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 planning a birthday message, I was waiting for an email. After years of working toward this, I was expecting an acquisition term sheet from a $40 billion company.

They had wanted to buy us back in 2021. My cofounder Borui and I made the mistake of ghosting their founders after a good first meeting. The market soured. We had inbound interest and hired bankers to help negotiate deals, but the only offer we got was a full stock deal from a struggling startup that wanted our cash and income-producing assets. Nearly three years later, in January 2024, we reached back out as a last-ditch hail mary. They leaned in again. A term sheet felt imminent.

We had done days of product and technology due diligence. Their founders and execs spoke highly of us throughout. They gave us a valuation range and asked if it worked for us. It did, though it was on the lower end. They had everything they needed to make an offer.

Our last meeting had been perfect. We spent a good chunk of it talking about moving and good spots near their headquarters to settle our families. Our main contact on their side reassured us the offer was being finalized. We just needed to wait a little longer.

Then they went quiet. Every day without news made it worse. I was sleepless for days, checking my phone through the night. I had a dream where I flew 16 hours to their office but couldn't get in because all the doors were locked.

That morning, after a swim at the YMCA, my Apple Watch buzzed mid-dead hang on a horizontal bar. I let go to read the message, heart racing. It was not the yes or no I expected. It was a vague, long-winded email saying they needed more time and more people needed to weigh in.

I was crushed. Our team, our board, my family had mentally committed to this deal. The possibility of winding down our startup, which had raised over thirteen million dollars and partnered with big companies, felt real. I stood there, numb. What now?

If you are reading this, you have probably started a company and gotten it far enough to think about an exit. That puts you among the handful who sign the front of checks instead of the flock who sign the back.

But starting a business is trivial compared to finding a buyer. Starting a business is like launching a rocket into space. Selling it is like landing that rocket back on its pad. One wrong turn, and everything goes up in flames.

If this book has one message, it's that companies are bought, not sold. The only one who matters is the buyer. The buyer has to be convinced that partnering with you, licensing your product, or building it themselves won't cut it. That buying your entire business, with all its assets and liabilities, its people and their flaws, is the only option. The market for that is orders of magnitude smaller than the market for your products. Many entrepreneurs approach this like a fundraising pitch. It couldn't be further from the truth.

Borui and I tried to sell our company starting in 2021. I wished this book existed at the time. We thought we had enough going for us that it would be easy. It took almost four years to find the right buyer. Companies that set out to sell often end up dead. Selling a business takes a completely different set of skills than building one.

Hopefully the pain that I went through can serve as a cautionary tale.

Good luck. You will need it.

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 in over a decade. I knew he had started his own company shortly after graduation in the hardware space and experienced lots of early attention through partnerships and press coverage. A few minutes into the conversation, he told me that his startup, once the darling of news outlets, had raised over $1 million in venture funding and now had around $300K in debt. The worst part was that all of the debt was on his own collateral. It was about to default in two weeks. He had laid off all of his full-time employees and only had two contractors left. He needed help finding a buyer, ideally completing everything within two weeks so he didn't have to declare bankruptcy. He wanted to know if I would be interested in acquiring his startup. And if his description didn't convey how dire things were, the Zoom link he sent started an automatic countdown to end the meeting. He was on the free plan. It had a forty minute limit. The very last words I squeezed in before Zoom kicked us out: 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 limit the damage. I didn't even mention M&A as a possible option. Even if he had an acquisition offer in hand, two weeks was far too short to complete a deal. Finding a buyer for a business, even in a firesale, takes months if not years of preparation.

Most entrepreneurs turn to an exit as a last-ditch hail mary to save the business from bankruptcy or as a way to leave the company for good. But almost all of them fail. The company runs out of cash before finding a buyer, or the founder quits along the way. This happens even to startups that raise hundreds of millions of dollars, or have meaningful annual recurring revenues north of tens of millions of dollars and great products used by a loyal fanbase.

When founders ask me about the minimum runway for an exit, I tell them they need cash to stay afloat for at least one year. Ideally eighteen months. If they don't have this runway, the most important thing is to cut expenses, increase revenue, or find outside investment. The thing most founders don't realize is that M&A runs on relationships. Unless there is already a strong business connection with the acquiring company and a personal relationship with its executives, building that takes a long time. I think of it like getting married, but with a twist. The person you want to marry has to propose to you first. Then they need to convince their parents and extended family that marrying you is the best idea since sliced bread. And by the way, your prospective in-laws are not that gullible or friendly.

You could try to woo a large public company into making an acquisition offer. But that's almost impossible without a competing offer in hand. Just getting a meeting with all the decision makers could take weeks. The decisions are made by committees, so you'll get due diligence requests from every department imaginable: product, engineering, legal, finance... And they drag on for months. And because everything including the balance sheet needs to be disclosed, they would quickly find out the business is running out of cash. At that point they could just hire your employees without paying you a dime. The incentives aren't there for the buyer when you are selling a business that is going out of business. In the past, if your company had specialized talent, there were always acquihire offers from big tech companies. But now that AI agents can do a lot of what engineers used to do, the premium for that talent has dropped. Unless your team is top AI talent, acquihire offers are basically gone.

Almost all completed acquisitions come from inbound interest. And nearly every acquiring company had a prior relationship with the business it bought, whether through partnerships, investments, or being a customer. You can't really make someone want to buy you if nobody else does either. All you can do is make sure you have enough cash in the bank to fight another day and build relationships early with anyone who might want to buy you someday.

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, 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 fantasy that a lot of founders have: 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. 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 what it actually takes to sell a company.

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.

Hiring professional management and collecting dividends is often a far better outcome than handing over the keys.

Then there's 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.

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 are more real, but even then, caution matters. Any serious acquirer is also talking to your competitors. Deals collapse all the time, even after months of meetings and signed term sheets. Until the deal is signed and the money hits your account, nothing is real.

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 therapy. 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 is just a pipe dream.

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 figuring out 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 get a good price.

By every metric, we looked like a perfect candidate. We had solid revenue, a lean team, clean governance, and products that had been in the market for years. 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's when it hit me: M&A was never about us. It didn’t matter how prepared we were, how good our pitch was, or how badly we wanted to join forces. Unless a buyer believed their future depended on acquiring us, nothing would happen.

That's the difference 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 they can't get where they're going without you. Until that moment, you’re invisible.

So much of the exit game rests on things 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.

If they're not, you're just shouting into the void.

Companies are bought, not sold. Your job isn't to convince someone to buy you. Your job is to build something good enough that when the right buyer finally needs you, you're the obvious choice.

And yet, even knowing that, I still managed to make one of the biggest mistakes of my life as a founder. 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 new 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 like denoise, segmentation, and object removal, running entirely inside a browser without 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 became the quiet infrastructure behind hundreds of 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 $40 billion and on the verge of an IPO. Looking back, that email was a golden ticket.

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 what they needed. They passed.

That was 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 anything that could be good for your shareholders. Looking back, we should have both joined that call, answered honestly, "We haven't 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 lead to your future acquirer.

Ironically, what happened 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. That work directly prepared us for the acquisition offer that came in 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, you're never going to feel ready.

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, waiting for the perfect buyer to show up is not a strategy. 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.

PART I: BEFORE YOU BEGIN

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 companies that once seemed interested 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, none turned into an offer. But patterns started to show up. 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. So we went back to the drawing board. We divested from B2B sales and consumer apps and refocused everything on a product that best used 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 honest posts about what we were building and the problems we were trying to solve. 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 taught me something: pay attention to what people actually respond to, even inside a rejection, and double down on it. Staying visible keeps the door open for luck. But serendipity doesn't happen in isolation, it happens through people. Behind every "lucky break" is usually a relationship that was built long before you needed it.

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." The best founders build relationships long before they need them. For years, I'd met execs, PMs, and 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, and for a long time nothing seems to be happening, but one day they are leaning in.

The temptation when your market goes quiet is to delegate the outreach to bankers, 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 brutal. 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 time I put myself out there mattered. The market eventually came back. But it only found us because we never disappeared.

You can't force someone to buy you, but you can make it impossible for them to ignore you, especially if you are working on the thing they care about deeply.

All of this is hard. But one thing I found helpful was to write down my core principles and beliefs, which we will get into in the next chapter.

Chapter 6

Know Thyself

When you're 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 me 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'll fall for anything.

Values aren't an accessory to M&A. They're the only thing that works when everything else is chaos. 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 practical; it was the right thing to do. 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 partner with someone who could take what we'd built further. 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. I'd fly out of SFO on a red eye Saturday night, land in Korea and go straight to work with our partners, then fly back 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.

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 matched what I cared about.

Selling a company will test everything you believe in. When the money, ego, and pressure start pulling you in different directions, 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 the people who believed in me, the mission we built, and the family waiting on the other side of the door.

It doesn't take a Wall Street quant trader to figure out that the market was not going to wait for me to realize these core beliefs, and the right offers would never come when you needed them the most. But once you have written down your core beliefs, things get a lot clearer. Let's take a look at how you could decide whether now is the right time to find a buyer for your business.

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 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 genuine 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 takes your product further than you could alone. See chapter 4 on how my missed opportunity resulted in years of struggle and slog.

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 who can handle what comes next.

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 become part of 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 can be the right call. 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 get your team through it.

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 realistic way to do 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 the next part 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: how 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 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 flexibility. You have to sit with 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 expectations: 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 matched what they needed. 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 give up some creative control to make yourself more attractive to buyers. 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 accept that, the smoother it gets.

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 tell the story, rally your team, and steer everyone, employees, investors, and yourself, across the finish line.

It's easy to think 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 is everything. 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 matter.

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 you've always been transparent with your team. 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.

Sometimes, there's simply no buyer. You can have great revenue, great 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 means living between hope and heartbreak. The only way through is learning to 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.

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. 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 play out naturally. 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 turn it into 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, everything changes in the boardroom. 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. That could mean using existing company cash, raising a new round, or, if none of that's feasible, 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.

