option schedules are structured evenly across the integration timeline, avoiding scenarios where team members might feel incentivized to leave prematurely or feel unfairly compensated if payouts are delayed too far into the future. Also avoid the situation where the founders get the overwhelming majority of the retention bonus, as this is often a function of the team's criticality to a successful integration and its size. Make sure to do ample research and talk to your bankers or advisors what a reasonable allocation should look like for your situation. An allocation that is skewed towards founders could lead to diminished trust from the buyer that the founders are greedy and also potential key contributors leaving from the perceived unfairness. In the worst case, a buyer could call off the deal.

Send over a spreadsheet of your entire roster along with their titles, areas of responsibility, current salary, and proposed retention bonus breakdown to the acquirer. Add a notes column that provides the justifications for why each person is getting what they are getting. Then schedule a meeting to walk through the spreadsheet together. Throughout this negotiation, understand that the goal of the acquirer is to ensure that all the key stakeholders are appropriately incentivized and ensure that they stay for the entire retention period.

2. Compensations

Surprisingly, rather than immediate raises post-acquisition, acquiring companies may initially suggest pay cuts for certain employees or executives. The reason could be a number of things, but most likely it is because your existing salaries may be out of band compared to the acquiring company's internal payband, and this is especially true if the acquiring company is outside of Silicon Valley. It is essential not to take these proposals personally. Instead, calmly provide clear justifications for the current compensation rates of your team. Remember, every detail in this negotiation is open for discussion. Rather than accepting base salary cuts, propose a modest increase in base salary balanced by a slight reduction in retention bonuses. Psychologically, this approach often feels more palatable and respectful to your employees.

3. Titles

Acquiring companies are usually conservative in assigning titles to new employees, often down-leveling roles to maintain parity with their existing staff or as a reflection of interview performance. But understand this, being acquired and getting a return for all your stakeholders is the best title you will ever get in the startup business, so personally, I would not go to war if your title was previously CEO and post acquisition it is reduced to a general manager. There are rarely two CEOs in a company, and even rarer when the acquired company CEO steps in as the new CEO right away. However, if you genuinely believe in the potential of the acquiring company and foresee yourself or your team staying beyond the retention period, it can be beneficial to advocate for larger roles or more senior titles to better capture future upside and opportunities for advancement.

4. Team Reorganizations

You should anticipate that the acquiring company will propose headcount reductions as part of team reorganizations. It's crucial to carefully evaluate and push back against proposed reductions if they could negatively impact business outcomes or integration goals. There will inevitably be roles that are redundant, but perhaps there are other areas in the acquiring company that could use the extra headcount, and you should do everything you can to explore those avenues. Communications regarding employee departures should not happen during the negotiation phase but should be strategically timed for the closing. Disclosing personnel changes before closing could lead to morale setbacks of the entire team, as key employees may even feel the need to preemptively leave in anticipation that they may be let go.

5. Other HR Related Negotiation Topics

This phase is likely your final chance to leverage additional benefits or considerations. Beyond standard negotiation items, also discuss remote work policies, comprehensive benefits alignment, or specific personal needs or situations (ex. Work visas, planned vacations, maternity leaves, etc) for key employees, especially those critical for integration. This is your opportunity to negotiate improved terms on employee benefits coverage, or additional resources needed for the team's smooth transition.

In summary, while the headline terms may already be agreed upon, these detailed final negotiations significantly influence employee satisfaction, successful integration, and long-term outcomes for your business. Proactively engaging with the acquiring company, clearly communicating your rationale, and maintaining a collaborative yet assertive approach will help ensure a successful and beneficial outcome for all parties involved.

Chapter 45

280G Analysis

One of the less glamorous, yet crucial aspects of selling your startup is navigating the complexities of a 280G analysis. Section 280G of the IRS tax code addresses payments made to executives (including founders) in connection with a change of control, such as an acquisition. These payments—often including severance packages, retention bonuses, or accelerated vesting of equity—are scrutinized to ensure they are not considered excessive, also known as "golden parachutes". This process should commence as soon as the compensation packages are agreed upon.