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 what happens if no deal comes, 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 bold claim. It didn't. Borui and I were two recent grads with no idea how valuations worked, no 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 term sheets, 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 land somewhere in the first three.

When founders imagine exits, they picture the last type: strategic. The kind where someone like 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. 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 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 2-3x in slow markets and 4-5x 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 the big headlines come from. A strategic acquirer believes your company is essential to their future. The missing piece in a new product line, a way to defend against competitors, or a way into 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.

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 understand how valuations work, let's look at ways to get your personal finances in order before starting the M&A journey.

PART I: BEFORE YOU BEGIN

Chapter 11

Get Your Personal Finances in Order

In late 2021, just as we brought on bankers to explore a potential sale, I sat at my desk staring at a spreadsheet that made my stomach turn. To fully exercise my vested stock options before a potential 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." The idea was that it could save millions in taxes because the shares would qualify for long term capital gains instead of 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, 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 instead of 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. Startup equity is illiquid by design. More often than not, it's worthless.

I was lucky. 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 about potential payouts instead of actual cash flow. One week, your banker hints at life-changing numbers. 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. 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 was one, we didn't feel the need to celebrate with anything extravagant.

That mindset, assuming no payout 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 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 clawbacks and 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. We hear about founders who mortgaged their houses to fund their business. We rarely hear about those who lost it all when their business failed.

Now that we've covered your personal finances, let's look at managing the people on your cap table. The next chapter covers managing their expectations and communications.

PART I: BEFORE YOU BEGIN

Chapter 12

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

When companies fail, it's more often from implosions than explosions. This is even more true during an exit, where the stakes are higher and everyone has different expectations for what counts as an acceptable outcome. Everyone involved needs to be on the same page going into an M&A and throughout the process. Disputes can jeopardize a deal. They can also kill the company.

M&A is a trial by fire that tests your closest relationships. Not all of them will make it to the other side. You may not even see the other side at all.

1. Spouse

In my case, the most important person to get on the same page with before deciding to explore an exit was my wife. Perhaps it's the same for you. Charis was supportive throughout the years, from the founding of Polarr all the way to the M&A. When I made the decision to sell, we had a one year old and a baby on the way. We never explicitly discussed the company's future and exit plan together. But when I told her I was going to explore selling the company, I could feel a sigh of relief. There was finally going to be some predictability. Maybe even a sense of normalcy after years of hard work.

Beyond supporting the decision to sell, she also made it clear that she had no expectations for any payout from the exit. I don't know how normal this is in other marriages. But because Charis also worked and consistently made much more money than I did in big tech, her stoicism and the stability of her income freed me from additional pressure to land the company.

Some of the loneliest times I ever felt were during the M&A. Nothing was working. I was on the brink of throwing in the towel and walking away from it all. There were days when I became completely insufferable. The tiniest inconvenience would trigger a complete meltdown. That's what M&A did to me. It was impossible not to be emotional when the stakes were so high and the margins of error were so small.

Charis was my bedrock throughout that entire time. For things I couldn't talk to my cofounder, my board, or my team about, I talked to Charis. She was my sounding board and kept me grounded. It would've been a whole lot harder to go through this process alone.

My cofounder Borui planned on marrying his longtime girlfriend in 2024 and starting a family. They broke up that same year, 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 he went through similar episodes of intense emotional ups and downs. One minute we expected the deal to close. The next, we were told they were no longer interested. Most of the time was spent waiting for a response or preparing for some make-or-break meeting with the potential buyer.

Borui was a lot less emotional than me. He did a much better job compartmentalizing different areas of his life. He rarely let work get to him or lost his cool. But still, M&A was a different beast from running a company.

A few words of caution about alignment with your significant other when going through this. Be transparent, but set the expectation that things will be harder than ever. If you act rashly, the context is that you are going through an M&A. Be quick to listen and slow to judge. Take a deep breath before reacting.

2. Cofounders

The cofounder relationship is one of the trickiest to protect before and during an acquisition. There's a natural power dynamic when founders have an unequal equity split. The person with more shares gets more voting power when accepting or rejecting a deal. This is rarely an issue when the terms are favorable and the returns are big. But it gets contentious when the deal is small or doesn't clear the preference stack.

At Polarr, this dynamic existed. Borui owned about 33% of the company while I owned 7%. If the deal barely cleared the preference stack, say there was $6 million in proceeds after paying out the investors, Borui would walk away with nearly four times more than me. That didn't feel fair given the amount of effort we both put into building and preparing the company for an exit.

There was another dynamic too. Because Borui had more ownership and no family or liquidation pressure, he had more reason to keep building the company if no buyer was found. I would face a different choice: break the bank to exercise my vested options, or walk away with nothing.

We had a series of conversations about how to fairly divide the proceeds. They were probably the toughest but most important conversations for setting expectations and getting aligned. Here's what you need to understand: for most M&As, especially when the acquiring company wants to keep the team, the deal needs buy-in from all cofounders who are still working there and have significant ownership. So we agreed to come up with a structure that felt fair to both of us. Here are some practical guidelines from our experience.

On the unequal equity split, we agreed it wasn't worth fighting over. Changing it would require board approvals and lawyers drafting new vesting schedules. Even though we had a large option pool, our vested shares still dwarfed the pool. Issuing additional shares just to settle scores wouldn't be smart.

We agreed that if the closing deal cleared the preference stack, we would follow the existing waterfall structure. Borui would get a much larger return from his ownership. But M&A proceeds typically have two parts: considerations (cash or stock paid upfront) and retention (cash and stock paid after the acquisition). My ask was that my retention amount needed to make up the difference in closing considerations. This would still need approval from the acquiring company. But at least we had alignment on a structure we could both sign and commit to.

That was the easy part. The harder discussion was what would happen when the deal didn't clear the preference stack. In that scenario, common shares get wiped out and Borui and I would receive nothing from our equity. A buyer would still put together a retention package for the team. But how would that get divided? Should equity still matter?

We had heated debates about this. My argument was that retention should reflect how important each person is to the acquiring company, not the cap table. The cap table would be underwater and meaningless if the preference stack wasn't cleared. Borui's argument was that the cap table still served as a proxy for each person's value. I was grateful that Borui eventually agreed with me. Since both of us would play equally important roles in the integration after the deal, we should get equal retention if the preference stack wasn't cleared.

The final numbers when we sold in 2025 were slightly different from what we originally agreed on. I made some concessions on closing proceeds because I had been paid more than Borui since our Series A in 2019 due to my growing family. Borui took a higher signing bonus based on those salary differences over the years. But those early alignment conversations served as the foundation for how the proceeds should be divided. When we finally got down to the numbers, the discussion was smooth. Neither of us was surprised by where the other stood. I was thankful we had those heated debates before and during the M&A process. They aligned us toward getting a deal done that both of us could be content with.

The thing to avoid is not telling each other how you feel about how the money should be split. Or worse, surprising each other with demands when the deal is ready to be signed. These issues don't come up when the returns are huge and everyone walks away a millionaire. But most acquisition deals don't generate outsized returns, if they generate any at all. It's important to set expectations for those cases with your cofounders.

3. Board of Directors

Most of the time the board is made up of cofounders and major investors, and sometimes independent directors. The board has a fiduciary duty to all shareholders. That's the highest level of care and loyalty in the best interest of the company. 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. When an acquisition inquiry or offer comes in, it's the CEO's duty to report it to the board and get input before acting. The CEO doesn't have to follow the board's directives, especially if board members don't hold a majority of the stock. But you still need to inform the board of any 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. We told everyone our rationale: there were a good number of inbound inquiries and we wanted an exit. Both Heidi and Mar were supportive, but also gave us the lay of the land. It wasn't going to be easy even though we thought we had actionable inbound interest. They didn't say what their expectations were from the sale. Both were former entrepreneurs and probably had the foresight that an exit would be difficult. Still, they signed off on the plan for us to bring on bankers and begin exploring M&A.

The best advice I got from an advisor during this time was that an exit didn't have to be our only option. She suggested that since we had healthy cash flow, lots of cash in the bank, and a lean team, we could buy out the preferred shares. Then we could keep operating the business or pivot into something else. In retrospect, this could have helped us in the M&A market. A cleaner cap table with no investors in the mix could attract more buyers since there would be less friction to complete a deal. But it could also invite bad actors trying to get us to accept lowball offers when there are no adults in the room.

I was glad we had a board that was involved every step of the way. They weren't part of the outreach or conversations with potential buyers. But they connected us with the right bankers and advisors, and we leaned on them heavily during this time.

There were two other ways this board conversation could have gone. In one extreme, if the company was burning cash, had no traction, and very short runway left, the board would have told us to wind down gracefully to minimize litigation risks. Pursuing M&A under those circumstances would be unlikely. At the very least, major restructuring or layoffs would need to happen first to extend the runway.

On the other extreme, if the company was doing really well, growing like crazy, and the founders asked to explore selling, the board would naturally question the rationale. They might opt to change the CEO and executive team instead. Unless the acquisition offer provides a return that is tens or hundreds of times the initial investment, the board would likely recommend continuing to operate independently, with or without you running the business.

4. Investors Outside of the Board

Nothing needs to be disclosed to investors outside the board at this stage. Most of the time, small investors follow the lead investor and no action is needed. Informing them early about M&A activities would be a distraction. They'll want to know the likely returns and the impact on their portfolio and tax situation. The bottom line is nobody knows what's going to happen, especially this early.

The right time to inform them is when a term sheet is signed. At that point, share the terms and answer their questions. Unless it's a full stock purchase, which needs every shareholder's approval, you typically only need a majority to approve a deal. Your lawyers will recommend getting approvals from all shareholders. But you only need the majority. Make sure the major shareholders are well-informed and on board, and the deal can get signed off.

Don't purposefully withhold this information from outside investors either. If you have regular check-ins with them, it's fine to let them know you're exploring a sale and ask for guidance. Sometimes these conversations lead somewhere unexpected. They may introduce you to the right bankers or connect you with an interested party. Just avoid setting expectations on the actual sale terms.

5. Key Employees

Every situation is different. But the general rule is: don't inform the team about pending M&A activities. In most cases, deals don't happen and the disclosure causes lasting damage to trust and morale. When you start engaging with potential buyers, the company still needs to run well. Giving the team this information is a huge distraction. Every interaction with a buyer triggers questions that need answers. And the information you have is usually just a snapshot from your point of contact at the potential buyer. Nobody can read the tea leaves until there's a signed agreement with terms spelled out.

The mistake we made was disclosing M&A activities to the entire team. This wasn't done carelessly. We had two reasons.

First, we were in the middle of a failed pivot toward a social product. It had very little traction and was extremely costly to develop. The strategy wasn't working. We needed another layoff in mid-2021, having just done one in early 2020. The logical move was to double down on products that were generating revenue and look for a buyer. We felt it was unfair to announce layoffs and a pivot without the full context. We also feared that mass attrition and a loss of confidence would kill the company.

Second, we had inbound interest from several companies that would pull Borui and me away for meetings and prep work. We wanted to be transparent with the team about why we wouldn't be reachable during work hours.

We also put a retention bonus in place, funded from our existing cash balance, to keep key employees through the M&A. We earmarked $377,000 to be paid out on May 31, 2023 or when the company was sold, whichever came first. We communicated this along with the M&A news and the workforce reduction in April 2022. It got the team refocused on core products. We saw no turnover for nearly two years.

Looking back, the retention bonus wasn't without issues. We didn't sell by May 2023. We had been way too bullish. After the bonus paid out, we saw voluntary turnover in 2023. Worse, during due diligence with buyers, the one-time payout was scrutinized. It signaled that we intended to sell, which reduced our leverage. No strong offer came as a result.

In retrospect, we should have just told the team we were reorienting back to products that made money and left out the M&A part. Or at least, we should have thought harder about what happens when the retention deadline arrives and the company hasn't sold. That would have reduced the pressure we faced and put the company in a better position.

The benefit of being fully transparent was that the team took clear ownership. Even though Borui and I were unreachable for most of the working hours, the team operated independently on product and engineering goals. They didn't need input from us.

6. Other Equity Holders

We also had ex-cofounders who held meaningful shares and past employees who exercised their shares when they left. In an M&A, you don't need input from this group unless it's a full stock purchase deal, where every shareholder needs to approve the sale. That's rarely the case. No communications need to be made to this group until a deal is about to close. Even then, a shareholder vote only requires a majority depending on the company bylaw, and most likely their votes won't matter.

The thing to watch out for is documentation. Make sure the discovery and engagement with potential buyers are fully documented. Disgruntled ex-employees or ex-cofounders may litigate, claiming they didn't receive rightful returns from their shares. Maybe they think the company sold too cheaply. Or maybe they just didn't leave on good terms. This didn't happen to us. But I've heard many stories from founder friends whose ex-cofounders or ex-employees blocked M&A deals for legitimate concerns or frivolous reasons. If you foresee blowback from former employees, bring on a reputable law firm early so everything is documented and done within the bounds of the law.

You may never reach perfect alignment across all stakeholders during an M&A. Even when a deal closes, there may be people or firms you never want to talk to again. The lesson is that we are all humans first. We have our own needs, wants, and insecurities. Treat each other with empathy. Try to help others even if it means going out of your way. People rarely remember exactly how much money they gained or lost from a deal. But they will always remember how you treated them.

Now that shareholder alignment is covered, let's look at other areas of the business you need to work on before an M&A.

Chapter 13

Paint the Walls: Nobody Buys a Fixer-Upper

A few years ago, when my wife and I were shopping for a starter house, we toured open houses on the weekends. We lived in Silicon Valley, so there was never a shortage of buyers. One thing we noticed early on: every house we toured, even ones built in the middle of the last century, had a fresh coat of paint and new floors. Most were staged with nice furniture and snacks. These houses always sold over asking with multiple competing offers. Yet sellers and agents still made the effort to stage them so buyers felt the house was move-in ready.

The same applies to M&A. Every buyer's ideal is a zero-risk, turnkey, cash-generating business that needs little integration. The only thing that should need changing is the logo on the product or service. For a startup looking to be acquired, meeting this bar is tough. Sometimes impossible. You often don't know who the buyer will be. Still, here are areas you can work on to make your company more attractive.

1. Actionable Inbound Acquisition Offer/Interest

The strongest signal you can send to the M&A market is having an actionable inbound acquisition offer from another company. As explained in earlier chapters, this means a concrete offer with terms and considerations spelled out, from a company you're willing to work for. Inbound emails from big company corporate development teams don't count. A great offer from a company you're not willing to relocate for is not actionable either.

One nuance: the offer needs to be inbound, meaning you didn't ask for it. This matters because as the seller, you have all the leverage with inbound interest. The buyer will have more patience and goodwill as you shop around for the best deal.

Once you have this unsolicited offer in hand, the buyer typically imposes a tight deadline and an exclusive period after you sign. This makes it nearly impossible to get another buyer to spin up a competing offer. So move fast. Reach out to partners and potential acquirers who already know your business. Talk directly to decision makers and let them know you received a good offer. Don't disclose the terms, but let them know timing is tight and you'll likely accept.

This is also a good time to bring on an experienced banker who can help you negotiate and discover your true market value. Don't take the first offer. Talk to the board. Do your research. We'll cover tactics and negotiations in the next section.

2. Actionable Inbound Investment Interest/Offer

The next best thing is an inbound investment offer. Buyers know that once a new investor comes on board, acquiring the company gets more expensive and more complicated. More stakeholders means more friction. So if you're considering an exit, test the capital markets first to build leverage before going into the M&A market. Like the prior section, this investment offer needs to be inbound and actionable. Start with existing partners and prior relationships to explore possible exit plans.

3. Product/Service/Technology Differentiation and Specialization

There is no formula for success when presenting to a potential buyer. But one thing they always look for is market differentiation. Is there something truly special about what you offer? Is there a close second, or are you one of many? At Polarr, we worked on many products and services over the years. But one thing stayed constant: our specialization in using low level web technologies to build sophisticated photo editing tools for professionals. This narrowed our list of potential buyers. But it gave us something buyers saw as unique to Polarr.

As you figure out what makes you different, come up with metrics that measure its impact. If you're truly the best at what you do, the metrics and customer impact and growth rate should speak for themselves.

This may mean shelving products or services that don't have traction or aren't central to your core business. But be careful: what a buyer sees as your differentiation may not be what you think it is. Do as much homework as possible before reaching out. Come up with ideas for what working together would look like and what your company brings to the table.

4. Personnel

Your team plays a major role in an acquisition. Buyers look for domain expertise, culture fit, efficiency, and willingness to work for them. As the entrepreneur, identify and remove personnel that don't fit these criteria. Supporting functions like HR and marketing often don't add value in an acquisition unless you're an HR or marketing company. For team members who are disgruntled, flight risks, or poor culture fits, let them go before engaging with buyers. These issues only get more complicated later.

One thing that can be problematic is having a fully remote team instead of one in a physical office. I personally think the reason Polarr was turned down by so many Silicon Valley tech giants was because we had a distributed team post-pandemic. Not enough of the core team were in the Bay Area. During the pandemic, a good chunk of our local employees moved to remote locations. We made the mistake of not asking everyone to return when the pandemic ended. As other companies returned to office, the remote nature of our business became a problem during due diligence. Having a remote team cuts down the number of companies willing to buy you.

Finally, there may be advisors still receiving stock grants who add little value, or past cofounders who own large stakes. Clean up the cap table as much as possible and reduce unnecessary advisorships. All of this comes up during personnel due diligence. Most won't be deal-breakers for the buyer, but the process runs a lot smoother when the cap table is tidy and the acquirer can see exactly who does what.

5. Reduce Your Burn Rate

This is probably one of the most important areas to work on. Reduce your burn rate by cutting pet projects, unnecessary marketing spend, and redundant roles. M&As take time. Sometimes the first few attempts don't work out. You need enough cash to live and fight another day. If you're burning cash and fundraising isn't promising, you'll be at the mercy of potential acquirers. They will dictate the terms. You need the option to walk away from an offer. The best leverage for that is a cash flow positive company, or at least one that's breaking even.

This doesn't apply to deep tech companies or businesses that need to raise a lot of cash before they can become profitable. But even then, be frugal. Reduce cash burn. Look for bridge loans and alternative financing like debt to extend your runway so you can find the right acquisition offer.

These are just a handful of areas you can improve before hitting the market. Nobody knows your company better than you. If something keeps you up at night that isn't mentioned here, address it before approaching acquirers. Now let's 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, we reached out to thirty-eight venture capitalists. We met twenty-eight for a first meeting. Around a dozen had a second meeting. We got one offer, from Draper Fisher and Jurvetson (DFJ, now Threshold VC). The whole process took a couple months.

M&A is a completely different beast. In fundraising, most of the hundreds of VC firms on Sand Hill Road will hear your pitch. The list of companies willing to acquire your business is much shorter. If you're lucky, twenty potential targets will talk to you. The fundamental difference is that buyers are looking for a specific combination of strategy, product, technology, and team that solves an immediate pain point. Their need is so pressing that they've already exhausted easier options like building in-house or partnerships.

This is why outbound inquiries rarely result in anything. The acquiring company is too busy executing. Even if your company helps them get to their goal faster, you're not special enough or don't have enough credibility for them to notice.

So how do you come up with an outreach list? Start with companies you already have a strong relationship with. Customers, partners, or suppliers. Focus on those familiar with your offering and team. Write down the person you have a personal relationship with who could vouch for you internally.

If you don't have inbound interest, companies that already know you are your next best shot. You can almost count on getting a meeting from your contact. They have a business relationship with you. Your being acquired will affect their day-to-day.

One caveat: if the potential acquirer is a large customer with sizable accounts, be careful. Signaling M&A interest could trigger them to look for other suppliers to reduce their risk. The test is how critical you are to their business. If your company vanished tomorrow, would their business suffer? If yes, you have leverage. They should be in the game, and chances are they'll pay top dollar. If not, leave them off the list. The risk of losing their account outweighs the chance of getting acquisition interest.