1. Why Does 280G Matter?

From your perspective as a founder, understanding the implications of 280G is essential because failing to properly address it can lead to significant tax consequences, including a punitive 20% excise tax imposed on the recipients and loss of tax deductions for the acquiring company. This creates a strong incentive for both parties to ensure compliance.

2. Key Components of 280G Analysis

1. Calculating the Threshold: The threshold for determining excessive payments is three times the individual's average annual compensation over the past five years. Any payments exceeding this amount are at risk of triggering the excise tax.

2. Considerations and Retentions: The specific terms and components of the compensation packages negotiated during the deal—including retention bonuses, severance payments, and equity acceleration—are critical. Every detail matters, as minor adjustments can significantly impact the outcome of the 280G analysis.

3. Shareholder Vote Requirement: Payments determined to exceed the threshold can avoid the harsh penalties if approved by shareholders. However, there's a catch: only shareholders who are not recipients of the compensation being voted on can participate in

the vote. This means that founders and other key executives typically cannot vote to approve their own compensation packages.

3. Ensuring a Smooth Approval Process

Because the approval requires an affirmative vote from at least 75% of disinterested shareholders, it is crucial to maintain open, transparent relationships with your key stakeholders—particularly your lead investors. The good news is that votes typically align with the recommendations of the lead investors. Historically, rejections of these compensation packages are rare, provided relationships with stakeholders are strong and communication is clear.

Nonetheless, delays in this approval process can significantly hold up the deal's closing timeline. To avoid this, initiate the 280G analysis and shareholder approval process as soon as the terms of the compensation packages are finalized. Proactivity in this stage demonstrates diligence to both investors and acquirers, reassuring them that you're well-prepared and organized.

4. Main Takeaways for Founders

1. Understand Early: Familiarize yourself early with what triggers 280G issues.

2. Communicate Clearly: Be transparent with your investors about why certain compensation elements are necessary for the business continuity post-acquisition.

3. Be Proactive: Initiate the shareholder approval process promptly after finalizing compensation details to avoid delays.

4. Maintain Relationships: Cultivate trust with key stakeholders and lead investors to ensure smooth passage of necessary approvals.

While a 280G analysis might initially seem daunting, careful planning, clear communication, and proactive management can make this a straightforward process. Approached thoughtfully, navigating 280G becomes merely another checklist item on your path to a successful acquisition.

Chapter 46

What to Do When the Buyer Stops Answering Emails

Perhaps the most disconcerting moment in an M&A process happens just when everything appears on track: the definitive agreement seems close, due diligence is essentially done, and everyone can practically hear the celebratory pop of champagne. But suddenly, communications slow down, emails go unanswered, and phone calls go unreturned. This stage, a period of complete radio silence, can be deeply unsettling for founders and sellers. Understanding what's happening—and more importantly, how to handle it—is crucial.

1. The Vulnerability of Non-Binding Agreements

At its core, a term sheet is almost always non-binding, heavily skewing power dynamics in favor of the buyer. They retain the right to walk away without notice or explanation. Sellers, on the other hand, are locked into exclusivity clauses that restrict exploring alternative offers. A seller's bankers might consider requesting a breakup fee as insurance against such a scenario. However, this clause is often omitted intentionally to keep negotiations smooth and flexible—after all, bankers typically only get compensated upon successful deal closure, so introducing friction at this stage may not serve their interest.

2. The Psychological Battle

Experiencing radio silence can prompt anxiety and self-doubt. Founders may begin questioning their worth, the attractiveness of their company, or even their competence. Remember, a deal falling through isn't necessarily a reflection on you or your business. The Adobe-Figma transaction, which initially collapsed due to regulatory hurdles, exemplifies this. The cancellation was a gut punch for Figma's CEO Dylan Field, but he rebounded spectacularly, reaffirming that the company's best days lay ahead. True to his word, Figma successfully transitioned to a triumphant IPO. Your identity and value are not tied to the success or failure of this single deal.