Next, list people who have a strong personal relationship with you and hold executive positions at large companies with overlapping interests. These should be people who have worked with you before and think highly of you. They may not be the right person to lead a deal, but they can route your material to the right department and put in a good word. Weak introductions through weak connections are worse than no introductions at all. Use your existing network to make introductions rather than reaching out cold.

Last, put together a list of companies in your space that could benefit from acquiring your product, team, or technology. Be liberal here, especially if you're in a competitive space like AI or SaaS. Research which companies are making moves in the news. Big tech companies like Google, Apple, or Meta almost always have a team working on a similar or adjacent space. If they're not on the list, add them. You can rely on your network or investors to find a contact at these companies.

Should you put your competitors on the list? Unless you're willing to sell for cheap, I would leave them off. Reaching out to a competitor asking to be acquired will never get you a respectable offer. They will almost always use the opportunity to extract as much proprietary information as they can. Unless you're determined to sell for scraps, don't approach your competitors.

Now let’s work on your outreach deck.

Chapter 15

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

A fundraising deck lays out a vision and how you'll get there with an infusion of capital. An M&A deck is different. It focuses on what you've already built and how your company could be the missing piece that helps the acquirer reach their goal. This is unnecessary if all your acquisition interest is inbound or from private equity. But it can still be a helpful exercise to align how you fit into the buyer's strategy.

If you're building the deck for an outbound target you're trying to convince to buy your company, come up with a few angles. How could this company use your platform, technology, product, or team to reach a business goal? This is a shot in the dark. What you think their strategy is may be completely wrong. So the goal is to find common ground. Maybe it's a vision for the future. An untapped market. A specific pain point that you're uniquely qualified to solve. Put these as the first slides in your outreach deck as the hook. Make sure they're customized for the company you're targeting.

After the hook, add a few slides that show what makes your company different. Make sure they're noteworthy. Generic information like headcount or vanity metrics like total downloads will get your deck thrown out. Put yourself in the shoes of a Corp Dev person who gets dozens of these decks from struggling startups. How do you become signal in all that noise?

Highlight things like explosive revenue growth, user net retention above the industry standard, or domain expertise on your team with PhDs in hard-to-hire fields. Unless your revenue is in the hundreds of millions and your daily active users are in the tens of millions, big tech acquirers won't care about your raw numbers. Your revenue and user base are a drop in the bucket at their scale. Focus instead on growth rate, domain expertise, or something only your company can do.

Finish with a couple slides on the future and how working together gets both companies there faster. Be specific. Make a few bold predictions about how the market is shifting. Explain why the acquiring company needs you to stay competitive or thrive in the middle of that change. Sell the buyer on a combination of fear and opportunity. Once you're done, practice it with your cofounders, board members, or advisors and get feedback.

I can't stress enough: do your homework on the target acquirer. Look for signals from their executive team. What space are they after? What problem are they trying to solve? What investments are they making? Read their interviews and news articles. Use the same language they use. The goal is to spark interest for a first meeting and see if there's a real opportunity.

For a sample outreach deck that I used when selling Polarr, see the outreach deck.

PART I: BEFORE YOU BEGIN

Chapter 16

Should You Hire a Banker?

Frankly, bankers are only helpful when you have a great company in a hot space with multiple buyers lined up. In that scenario, a seasoned banker can help you discover your true market value. They handle the negotiations without damaging your relationship with the acquirer. You know you're in this situation when a buyer reaches out through multiple channels with an unsolicited verbal offer. If you respond that you have a fiduciary duty and need to run a process and they're still interested, that's the perfect time to hire a banker.

Ask your board members for recommendations. In banking, it's all about referrals and past clients. Talk to a few bankers and see how well you work together.

The first question to answer: who will you actually be working with, and does this person have the network to create a bidding environment? The premium you pay for bankers is their network. That's what discovers the true market value of your company. If you only have one potential offer, that is the market price.

You might be tempted to work with a big firm whose named partners make headlines. Be warned. Unless you have a sought-after company with a high price tag, the person working with you might be a fresh MBA with no experience and no connections. You might not get the level of expertise you expected when the named principals sold you on their firm.

Ask whether they'll stick around when things get tough and the market turns. Ask about a company they couldn't sell. Try to understand how persistent and creative they are. Bankers love to boast their biggest deals. That's like a lottery winner telling you their numbers. It's not helpful. Every deal is different and the M&A market changes on a whim. There's also survivorship bias. Some bankers only take on clients they know will make them money. So vet for cases where deals fell apart and ask what they learned. These happen more often than bankers like to admit. Some bankers give up after a few rounds of outreach once they realize a client's company isn't an easy sell. Sometimes the market just isn't there. But you want to see that they knocked on every door.

Finally, can they articulate your company's mission and understand the details of your business? Ask about the most difficult clients they've worked with, what made it hard, and check references.

Bankers are expensive. On a per-person basis, if you have a successful exit, they'll make the most money of anyone on the cap table relative to their investment. They typically charge a percentage of the final sale consideration plus the retention package. Even if you sell to a private company and get paid in private stock, they value it as cash and get paid in cash. The percentage ranges from three to five percent. Top bankers charge on the higher end. Boutique or up-and-coming bankers may charge a bit less. You can negotiate these rates, but don't expect to go below three percent.

Some bankers also charge a retainer fee, either one-time or monthly. This protects them from the risk of discovering there's no market for your company and covers their opportunity cost. One-time retainer fees range from tens of thousands to hundreds of thousands of dollars. The retainer can sometimes be credited toward the final payout when the deal closes. Monthly retainers usually apply when the market is weak and the banker needs to do heavy discovery work. In that case, they're doing outbound business development, building partnerships and relationships.

Bankers almost never take stock. They get paid first, just like lawyers, when a deal closes. Have your lawyers review the banker contract before you sign it. Look for clauses around termination and tail periods. Sometimes bankers don't pull their weight and you need to fire them. Make sure the contract addresses that so it doesn't lead to litigation.

Should you hire a banker when there's no actionable inbound interest and no prior relationships? I'd say no. In that case, bankers typically rely on their network of Corp Dev contacts and present your company to a long list of companies that have nothing to do with your space. Or that you have no interest working for. You might get lucky, but the probability of those conversations leading to an acquisition is close to zero. Your money is better spent building products or developing relationships yourself.

In any M&A scenario, the acquiring company would rather talk to you as the founder than to a banker. They want to build rapport. They want to know if they can trust you and work with you based on firsthand interactions. Bringing in bankers too early sends the wrong signal and can hurt your chances. Remember: there's nothing your banker does that you can't do yourself. They can only help move a deal along when there's a deal to be had. They can't create one out of thin air. A deal you're willing to take needs to come from inbound interest.

Chapter 17

Find a Law Firm Who Knows M&A

Bringing on bankers for an M&A is optional. Hiring a competent law firm that specializes in M&A is not. It's okay to cut costs on other things when selling your company. But spend the money on a good, reputable law firm with M&A experience or a dedicated M&A team. A bad law firm will give you bad advice on things like indemnifications and liabilities. Or they'll bill you so much that the transaction proceeds can't even cover the invoices.

Lawyers are paid by the billable hour, not by the outcome. Even if the deal falls apart and the company doesn't sell, they still get paid for the hours they worked. So when vetting a law firm, look for efficiency, prior deals, and who you'll actually work with. A good firm will assign you a veteran M&A partner who is knowledgeable and efficient. They'll set an overall budget and guide you through the complexities of the transaction.

The lawyers' job is to formalize the transaction in legal documents and make sure all the procedures are followed to limit risk and liability. Depending on the type of transaction, the documents include stock or asset purchase agreements, disclosures, employment contracts, stockholder approvals, 280G analysis, and more.

M&A law is complex and geography-specific. Delaware has different laws than California. It often involves multiple stakeholders with competing interests and tax implications. It's worth spending the money on a reputable firm, especially one that's worked with you before. During the disclosure phase, the acquiring company's counsel will ask for a wide array of documents. If your lawyers already have your files, they can respond quickly. Bringing on a new firm with no prior relationship means a lot of billable hours spent reading your data room, certificate of incorporation, fundraising docs, and so on.

If you already have a reputable law firm you like working with and they have a dedicated M&A team, stick with them. Otherwise, ask around for boutique firms that specialize in M&A. You typically work directly with the senior partners. Because they only do M&As, they tend to be efficient, knowledgeable, and more affordable.

Set a budget early. Make it clear that billing should cover important legal matters only. You or the company can handle auxiliary tasks like reviewing your own employment contracts from the acquirer, supplying the waterfall structure from your cap table, or wiring final proceeds to shareholders. Lawyers won't volunteer this, but you can set a budget with them. You can also negotiate their rates. When they send the invoice, study each line item carefully. Pay only for the work they actually did.

Chapter 18

Get Your (Data) Room in Order

The most important set of documents to prepare before engaging with interested parties is your data room. It's a straightforward collection: capitalization table, incorporation documents, material contracts, employment letters, financial statements, debts, and so on. Things can move fast. You don't want to scramble when a buyer asks for your data room and it's not ready.

The most important document they'll want to see is your cap table with the waterfall for liquidation. This shows who gets how much in a sale. The buyer needs it to make sure the deal is structured so all decision makers can sign off. They'll also use it to understand the relative importance of each employee.

The second most important folder, ideally empty, is legal proceedings. Ongoing legal disputes with any company or individual are the number one reason deals fall apart. Settle these before you begin the process if you can. Either way, include everything in your data room. It's always better to disclose upfront than to have the acquiring team discover it on their own.

You don't need fancy software for your data room. Dropbox or Google Drive is fine. Organize the documents in a clear folder structure. When a company moves into due diligence and asks for your data room, create a copy and send that over. If the acquirer asks for specific items, just add them to the copy.

For a list of items to include in your data room, see the data room checklist.