3. Empathizing with the Buyer

Keep in mind the acquirer is equally invested in the deal. They've committed extensive resources—time, money, manpower—to conduct due diligence and align internal stakeholders. If communication slows, consider giving them the benefit of the doubt. Perhaps they are indeed caught up in internal releases, quarterly results, or navigating unexpected hurdles. Ideally, the acquisition is an important but not existentially critical piece of their strategy, which naturally reduces their urgency compared to yours. Staying empathetic helps maintain your relationship, keeping doors open rather than inadvertently shutting them in frustration.

4. Strategic Patience and Support

At this sensitive juncture, impulsive reactions can be disastrous. You hold limited control in accelerating the process but significant power to derail it entirely. Leverage the calm presence of your co-founders and trusted advisors. Their perspectives and emotional distance can prevent rash actions. Getting aligned internally, swallowing pride, and syncing your frequency with the buyer's pacing is key.

5. Faith, Not Fear

Mergers and acquisitions rarely unfold rationally or predictably; they inherently require a leap of faith. My personal journey has underscored this repeatedly: deals that seemed like sure bets evaporated abruptly at the final hour, and seemingly doomed transactions survived improbable odds—like unexpected customer terminations, or critical stakeholders suddenly fallen ill. The takeaway is clear: deals destined to close tend to find their way through adversity, while those not meant to crumble even under minor pressures.

6. Managing Silence Effectively

When your buyer seems unresponsive, regular but thoughtful check-ins become essential. Politely yet firmly update them on any relevant developments or progress made on outstanding issues. Demonstrate that you're engaged and ready to finalize the deal, but never resort to threats, ultimatums, or demands for explanations. Such moves rarely yield positive outcomes.

Instead, maintain an air of confident patience. Your professionalism in these challenging moments is the strongest indicator of your maturity as a leader and founder. Embrace the uncertainty as part of the larger story of your entrepreneurial journey. Whether the champagne cork ultimately pops or not, the silence will end, and your path forward will remain open, ready for whatever chapter comes next.

Chapter 47

Final Definitive Agreement

Congratulations—you're nearing the final stretch of your M&A journey. You've navigated through intense due diligence, delicate negotiations, and survived the ghosting periods and emotional ups-and-downs. Now, it all culminates in one critical document: the Definitive Agreement.

Unlike the non-binding term sheet, this agreement legally binds you and the acquirer to the terms and conditions of the transaction. Your counsel will meticulously review each detail to protect you and your shareholders. Let's dive into the main areas you need to pay close attention to:

1. Purchase Price

The purchase price is paramount—clearly defined and detailed. It may be a cash transaction, a stock-based deal, or a hybrid involving both. Your agreement must explicitly outline payment structures, schedules, earn-outs, escrows, holdbacks, as well as any potential transfer taxes or withholding obligations. If stock is involved, consider the valuation methodology and lock-up periods carefully.

2. Closing Deliverables

Closing deliverables are documents that must be executed and delivered to consummate the transaction. Typically, these include:

1. Stock certificates or membership interest assignments

2. Officer certificates confirming accuracy of representations

3. Evidence of necessary corporate approvals

4. Regulatory approvals

5. Consents from third parties

Ensure your lawyers compile an exhaustive checklist early on to prevent last-minute chaos.

3. Assigned Contracts

Specify the contracts transferred or assumed by the buyer, including leases, vendor agreements, customer agreements, licensing deals, and employment contracts. Each assigned contract should be listed explicitly, and necessary consents from counterparties secured before closing.

4. Representations and Warranties

"Reps and warranties" are assurances both parties provide regarding the condition of their respective businesses. These include:

1. Financial health and accuracy of financial statements

2. Compliance with laws

3. Intellectual property ownership

4. Absence of undisclosed liabilities

5. Material contracts

Ensure complete transparency and thorough disclosures to minimize future claims against your company. Any exceptions must be clearly itemized in a separate disclosure schedule attached to the definitive agreement.

5. Indemnifications

Indemnification clauses protect the buyer from losses resulting from breaches of representations, warranties, or covenants. Your board will pay close attention to:

1. The cap on indemnification amounts (typically a percentage of the purchase price)

2. Thresholds (baskets) for claims

3. Time limits for claims

Seek a balanced indemnification structure to protect you and your investors from undue risk.

6. Employee and Founder Retention

Clearly articulate the treatment of employee retention bonuses, equity compensation, and vesting schedules. These incentives are crucial for maintaining morale and ensuring a smooth integration post-acquisition.

7. Non-Competition and Non-Solicitation Clauses

The acquirer may require restrictive covenants limiting founders' and key employees' future entrepreneurial or employment activities. Carefully negotiate scope, geography, and duration to ensure these restrictions don't severely impact careers post-exit.

8. Final Advice to Founders

1. Be Vigilant but Practical: Ensure your lawyers negotiate aggressively on key points but maintain pragmatism to avoid derailing the deal.

2. Early Preparation: Begin preparing disclosure schedules and required consents early in the process.

3. Board Alignment: Regularly update and align your board throughout negotiations to avoid surprises and secure swift approvals at closing.

4. Communication: Maintain clear and consistent communication with your legal advisors and bankers, ensuring visibility on critical risks and milestones.

The Definitive Agreement is your roadmap to a successful closing. Treat it with the diligence, scrutiny, and respect it deserves. This meticulous attention ensures a smoother path to your well-deserved exit.

Chapter 48

Final Approval Process

At this point, once the definitive agreement is agreed upon by the acquiring company and your legal team, it is now time to get it approved by your board and then your shareholders. Specifically, there are three pieces of documents that need to be approved, the final definitive agreement, the 280G vote, and if applicable, a management carveout. Let's look at the voters independently.

1. Board Members

Your board should have had a close pulse on where things stand along the way. So when your legal counsel sends over the final documents for approval, there should not be any surprises. The main thing that they care about are the distribution amount as well as schedule and indemnification caps. Your board needs to approve all the documents before they get sent out to the other shareholders. In the case of the management carveout, only a board approval is needed. As stated in earlier chapters, an unanimous decision is desired for all of the approvals.

2. Shareholders

Everybody on the cap table will get notified at this point, and that could include your existing employees who have exercised their shares, or folks who left the company a long time ago. Naturally, everyone would pull out their calculators and see if and how much they will get from the transaction. Expect your phone to blow up with reach out from folks you haven't talked to in a long time. But all in all, 50% of the votes are needed to approve the transaction, and 75% of the disinterested votes are needed to pass the 280G analysis.

Once the votes pass the threshold, now you can close the deal.

Chapter 49

Where the Deal Could Still Blow Up

Even after the definitive agreement has been fully negotiated, approved by both the board and shareholders, and all requisite 280G analyses and votes have successfully concluded, there remains a tangible risk that the deal may not close. At this stage, it may seem like all that remains is the perfunctory wiring of funds and countersigning of documents, but the reality is far more nuanced. Several factors—some within your control and others entirely beyond it—can jeopardize the consummation of the transaction.

1. Regulatory Approvals and Antitrust Risks

One significant risk involves regulatory approvals. Certain deals, particularly those involving large corporations, dominant market players, or specific industries such as telecommunications, technology, pharmaceuticals, and defense, typically trigger rigorous antitrust inquiries and regulatory reviews. These approvals can come from agencies such as the Federal Trade Commission (FTC) or the Department of Justice (DOJ) in the United States, the European Commission in Europe, or other jurisdictional regulatory bodies globally.

Transactions that significantly reduce competition, create monopolistic or near-monopolistic entities, or have major market share implications often attract intense scrutiny. In the U.S., the Hart-Scott-Rodino Antitrust Improvements Act (HSR Act) mandates filing with the FTC and DOJ if the transaction exceeds certain monetary thresholds, which are adjusted annually and currently exceed approximately $126.4 million (as of 2025). Furthermore, if the acquiring or acquired parties meet certain size-of-party thresholds, the deal is subject to mandatory reporting and approval. High-profile examples include Microsoft's acquisition attempts of Activision Blizzard and Adobe's proposed acquisition of Figma, both subject to extensive antitrust challenges. Regulatory approvals can take months or even years, and prolonged uncertainty can ultimately kill the deal. Check with your lawyers if these cases apply.