Chapter 19

Checklist Before Engaging with Potential Buyers

This list is ordered by importance. Ideally, check off every item before you engage with potential buyers.

1. 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. Agreement on expectations with your cofounders and the board

6. Fix all known issues that could derail the M&A or hurt valuations (some common ones below)

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

    b. Clean up your cap table of people who could be adversarial

    c. Relocate remote employees to headquarters

    d. Drop peripheral products and focus on one or two key areas

7. List of potential buyers

8. Law firm that does M&A

9. Data room

PART II: THE OPENING MOVES

Chapter 20

Don't Forget You Still Have a Company to Run

Before engaging with any potential buyers, make sure your lieutenants are set up for success. The company's metrics still need to go up and to the right while you're exploring M&A. Designate one of your executives to hold down the fort while you and your cofounders attend meetings and interact with buyers.

The meetings themselves don't take that much time. But the market research and preparation will keep your hands full. Many of these meetings are your only shot to make an impression. Prepare so that every demo works, every obscure metric rolls off your tongue, and you appear excited about working together with the acquiring company.

Set clear goals for your lieutenants so the company runs on its own while you and your cofounders are unreachable. Give them the freedom to make their own decisions, but check in regularly on progress. Once you tell your board you're exploring M&A, cancel your regular board meetings. Offer email updates on progress and key metrics instead. Drop unnecessary recurring meetings. Stretch out the frequency of your one-on-ones. Your calendar should be as light as possible in the coming months so you can focus entirely on M&A.

As mentioned in previous chapters, don't explain to the team why your calendars are blocked and you're unreachable. Even your closest lieutenants should only be looped in when they need to be involved in due diligence or interviews, when the deal becomes more of a certainty. Looping in the team too early puts them on a roller coaster they have no visibility into and no control over. It can lead to employee churn when things go badly (they often will) or expectation mismatches when the deal is announced. They may expect to rake in millions but instead find themselves laid off without health insurance.

Instead, reset communication expectations. Tell the team you won't be available for many synchronous meetings because of upcoming partnership discussions. Communications are shifting to async, and response times will be slower. Work with your lieutenants to set a roadmap for the next couple quarters. Give them full authority to execute once you sign off.

It will be tough not sharing this with the team. But trust me, it's tougher when you do. The excitement wears off in a couple days. Then every interaction becomes "what's happening with the M&A?" They will be disappointed and jaded when the company doesn't find a buyer, or when the exit they expected to be worth a billion turns out to be much, much smaller.

PART II: THE OPENING MOVES

Chapter 21

Engage Inbound, Lean In and Learn

This is the most exciting part of the M&A. To be desired. To hear how you and your cofounders built something special. How the acquiring company loves the idea of working together. How this is a perfect fit.

Take a deep breath. None of this is real, and not all inbound inquiries are created equal. The inbound could be a spur-of-the-moment idea from an executive who would forget about buying your company in a couple days and chase her next big idea. Or it could be from a junior analyst or Corp Dev doing market research who wants some first hand knowledge from you. 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 agreeing on a price this early. Pushing for a price tag without enough discovery could lead the buyer to think you are only in it for the money. On the other extreme, you could get locked into a non-binding exclusive term-sheet period where the buyer has all the leverage and you cannot talk 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 eye, this looks like another cold introductory email that quickly gets tossed in the trash. Unknown sender, completely out of the blue. But a couple signals are worth paying attention to.

First, it did not come from a Corp Dev. It came from a Research Manager with a technical background, and his Director was copied. This signals an acquihire scenario. Engineering leadership reach outs typically mean they are short on staff and looking to quickly bring on more people. Product or senior executive level inbound inquiries are more likely to be strategic.

Second, his role within the organization has a clear parallel with the SDKs and services that our company sells. He has done his research on our product offerings.

Third, the giveaway is the phrase "collaborative opportunities." Big tech companies rarely mention acquisition in the email, especially from a non-Corp Dev role. It is a way to save face in case the founders turn it down, where nothing can be learned without even a conversation. The objective is clear. They are looking at companies in this space and 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 tend to move quickly at this point. The potential acquirer may email back to ask for a short presentation on your background, team, mission, product roadmap, technical capabilities, and long term goals. You can modify the slides from Chapter 15 and customize them for the other party.

Set a date about one week out. Not so far away that they forget about the opportunity. Not so soon that it signals desperation. For the same reason, do not send polished M&A themed slide decks before the first meeting. It sends the wrong signal. If they ask for pre-reading materials, put everything in a Google Doc that only covers what they asked for.

You may not get all of these inbounds at once. But try to line everything up when you are ready to engage in the M&A market so that conversations happen at the same time. If you have had relationships with companies that previously reached out about M&A or are outbound targets, this is the perfect time to reach back out and ask for meetings (we will talk about it in Chapter 23).

They don't all have to happen at once. But try to time conversations so that when the offering phase arrives, due diligence is already complete. You don't want to be waiting on stragglers to reveal what a potential offer looks like. Now let's look at what the inside looks like when an inbound company reaches out about a possible M&A.

PART II: THE OPENING MOVES

Chapter 22

The Inside View from an Inbound Reach Out

The only thing that matters in an inbound reachout is who sent it. That tells you how serious the 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. No one at a company has more power. When she personally reaches out to you, directly or through a proxy like your board member or investor, many deliberations have already happened. She'll likely jump right into business at the first encounter. Her bandwidth is limited, and the acquisition is strategic to her current execution plan.

When you get an inbound like this, take it seriously. Prepare to give direct answers on whether you are open to an acquisition. But do not give a price tag right away. The right approach is to punt by saying you would like to consult with the board and run a process to let the market dictate the right price. If the interest is genuine, and in this case it most likely is, the inquiring CEO/Founder should have no issues with that. She could even preemptively provide a strong offer. It would be worthwhile to hire a banker to handle negotiations and gauge overall market interest.

One caveat. If what you are working on is so strategic that the CEO/Founder is directly involved in the acquisition, chances are she is also having similar conversations with your competitors. Don't overplay your hand. If the opportunity makes sense and your board signs off, engage with the founder and strike while the iron is hot.

2. Board Member/Investor

Sometimes the CEO is too busy or inexperienced in doing deals. In such cases, she delegates to a Board Member or Investor who has more experience. This is the next best thing. The board member can serve as a noise filter and make a recommendation to the CEO after your initial meetings. She will likely stay involved throughout the process, helping with term negotiations and parts of the due diligence. Still expect the CEO to make the final decision on whether an acquisition will happen.

3. Product Executive

In large companies, product executives at the VP or Director level often have the autonomy to pursue acquisitions. These deals can be lucrative since they're usually strategic. But they may still require sign offs from senior executives in the C-suite.

Ask your point of contact whether she has done deals before and who makes the final decision. Work towards getting in front of that decision maker. If she is new to doing this, that's usually a bad sign. You'll most likely have to convince people further up the management chain to make sure a deal happens.

4. Engineering Executive

Engineering executives mainly engage with startups when there is an acquihire opportunity. They need to fill roles they couldn't hire for externally. The deal sizes are typically smaller, and the interview process will be rigorous. They will ask you point blank whether you are willing to abandon your current product and work on theirs.

If you are open to that, the process will likely move quickly. The key decision maker will be the engineering executives. Confirm whether they have worked on such deals before, and make sure you are engaging with the final decision maker.

5. Bankers

Sometimes acquiring companies hire bankers to scout potential acquisition targets. If the acquirer has your company specifically in mind, they would have approached you directly or used a proxy. Bankers come in when the acquirer is looking for a company that fits a set of constraints and wants someone to identify and engage with companies that match.

The good thing is, if your product, tech, or team fit the bill, things can move quickly. You will be connected with the acquiring company's executives. But understand that the bankers are talking to many companies. They are a proxy and do not have decision power.

The acquisition thesis only becomes clear after the acquiring company's executive does her own due diligence on your company.

6. Corporate Dev/Analysts

This is likely the least productive engagement you will have. Still, take these conversations seriously and build relationships. What typically happens is that a product organization has a new initiative they are unfamiliar with and wants to gather information. They send their Corp Dev or Analysts to do market research and probe companies in the space on things like market size, customer discovery, and technology gaps.

Don't share anything sensitive to your business. Ask the purpose of these inquiries directly. Treat this as a learning opportunity. Understand what the inquiring company needs, and look for ways to be introduced to actual decision makers 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. You spent months if not years preparing your company to present to potential suitors. Now it's time to send out the emails to everyone on the target list (see Chapter 14) and gauge interest. The goal of the outbound reachout is to keep it simple and direct. You can use the templates below.