When selling to a foreign company, particularly from countries like China, additional regulatory hurdles come into play. In the U.S., this involves a review by the Committee on Foreign Investment in the United States (CFIUS), which evaluates potential national security risks. Similarly, other jurisdictions may require approvals related to foreign ownership or investment restrictions. Such processes can be unpredictable, politically influenced, and significantly extend deal timelines or even lead to outright denial.

2. Third-Party Consents and Transfer Risks

Third-party consents, such as approvals from key business partners, licensors, lessors, banks, or major customers, represent another hurdle. Even minor resistance or delays from these critical stakeholders can halt or derail the entire transaction. Additionally, the transfer of crucial assets—intellectual property, real estate, or licenses—can encounter unexpected legal or bureaucratic obstacles. While the seller can prepare thoroughly by maintaining clear contractual language and proactively securing third-party buy-in, some situations remain inherently unpredictable.

A couple examples of this could be the notice and approval of the sale from a platform that you do your business on, say Apple or Google if you develop apps, or Roblox if you are a game developer on top of their platform. There could also be the issue where your key customers have languages in the contracts that require notices or approvals when there is a change of ownership or any type of liquidation event.

3. Financial and Performance-Related Risks

Another substantial risk factor is the financial stability and business performance of both parties leading up to closing. If the acquiring company experiences a particularly poor financial quarter, encounters a sharp decline in stock value (especially relevant if the deal includes stock-based consideration), or uncovers previously undisclosed material financial issues within the target company, the buyer may reconsider and withdraw.

A badly missed revenue target by the seller, the emergence of significant liabilities or legal challenges, or revelations of unethical or problematic business practices—often uncovered in the final stages—can likewise derail the deal.

4. Human Factors and Emotional Considerations

Sometimes the human element can also disrupt what might appear to be a solidified transaction. Misalignments, disagreements, or unexpected emotional decisions from either party's leadership, uncovered during final deliberations, can introduce doubt or erode trust sufficiently to terminate negotiations. There have indeed been instances where hastily signed term sheets, concluded without adequate reflection or diligence, unravel completely as the parties sit down to finalize the definitive agreement.

5. Importance of Diligence and Responsiveness

In this precarious phase, diligence, responsiveness, and careful timing become critical. Any unnecessary delay or lack of responsiveness can cast doubt and lead the buyer to question the seller's commitment or the veracity of earlier disclosures. You as the seller must promptly address all inquiries, clearly communicate any arising issues, and remain consistently engaged until the transaction fully closes.

6. Early Alignment and Careful Term Sheet Negotiation

Given the complexity and myriad potential pitfalls of the deal-closing process, substantial deliberation before signing the term sheet is crucial. Both parties should fully understand their commitments, responsibilities, and mutual expectations. Hastily executed agreements, driven by impulse or superficial alignment, often lead to significant disruptions later. The definitive agreement stage is far too late to uncover fundamental misunderstandings that could ultimately lead to the collapse of the transaction.

In summary, although substantial progress is marked by the definitive agreement, the consummation phase remains fraught with potential hazards. You should remain vigilant, responsive, and proactive, carefully controlling what they can while calmly managing and preparing contingencies for what they cannot.

Chapter 50

Closing It Out

Closing day represents the culmination of extensive negotiations, approvals, and diligent planning. At this pivotal moment, the definitive agreement, already approved by both boards and shareholders—including successful completion of the 280G analysis—is ready to be officially signed and executed. Despite its ceremonial appearance, closing day demands meticulous preparation and careful execution to ensure everything proceeds seamlessly.

1. Critical Signatures and Documentation

Your lawyers will manage this process for you on closing day. Several key documents require signatures and countersignatures, including:

1. Final Definitive Agreement
2. Disclosure Schedules
3. Assignment and Assumption Agreements
4. Non-Competition and Non-Solicitation Agreements
5. Employment Agreements for retained employees
6. Termination Agreements and Release Forms for departing employees
7. Bill of Sale and Transfer Documents
8. IP Assignment Agreements
9. Resignation Letters from departing board members and executives
10. Dissolution of the board of directors

2. Financial Transactions and Payments

A significant aspect of closing day is the financial settlement. By this time, the acquiring company should have already wired the agreed-upon purchase funds to the seller's designated bank account. Upon receipt, the proceeds need to be immediately distributed according to pre-agreed amounts to:

1. Shareholders

2. Outstanding creditors and vendors

3. Investment bankers and legal advisors

It's strongly recommended that you or your CFO manage this process physically at a bank branch alongside your banker to ensure accuracy, security, and timely execution. Having at least two individuals overseeing this step is essential to mitigate any risk of errors or wire fraud, which can be more prevalent with virtual transactions.

3. Asset Transfer

Certain key assets integral to the completion of the deal must also be transferred on closing day. Common examples include:

1. Source code repositories (via GitHub or other platforms)

2. App store listings and ownership transfers

3. Domain names and intellectual property rights

Proper documentation confirming asset transfers must be meticulously verified to prevent future disputes or liabilities.

4. Employee Transition and Communications

Closing day typically marks the last day of employment for all employees. It’s essential to serve termination documents and finalize severance agreements for those not retained. A generous severance package, along with signed release forms, is crucial to ensuring goodwill and minimizing post-transaction disputes.

This is also the appropriate moment to announce the transaction formally to the broader team, highlighting the new joint direction with the acquiring team, and you could invite key executives from the acquiring company to give a talk, but also acknowledge the work put into this process by the entire company and congratulating everyone for making it to the other side. It is a huge milestone regardless of the financial outcome. Clarity and sensitivity during these announcements are essential to maintain morale and ensure a smooth transition. Retained employees will also sign their new employment letters and should get informed individually of their new compensation packages which includes their new base salary, stock options, retention bonus and other considerations.

5. Payroll and Final Settlements

A final payroll run should be conducted to settle prorated salaries up to the closing date, including payment for unused vacation days.

6. Public Announcement and Press Release

Though not mandatory, a pre-drafted press release distributed on closing day can effectively mark the milestone publicly. This not only recognizes the collective hard work and achievements but also provides closure after the stress and intensity of negotiations and due diligence.

7. Personal Anecdote: The Pixieset Acquisition

Our deal with our acquirer closed on April 30th, 2025, a Wednesday. We had a 10am meeting with our entire team announcing the deal. Even though at this point everyone already knew that this was happening as everybody was interviewed by the acquiring company, there were still some emotions running through everyone as we shared our fond memories of first starting out, the times when we thought the company was going to run out of money, and those who we missed. My co-founder Borui and I met for lunch, anxiously checking our phones throughout the meal. Around 1 pm, the funds arrived in our account—banks close at 5 pm EST, adding urgency to the moment. Seeing the money come through was an immense relief, instantly lifting years of uncertainty and stress. I vividly recall the overwhelming realization: we did it, we actually did it. Borui headed to the office to manage a few logistical details, including signing a short-term lease, while I headed home for a well-deserved nap.

Closing day, therefore, is not just an administrative milestone—it's a deeply human moment marking the successful conclusion of one chapter and the beginning of another.

Chapter 51

Finding What Brings You Joy Again

People often asked me what my biggest purchases were after my acquisition. Truthfully, I bought a second-hand upright Yamaha piano for my kids for $3,300 and a second-hand camera lens for $700. Even now, I still view a Chipotle lunch as a splurge and limit myself to eating there just once a week. My co-founder Borui's story is even more amusing. He doesn't cook and regularly eats at the Whole Foods hot bar for lunch. He shared that his most noticeable post-acquisition change was no longer paying attention to the scale when filling his container. Previously, he'd consciously keep the weight under one pound, equating to around $12. Now, he simply doesn't give it a second thought.

As euphoric as the magical moment feels when that substantial cash balance finally lands in your bank account—likely the most significant amount you've ever seen—this initial surge of happiness will undoubtedly fade after a day or two. Very quickly, what once seemed life-changing becomes merely your new baseline, another number among many.