First, if you have real 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]
```

Only send the above email if you already have an offer you are willing to accept. Do not mention who made the offer. This maximizes your leverage and protects against reputational and legal risks.

Don't send this email if the offer you have is weak or non-actionable. And definitely do not lie about having offers. This email may become the highest priority task of the recipient. She would work overtime to pull in the right decision makers and resources. Expect thorough follow-ups. If you lied, you will need to make up more lies to cover the first one. Eventually, everything comes crashing down. The simplest thing is, just don't do it. Your reputation will be preserved and you will 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 a real 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. Most bankers and advisors tell you to keep the message vague and use words like "partnership" or "synergies" instead of mentioning M&A. I caution against this. Executives' time is precious. Vague emails that 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. 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.

I would not recommend doing a mass email campaign to every company in your space, even if you have a strong offer. It sends the wrong signal and can be interpreted as a firesale. M&As are built on trust and relationships. If a company doesn't have a relationship with you, work on building one before approaching them about M&A interest. Quality trumps quantity. Be selective and personalized in your outbound reachout.

Chapter 24

The Inside View from an Outbound Reach Out

How an outbound reachout gets handled depends on how strong your relationship is with the recipient. Let's rank them from strongest to weakest.

The key assumption is that you either know the recipients personally, or you can be introduced by someone with a strong relationship. Cold emails do not work for M&As. This is different from any other type of sales. M&As require a much higher standard of trust and are built on prior relationships. Cold outreach implies desperation and would never yield an acceptable outcome.

1. Direct Personal Contact

Because M&As are built on prior relationships, how seriously your contact pushes your inquiry forward depends on two things: how high she ranks within the acquiring company and how strong your relationship is with her. But because this is an outbound inquiry, unless you have leverage from an existing offer, the likelihood of this becoming an M&A offer is tiny.

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 get an intro through your investor or board to someone with decision power. When the outreach email lands on her desk, if this M&A is relevant to her own organization, it can lead to more conversations. If not, the best she can do is forward your email to other product organizations or corporate development. At that point, there is little chance anything comes of it.

So it is critical that the person you are reaching out to is already in a role where this opportunity is relevant to her. Do your homework early. Identify and build these relationships before activating conversations.

2. Intro to Senior Executive

Just like before, the onus is on you to identify the right company with a strategic fit. Then find the right senior officers or executives with strong connections to your board or investors. Do not expect your board members to do all the work for you.

At a minimum, figure out who the key contact is. Study her LinkedIn mutual connections. If your board members are not connected, look at whether their partners or associates are. Then provide a blurb about the company and why an initial meeting is warranted. Check in with your board member and ask if she would be comfortable making an introduction.

This matters because your board member will not have as much context about your business or the angle you want to take. If you delegate this entirely to her, she might be busy and not do it quickly. Or she might identify the wrong person or approach with a weak angle that kills any potential M&A with this target company. Do the work. If the introduction is strong and the senior executive is a fit, you will get a first meeting.

3. Intro to Corporate Dev

Corporate Developers' job is to identify potential acquisition targets. They serve as gatekeepers early on and help move things along in later stages. But they work for their business units and typically don't take meetings unless their BU leads direct them to do discovery in a certain space.

When you reach out to a corporate developer, she may review your material, do some research, and decide whether there is a potential fit. If she thinks the opportunity is interesting, she forwards the intro material to her BU leads for feedback. In the rare case that a BU wants to learn more, the corp dev would schedule a first meeting and serve as the initial screen.

This type of reachout is the least effective. Corp devs see M&A solicitations all the time. From founders directly, from personal connections, and from bankers. Think of them like HR at a company that is hiring, except there are no job postings. The probability of a match when sellers approach buyers is close to zero. As explained in earlier chapters, M&As are a buyer's market. Companies are bought, never sold.

Chapter 25

Expect Radio Silence from Outbound Reach Outs

Your outbound email may sound exciting. The darling startup that was never for sale is now on the market and contemplating offers. Everything is in motion and not acting now means missing the opportunity of a lifetime.

Take a deep breath. The base scenario is not an avalanche of nos. It's worse. It's getting no responses at all. These could be folks you have had a relationship with, people who have partnered with you and you thought would at least take a meeting. But priorities change. Whatever your company is working on may no longer be the missing piece for the target company's big strategy. Their roles may have changed too. They may not be in a position to help this time around.

Don't let your ego bruise. This is the norm for M&A inquiries. Strong connections may jump on partnership opportunities, but M&As are a different beast. They require a huge amount of effort to pull off. It's completely normal to get one to two responses for every ten outbound inquiries. Don't be discouraged. You only need one yes.

If you are having trouble getting replies, iterate on finding the right contact or connection. Recalibrate on whether the target company still makes sense. Maybe you are not hitting the right targets. Maybe the connections are not strong enough. Maybe the material you are sending needs tuning. When we did our outbound reachout, we had a dozen iterations on the introduction slides based on market response.

When these continuous pings don't work, ask your board or investors if alternate contacts can be reached. Another option is to hire a banker. A great banker should have a rolodex of high ranking executives at companies you are trying to break into. This is where the money is well spent, hiring someone well-connected and articulate to look over your pitch and do the outbound on your behalf.

It could also be that the M&A market is simply not there, as we saw in 2022-2024 in tech. If that's the case, instead of pitching M&A, ask for a call to see if you can offer help. In exchange, learn what strategic initiatives the target executive is thinking about. People love to talk about themselves rather than listen to your pitch. If you can get a meeting, it's a great opportunity to build a relationship and find ways to potentially do a deal in the future.

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

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. Sitting across the table could be anyone from the company's CEO, to key executives, down to just the Corp Dev. Install the right video conferencing software ahead of time and make sure permissions are set. You'd be surprised how many companies do not use Zoom. You don't want to spend the first few minutes installing WebEx and figuring out how it works.

Ask for an agenda if it's an inbound inquiry. If it's an outbound inquiry, provide one. Cover your company vision, products, differentiating tech, unique value prop, and the 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 pitching the opportunity and explaining how you fit into their thesis. Be quick to listen and slow to speak. Ask clarifying questions that show you are engaged and excited, but also that you have unique insights on the potential challenges and tailwinds ahead.

You will be expected to talk about your company regardless of whether it's inbound or outbound. Depending on where the audience asks questions, spend more time 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 always come up at the initial meeting. Prepare for them, or refer to the sample answers I provided.

Some bankers like to keep the answers vague and avoid words like M&A or acquisition, using "partnership" or "strategic fit" instead. I disagree. It should be clear why these meetings are happening. Jump right into the endgame. This saves time on both sides and lets both parties talk frankly. The worst case is saying you want a partnership when it gets taken literally. You end up spinning your wheels and never getting to the outcome 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 work together 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 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 agree on the strategy 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.

The first meeting is unlikely to get into the weeds about trade secrets or IP. But buyers have more leverage during M&As, especially if you are pitching the sale. You may need to provide a high-level view. If they press on specifics, it is totally fine to play the NDA card.

As the meeting wraps up, ask questions about their strategic initiatives or views on a potential M&A. For interactions with large companies, expect cagey responses. Non-answers are 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 that matters. Your job is done for the first meeting.

There may be action items from the first meeting. Make sure to summarize them at the end. They could be answering a clarifying question on metrics, providing documents, reviewing a mutual NDA, or scheduling a follow-up. It's always better to end with action items. It shows the other party is interested. Sometimes the other party says they want to huddle internally first. In this case, politely say you will circle back in a couple weeks if you don't hear from them.

This will likely be the only meeting you ever have with this target company. You may think you crushed it and walk away with a lot of confidence. But M&As are a long shot business. Even if you do everything right, the buyer holds all the cards. Sometimes they just don't want to do an acquisition. It's the classic "it's not you, it's me." Treat it as a process. Give your best shot. Pat yourself on the back after each meeting. Have low expectations, and you'll be set up for success.

There are rare instances when a potential acquirer comes in hot. The first meeting stretches from a half hour intro to a full-on three hour meeting. At the end, they are discussing putting an offer together. Don't let this go to your head. Any M&A offer at this stage is typically exclusive and non-binding. Jumping into one this early puts you at a huge disadvantage. You can't talk to other buyers, and they can walk away at any time.

Let them know you are eager to continue the conversation. But politely say you need to work with the board on anything related to terms. It's best to agree on terms when the strategic fit is in place and most of the due diligence is complete.

Chapter 27

Second Meetings Are When Things Get Real

Most M&A conversations do not get beyond the first meeting. So if a second meeting gets scheduled, it is a huge deal. The stakes get higher from this point on. Even if the other party were a competitor trying to get the lay of the land, they would typically just request some materials after the initial meeting and ghost you. With big tech companies, getting all the right people in the same room requires a ton of coordination and weeks of lead time. Unless there is something real, a meeting would not be scheduled.

The potential acquirer may request additional materials before deciding on a second meeting. These include prior fundraising and valuation documents, an org chart with each employee's role and experience, P&L statements from the last three years, product growth and retention metrics, product roadmaps, technology stack, and overall architecture. Some may even request access to your data room at this point.

Before sending these materials, make sure to execute a mutual NDA. It's better to request the NDA from the acquiring company and suggest edits, rather than having your lawyer draft one from scratch. This reduces back and forth, and you can get to the real discussion without spending weeks negotiating NDA terms.

Once the NDA is signed, be liberal with providing docs. Withholding requested info could cause the buyer to lose interest or think you are not serious about the deal. The buyer always has the information advantage.

As an aside, if the potential buyer is eager to share their own financial statements, forecasts, or future roadmap this early, that is a red flag. They may be more desperate to close 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. But more often, the reason they share all this info unsolicited is desperation. Maybe the board directed them to expand into a certain sector. Maybe they need an acquisition in your space to raise funding. In the worst case, they are looking to do a rollup, issuing you private stock in hopes of absorbing your revenue and cash balance.

At this point, expect the actual decision maker to be in the meeting, along with people whose input matters. If it is a highly strategic acquisition, expect a C-level officer and her lieutenants. One of the lieutenants will likely drive the conversation if you are engaging with a big company.

Here is a rough gauge. If the acquiring company has ten times or more your headcount, a lieutenant (typically a VP of product) would manage the process. If the acquiring company is not ten times bigger, the CEO, COO, or CPO would be your direct point of contact. If the acquiring company is one of the magnificent seven or equivalent large cap tech companies, you will work with a Director or VP who is likely the person absorbing your company into her org.