More important than any monetary considerations post-acquisition is refocusing on what truly brings you joy. The entire M&A process likely drained much of the joy out of your daily life, replacing it with stress, anxiety, and uncertainty. If the outcome has been life-changing enough that you'll never need to work again—congratulations! However, understand this: entrepreneurs are inherently wired to build, create, and solve problems. The idea of endless travel or sitting on a beach indefinitely may initially sound appealing, but boredom inevitably sets in after just a few weeks.

So take time to seriously consider what genuinely brings you happiness, and focus on those pursuits. Some founders don't have the luxury of stepping away from work entirely, especially if the acquisition involves a retention package tied closely to future integration and performance milestones. In this case, dedicate your efforts to ensuring a smooth integration, enhancing the success of your products and services.

Yet, remember this: a significant weight has been lifted. You're free from the constant worry of making payroll, preparing for board meetings, or managing budgets and financial statements. Use this newfound mental space and time to engage with the things you've put off for far too long. Spend an afternoon on the beach alone, or finally watch that movie you've repeatedly postponed.

Personally, I always dreamed of documenting my journey through the M&A process. But sitting down to write without knowing how the story would end was daunting. Would the company survive? Would my employees find new homes? Or would I soon need to polish my resume and start job hunting? Fortunately, the deal successfully closed, allowing me to share my experiences with other founders and aspiring entrepreneurs. I find immense joy in discussing these experiences, offering guidance, and providing support to others on similar paths. Rediscovering this sense of purpose and fulfillment has been one of the most rewarding outcomes of the entire journey.

PART VI: AFTERMATH

Chapter 52

Thank Those Who Helped You Along the Way

When the deal finally closes, regardless of how substantial or modest your financial outcome is, it’s crucial to acknowledge and show appreciation to those who supported you throughout the journey. Success never happens in isolation; behind every entrepreneur is a network of individuals whose guidance, patience, and support were instrumental.

Firstly, your board members and investors deserve special acknowledgment. Their trust, patience, and backing played a significant role in bringing the deal to fruition. A fitting gesture would be hosting a memorable dinner to express your gratitude. This meal might indeed become the priciest dinner tab you'll ever cover, but it's also a rare and special opportunity to express genuine thanks to those who believed in your vision from the beginning. Make this event meaningful and memorable, as this gesture of gratitude solidifies lasting positive relationships.

Your significant other has likely borne the emotional toll of your entrepreneurial journey. They've endured your stress, anxiety, and frequent distractions over the months or even years leading up to this moment. It’s essential to spend quality time together and have an open conversation about how to best celebrate this milestone in your shared life. It needn't be extravagant—perhaps a heartfelt home-cooked meal, a simple movie night out, or a special activity you've repeatedly postponed. For example, my wife and I considered going back to Northern Italy as that was one of our favorite trips, but ultimately decided to wait until our kids were older. The significance isn't in the grandness of the gesture but in the sincerity of the acknowledgment.

Your children also shared indirectly in your entrepreneurial journey, often experiencing your divided attention or late nights at work. Simple yet meaningful gifts or gestures can communicate your appreciation. In my case, I chose to splurge on books for my kids, especially indulging my son's enthusiasm for the Smithsonian series. Little thoughtful gifts, tailored to their interests, can carry immense sentimental value.

Reflecting further, think about those individuals who were consistently your emotional anchors—friends, mentors, colleagues, or family members who provided unwavering support during tumultuous times. A personalized handwritten card, thoughtfully expressing your gratitude and appreciation, can be incredibly meaningful and enduring.

For your broader team, even those who were not retained, whose hard work and dedication contributed significantly to your success, consider hosting a celebratory event or team outing. It could be as elaborate as a weekend retreat, a team dinner, or even a simple catered lunch at the office. Publicly recognizing each team member's contribution during these gatherings further strengthens team bonds and morale. Another meaningful approach is providing personalized gifts or small bonuses tailored to their individual interests or needs, reinforcing the idea that their contributions have not gone unnoticed. Our Head of Peoples was not offered a position from the acquiring company, but he did an immense amount of work leading to the acquisition. So my cofounder Borui spent money out-of-pocket to accompany him on an all-expense-paid international trip, thanking him for the work he has put in. Borui also went out his way to send referrals to other entrepreneurs who might be hiring for his type of roles.