Expect corp dev to play a secondary role from here on. The conversation will vary depending on seniority. If C-suite executives attend, the discussion will be highly strategic and forward-looking. If the most senior people are engineering or product managers, it will be tactical and deep on implementation.

Treat this like a highly technical job interview. Everything is fair game. On the product side: company metrics, customer personas, user journey, user interviews, UI/UX, and positioning. On the engineering side: technology stack, engineering tradeoffs, implementation details, and specific usage of frameworks.

Ask for an agenda in advance. Spend plenty of time preparing and practicing. Figure out beforehand which cofounder fields which questions. Make sure everyone gets a chance to present. It is not a great sign when only one person speaks during this meeting.

Questions from the buyer may become more pointed about deal expectations. Again, punt this to your board. The goal is to maximize information exchange. Ideally, line up all your M&A conversations so that offers arrive around the same time. Or at least have enough conversations going so that when one offer comes in, other companies are in a position to make a competing offer.

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, you likely won't hear back for weeks. Or you'll get some vague response about people being on vacation, saying they remain excited but asking you to stay patient.

A decision is usually made right after the meeting. If the buyer wants to proceed, tasks are set in motion immediately. If the answer is no, the internal champion takes the action item to inform you. But there is no urgency on their side to deliver bad news. That task gets pushed to the bottom of her list. So 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 means setting a timeline, reaching out to all likely buyers, and soliciting interest. It only makes sense in two scenarios. Let's look at them.

1. Firesale

This means the founder or a banker sends a mass email to chief executives and corp devs soliciting interest, with a deadline. The email includes a short presentation on the company's financials, governance, personnel, and technology. Some inexperienced bankers or founders even include a line about having strong interest from other buyers, or blatantly lie about having offers.

If there is a real offer, the founder would be wise to pick only a handful of companies that might also make an offer. The email would lean on prior relationships and use strong introductions. It wouldn't be sent via a mail merge. And if there is strong interest already, why put your company in a weaker position by broadcasting that you are soliciting offers?

This approach is usually a last resort when a company is running out of cash or the founders have decided to quit. If you are in this position, you are looking for any offer to softland the company. It would take a miracle to get an offer from this exercise. My recommendation: unless you are already prepared to shut everything down, 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, you are approached by more than one strategic acquirer with an unsolicited offer 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 selectively analyze companies in or adjacent to your space that have the bankroll to outbid your existing offer.

Based on my conversations with founders in similar situations, they all appreciated having a banker manage the process. In the case of Wattpad, CEO Allen Lau hired bankers when they received their first offer. They discovered two additional companies that put in offers. All three arrived at nearly the same price in the end.

Unless you are in either situation, do not run a process. Setting an artificial timeline forces acquiring companies to make a decision on whether to pursue an acquisition. This should only be done when you have leverage. Since the first scenario will likely end in a trainwreck regardless, it's best to discover whether you have leverage without setting a timeline.

No executive feels comfortable engaging in M&A conversations without adequately knowing and trusting you. Stay patient. Engage in conversations individually. Don't set a deadline. Let the interactions develop naturally. Apply pressure later in the conversations, not now.

Chapter 29

Common Pitfalls in the Opening Game

Here are common antipatterns and pitfalls during the opening game when engaging with potential acquirers.

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 Conversation

The next conversation the potential buyer will likely have with you is the expectation meeting. The first thing on the list: considerations (cash vs stock), retention, and potentially other incentives. Other items may come up if they are important to the buyer, can kill the deal, or materially change the valuation or terms. One example is work location, if they expect you and your team to relocate.

The main emphasis is on what amount of money or stock it would take for you to sell the company. How should you answer? Let's first understand the basics. There are more complex forms of payment, 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. It could be cash, stock, or a blend. If the acquiring company is private, the stock would be illiquid until a liquidation event like an IPO or another M&A. Depending on when their last fundraising was, the valuation could be stale. You also need to discount the value against the risk of a future liquidation event.

If you have raised capital, there is a liquidation preference stack to consider. The preferred gets paid first. Common stock only gets paid after the preference stack is cleared. Model out the scenarios on how much money or stock you would actually get for different consideration amounts.

Cash is almost always preferred. The only exception is if the acquiring company is a high-flying startup with private stock coveted by investors and not available on the public market. Then it may make sense to pick stock over cash. In that case, the acquiring company may ask you your preference.

For blue chip publicly-traded companies, their stock is as good as cash. But there is typically a lock-in period after an M&A, so you can't sell immediately. Factor in a discount for the stock price based on that lock-in.

Sometimes the acquiring company doesn't have enough cash to complete a deal. They will try creative financing: debt financing, a promissory note, or a SAFE (Simple Agreement for Future Equity). These structures get complicated quickly and can be disastrous for you as the seller.

If the buyer brings up these topics unsolicited, it means they are short on cash. Your alarm bells should go off. Ask yourself whether you are better off staying independent or risk 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

Buyers would much rather pay all the money to the team being retained than pay a dime to others on the cap table who won't be working for the acquirer, like investors or ex-employees who exercised their shares. The logic is simple. The buyer wants to spend the least amount possible, and to them, the money is better spent motivating and incentivizing those who stay.

No investor would agree to this. The deal would not pass a board vote. On the other hand, if there is no retention and the purchase price doesn't clear the preference stack, the founders and employees get nothing. The investors may be happy to take a small loss, but this also wouldn't pass a board vote because the founders wouldn't agree. And the employees wouldn't agree to work for the acquirer.

This is where negotiation matters. You need to find a sweet spot between considerations and retention where all parties are motivated to take the deal.

The buyer typically offers a two to four year retention bonus to incentivize everyone to stay through the integration. One important difference: retention is treated as ordinary income and subject to a higher tax withholding. Stock purchased at closing is treated as capital gain, as long as the stocks were exercised and held for more than a year.

Sometimes the buyer pushes for a performance-based bonus structure, also known as an earnout. This means the team only gets paid when certain sales targets or milestones are met. Avoid this. Not just because it's unfriendly to the team. Markets change and strategies shift. You never want your incentives tied to a target set years ago when the company has already abandoned that strategy and moved on to something else.

Now that we've covered considerations and retention, how do you answer the expectation question? Your answer depends on how much leverage you have. The buyer will scrutinize your balance sheet, P&L, and fundraising history. They may pencil in a valuation from their analysis. But everything in an M&A is a negotiation. A deal cannot close unless you, your cofounders, and your board agree on the price.

Let's look at how to answer the expectation question based on your scenario, which dictates your leverage.

1. Competing M&A Offers.

Tell the acquirer that you have competing offers and they should put their best offer forward. Do not disclose who else you are talking to. Do not tell them what the best offer is until they have provided a number themselves.

If you give a number too early, you may leave money on the table. The buyer may be willing to offer much more. Or it sends the wrong signal that your number is what it takes to close. Don't get into negotiations at this point, even if they provide a number. Thank them, tell them you'll discuss the proposal with the board, and defer negotiations to later.

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

Similar to the first scenario. Let the acquirer know you have a pending fundraising offer. The purchase price would be much higher once you sign that term sheet. Politely ask them to put their best offer forward and you'll discuss the proposal with your board. Don't offer any numbers.

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

Let the acquirer know you are excited about working together, but the company is doing well. You are comfortable running independently and have full support from your board and team. They would need to put together a strong offer to be considered. Again, don't provide a number.

But if they insist on a headline price, use your models and come up with a ceiling that you would be comfortable with if the final sale price is half of that quote. Say your absolute minimum is $10 million at closing and $6 million for retention. Then tell them you are looking for $20 million at close and $12 million for retention.

Once you give numbers, the actual payout will always be less than or equal to what you quoted. It doesn't matter if the company hits bigger milestones or lands new customers after that conversation. 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. But that's not true. Think about how much you would get paid in the open market and the freedom to pick your next job or project. You can always put a price on that.

Tell the acquirer you are excited about working together and want to hear what offer they have in mind. You want to make sure the offer takes care of the team, keeps everyone motivated during integration, and is also a good outcome for the investors. Ask them to put together their best offer. If pressed for a number, calculate the opportunity cost of working for the acquiring company for two to three years, multiply by two, and work that into the considerations or retention.

I don't believe it's a good idea to bluff. Don't claim to have offers when you don't, or say you would stay independent when you have to wind down. Acquirers are sophisticated. They will conduct more due diligence. They will talk to competitors. A company rarely buys another one just because they think there is competition.

When deals don't work out, and often they don't, you want to live to fight another day. You may sell to the same buyer in the future when the right circumstances arise. Follow through this process truthfully. Not all companies find a home, and that's okay. But your reputation and integrity matter much more in the long run.

Chapter 31

Initial Due Diligence

Due diligence across different areas will likely happen at the same time. You and your cofounders should handle these yourselves instead of involving employees. If you must bring someone in, keep the circle as small as possible. At this stage, the odds of closing with this buyer are low. Getting employees involved too early sets a false expectation that a deal is imminent. When the deal stalls or falls apart later, it devastates morale.

Answer every question truthfully. If you don't know something, take it as an action item and come back with the right answer after doing your homework. The acquirer will respect that. What matters is not how much you know, but how seriously you treat each question. This is about building trust. If there is no trust, there is no deal. And if something changes at your company that could affect the deal terms, share it proactively. Don't let the acquirer find out on their own.

Let's walk through each area of due diligence. Your key point of contact, the internal champion driving this deal, will likely attend all of these meetings. Depending on her area of responsibility, she may bring in other leaders to help drive conversations 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 areas, this one is the most straightforward. If the process has gotten this far, there is already some rapport and cultural fit between the two companies. Still, this is the acquirer's chance to spot red flags or personnel issues. When asked about your culture or values, back them up with anecdotes.

The acquirer's HR team will walk through your roster and ask about each employee. What does this person work on day-to-day? What is her domain expertise? How critical is she to the acquisition? Would she want to be part of it?

At the end, the acquiring company will decide whether the team is a fit, what the reporting structure would look like, and which employees to retain, which to give transitional contracts, and which to let go. You always hope everyone gets retained. That's the ideal case. But in any M&A, some positions will be redundant after the deal closes. Internal HR, marketers, and support staff are the most likely to be cut. Top engineers, product leaders, and design talent who are hard to hire on the open market will be highly valued.