Lastly, it's important to express your gratitude to your key contact or sponsor from the acquiring company. Their advocacy, support, and guidance throughout the acquisition process were undoubtedly pivotal. Take a moment to craft a thoughtful handwritten note or consider giving a modest yet meaningful gift. These gestures of appreciation help solidify a strong foundation for the ongoing working relationship, ensuring continued success and collaboration in the future.

Ultimately, closing an acquisition is not merely an ending but a profound moment for expressing gratitude. By thoughtfully acknowledging and celebrating those who helped you achieve success, you nurture relationships that extend far beyond transactional boundaries, enriching both your professional and personal lives.

PART VI: AFTERMATH

Chapter 53

Your Best Days Are Ahead

As you reach the conclusion of this significant journey, it's essential to understand one fundamental truth: your best days still lie ahead. Companies can be acquired, they can be sold, they may even face bankruptcy, or achieve the milestone of going public. However, your true identity and value are never fully encapsulated by the business you built. Instead, they reside in the relationships you've nurtured, the people you've inspired, and the personal growth you've achieved along the way.

Regardless of whether this M&A process surpassed your wildest dreams or left you feeling somewhat underwhelmed, the future holds abundant potential for continued growth, fulfillment, and success. Leverage the invaluable experiences you've gained from this chapter of your life—both the triumphs and the challenges—to make an even more significant impact in your future endeavors.

Whether your next step is to stick through the retention period, found another company, mentor aspiring entrepreneurs, invest in promising startups, or simply explore entirely new pursuits, let this journey serve as a powerful foundation. Embrace your experiences as catalysts for positive change, and let them empower you to create something even more extraordinary.

Your story doesn't end here. In fact, it has only just begun. Know with confidence that your brightest days, greatest achievements, and most meaningful contributions still lie ahead. Go forth and continue to build, innovate, inspire, and do amazing things—your best days truly are yet to come.

Epilogue

If you've made it this far, let me pause for a moment to sincerely acknowledge you. Whether you successfully navigated your way through an acquisition or bravely embarked on the intense journey of finding a buyer without reaching a deal, you’ve earned a badge of honor. Take it from me—going through the process of an M&A is undoubtedly one of the toughest things you'll ever tackle in your professional, and perhaps even personal, life.

When I reflect back on my own experience, it wasn't just the complexity of the deals, the endless calls, or the painstaking diligence that wore me down. It was the emotional toll—the sleepless nights, the constant second-guessing, the moments when silence from a buyer felt deafening. But looking back, every hurdle I overcame reinforced one thing clearly: once you've walked this path, there's very little you can't handle. Your resilience, creativity, and endurance have been tested and proven. Trust me when I say this—the sky truly is the limit for you now.

Yet, amidst all the victories and the setbacks, there's one crucial lesson I wish I'd learned earlier: you don't have to navigate this path alone. The entrepreneurial journey, by its nature, can feel isolating—but it doesn't need to. Throughout my own journey, I leaned heavily on my investors, my cofounder Borui, advisors, and family who understood my struggles and offered guidance or just a compassionate ear. Having people who've been there and genuinely understand your struggles makes all the difference.

So, consider this an open invitation. If at any point you feel stuck, uncertain, or just need someone to talk to, please don't hesitate to reach out. My inbox is always open—I’d genuinely love to hear your story and support you in any way I can. Building a company and successfully navigating an M&A process is incredibly challenging, but doing it alongside others who’ve been there can transform the experience.

My hope is that this book serves as a trusted companion, helping you understand and maneuver through the complexities and uncertainties of the M&A process. But more importantly, I hope you realize that you're never alone. There's an entire community ready to rally behind you, celebrate your wins, and support you through the tougher days.

I'd love to hear your journey, so please reach out. Let's connect, share stories, and continue to navigate this incredible entrepreneurial path together. I'll see you on the other side.

Yours Truly,

Derek

July 26, 2025

Note: Many readers on Hacker News expressed a preference for the raw, non-LLM-edited version of this book. You can read the unedited manuscript here.