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. People compare the financial DD to a cavity search. The acquirer may bring on a third-party auditor to comb through all your books and question every expense from the last three to five years. This is where having clean budgets and balanced books makes a world of difference. If you have a CFO or bookkeeper, this is the one case where it makes sense to include a non-founder in the process. When they ask something you don't remember or don't know, take an action item and follow up after the meeting. Never lie. Never mislead. A deal cannot happen without trust.

The acquirer will ask for your financial forecast for the coming quarters or year. You may be tempted to give optimistic numbers hoping for a better deal. Don't. Closing can take quarters, sometimes a year. If you miss your own forecasts during that time, it casts a bad light on the deal and could kill it. Give conservative estimates. Then over-deliver.

Based on this information, the acquirer will model out future revenue and expenses. They'll use that as one of the key inputs for the deal price and retention packages. But M&A is more emotional than rational. 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 goal here is to make sure your company is properly incorporated, well governed, and free of outstanding lawsuits 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 whiteboard sessions on product strategy, user personas, go-to-market, positioning, and integrations. Keep an open mind about what the rebranded version of your product might look like. The acquirer may scrap your brand and logo entirely, erasing every trace of your company from the internet.

The DD may also involve digging into your metrics and understanding how trends shaped your product decisions. You may get tough feedback on your products and be asked to justify UI/UX choices or feature priorities. Don't get defensive. Share your rationale and treat it as a discussion. Get a feel for what working together might look like. The acquirer is doing the same thing. They're testing 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, and the upcoming roadmap. They may also walk through code with the acquirer's counterparts. The acquirer wants to review your code and commit logs.

They're looking at codebase complexity, build and deployment processes, code quality, who the key contributors are, and how productive they are. These conversations will be technical and may take several meetings depending on the scope. As you prepare, think about how to explain the "why" behind each engineering process, architecture decision, or tradeoff.

6. Miscellaneous

Depending on your business, there may be other areas the acquirer wants to examine. For example, if your company operates in China and generates significant revenue there, that will likely get its own diligence track. It's unique to your business and may be a big reason they want to buy you.

Chapter 32

Key Employee Interviews

As part of technical due diligence, the acquirer may ask to interview a few key employees. In extreme cases, they'll want to interview your entire roster. This is common in acquihire scenarios. The acquiring company doesn't care about your products or technology. They only care whether the team passes the technical interviews, which tells them if the team can deliver on planned work after the acquisition.

The more strategic the acquisition, the less rigorous the technical interviews. For a straight-up strategic buy, the interviews shift almost entirely to cultural fit with no technical vetting. The acquirer wants to keep the product and strategy intact. They don't want to rock the boat by disrupting the team's focus on execution.

Most of the time, interviews happen after the term sheet is signed, or at least after terms are agreed in principle. If the acquirer pushes for interviews early, use that as leverage to push for a term sheet. Having the team interview with the acquirer tells the whole company that an M&A is happening. That's risky for morale. Limit the exposure to a handful of key employees, and save the full company interviews for after the term sheet is signed.

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

1. Technical

> The acquiring company will try to map your PEDs (product managers, engineers, and designers) to their internal leveling system. For an acquihire, expect full interviews like you'd get applying to Google or Meta. For a strategic deal, it's a lighter version where they confirm everyone is leveled correctly and spot any red flags.
>
> Technical interviews are nothing like day-to-day work. Take them seriously and get your key employees to prepare well in advance. Do mock interviews where they whiteboard, code, or design from scratch. People do fail these interviews, and at this stage the

consequences are severe. If enough of your key engineers can't code in real time during acquihire interviews, there will be no deal.

2. Cultural

For cultural interviews, the acquirer wants to know if your employees are a good cultural fit and if they're motivated to join. Some employees only want to work at a small company. They have no desire to join a big corporation. Your job is to prepare them so there are no surprises during the actual interview.

PART III: THE MIDDLE GAME

Chapter 33

Surviving the Middle Game

At this point, the only thing between the middle game and the end game is an offer. Both sides have put in a lot of work. But a deal doesn't become real until the price and retention bonuses are agreed on. Some acquirers are eager to lock in exclusivity by issuing a term sheet right away. Others request every bit of information imaginable but are in no hurry to discuss terms. Once initial due diligence wraps up, that's the checkpoint for a term sheet. Ideally, you've run the process in parallel across multiple suitors. They've all done enough diligence that they can issue offers around the same time. You also want to avoid a situation where you pass on early offers while waiting on a slow-moving acquirer, only to end up with nothing. So how do you get all the ducks in a row? Here are some tips for dealing with each type of acquirer:

1. Tech Giants

Companies like Apple, Google, or Meta move at their own pace. Outside pressure rarely changes that, unless your company is the talk of Silicon Valley and Zuckerberg himself is sponsoring the deal. Decisions are made by committees. The delay is usually scheduling. It takes weeks to get all the decision makers in the same room. There is not much you can do to speed this up. The only thing in your control is to check in with your point of contact and respond to every request quickly. Don't delegate requests to your bankers or lawyers. Handle them yourself so they go out promptly and accurately.

Only apply pressure to a tech giant if you have another real offer you're willing to take. Even then, they probably won't speed up, and you'll end up accepting the other offer. And even if the tech giant does come through in time, remember this is not a job offer. The terms are often non-binding. There is still a long road to closing.

The ideal scenario is to engage with tech giants early and give them plenty of time for due diligence. Let them work at their own pace. Once an offer from them feels close, start engaging with other acquirers who will move much faster.

2. Stragglers

Some acquirers are much smaller than tech giants but move just as slowly on scheduling and responses. It helps to define what "slow" means. In M&A, three months from initial meeting to term sheet is typical. It can take six months or longer. This feels like an eternity compared to how startups normally operate.

The acquiring company has a business to run outside of this deal. As excited as they may be about working together, buying a company does not occupy the same mental space as selling one. The decision to buy almost always requires agreement among the highest-ranking executives.

As long as communication is regular and updates keep coming, give the acquirer the benefit of the doubt, even if it feels like a snail's pace. The worst thing you can do is give the buyer a deadline when you have no competing offers. You'll sound desperate and lose leverage. Check in every two weeks. Let the buyers drive the process.

Only tell a straggler you're moving on if you have a competing offer you're willing to take. Most likely, the straggler won't come through. And even if they do, think twice before accepting. Their slow pace will likely continue from offer acceptance all the way to closing.

3. Lurkers

Some companies take meetings just to extract information. They're competitors or operate in adjacent markets and have no real desire to make an offer. The telltale signs: the people they send to initial meetings are junior product managers or marketers. They get cagey when you ask what excites them about a potential deal. But they ask very detailed questions about your product roadmaps, metrics, and technology stack.

During market discovery, you have to take every meeting seriously, even with competitors. The best way to protect yourself is to ask for stricter NDA terms and withhold your most sensitive information until terms are agreed. Or better yet, wait until the money is in the bank.

A competitor usually won't spend months on a fishing expedition to extract trade secrets. But if that's the vibe you're getting, push for term alignment early. Set clear expectations that key algorithms or models only get handed over when the deal closes.

4. Midsize Companies and Startups

Midsize companies and startups can move much faster in M&A. But they're usually inexperienced at executing deals. Sometimes it's their first acquisition. That inexperience can hurt you in several ways.

First, make sure they can afford the deal. Do as much due diligence on them as they do on you, if not more. Even in an all-stock deal, you still have to pay your lawyers in cash. Lean on your investors and board to scrutinize the acquirer's books.

Second, they may over-promise on timelines. Lawyers need time to draft and review legal documents on both sides. There could be holdups from the board, government, banks, app stores, or cloud providers. So even if you're having regular meetings with their CEO about integrations and strategy, stay skeptical about any promised timelines.

Finally, their due diligence process may be overbearing. They might scrutinize every small financial or legal detail that doesn't matter to the actual deal. When that happens, remind them of the bigger picture. Don't lose sight of why you're doing this: to build something together.

5. Exploitative Buyers

Some buyers want all your assets, intellectual property, revenue, and core team members without paying a dime. They'll be more excited about the deal than you are. They prey on companies with decent revenue but stalling growth, trying to use their private stock to buy real assets. They'll promise you a fundraising round is imminent, or an IPO is around the corner. In reality, their CEO is on a short leash from the board and is trying anything to boost top-line revenue to keep her job.

Don't fall for this. You're better off staying independent or returning the remaining cash to investors and winding down. That beats giving away your company for nothing while the buyer takes your assets and revenue, fires most of the team, and gives you a pat on the back.

Look for buyers with a track record of growth and hitting their fundraising and revenue goals. If a buyer can only pay with newly issued private stock, that should give you pause.

They should be able to secure debt financing based on their revenue and assets. Or if they're hitting their growth targets, they should have no trouble closing a fundraising round first and then buying your company. If they can't do either, you'll most likely be the one holding the bag.

Chapter 34

Staying in the Race

If running a startup is a rollercoaster, the M&A middle game is that rollercoaster on steroids. Some days you feel like you're crushing it. The buyer agrees with everything in due diligence. They sing praises about what a perfect match this is. Then the next week, no replies. No returned calls. All hope feels lost.

I've been there. When we were talking to an Australian company, every meeting felt great. Our team killed the due diligence meetings. Their leaders and technical experts were impressed by our customer focus, technical depth, and ability to execute. But for some reason, replies always came weeks apart.

It got bad. I couldn't sleep for more than ten minutes at night. I kept checking my phone for emails because of the time zone difference. Food had no taste. When I spent time with family, I wasn't present. My mind was elsewhere, overthinking what the holdup was. Some days I wanted to fly to their headquarters and confront our point person. When he finally replied with a superficial excuse about working hard on the deal, or needing one more sign-off before sending the term sheet, I'd be happy for a couple days. But that term sheet never came.

Looking back, I don't know how I made it through. But a few things helped me get through those dark moments.

1. Figure out a routine

> Working out in the mornings and reading at night got me through the middle game. Before the term sheet, progress depends entirely on the buyer. Some days I felt like I accomplished nothing because the buyer hadn't replied after a promised update. So I set a goal: complete a 10K run or 100 pool laps in the morning, and read a chapter of a book in the evening. It sounds small. But these tiny milestones gave me a sense of accomplishment when nothing else was moving.

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

We started companies because we wanted to work on interesting problems and build products people love. Being in an M&A doesn't mean you stop doing that. You have to keep building. The M&A game is all-consuming, and it's easy to burn out when you have no control over the pace.

I made this mistake. I expected the deal to close in a quarter. After six months of M&A decks and due diligence prep with nothing to show for it, my identity took a massive hit. I had to face reality: the company needed to survive on its own through the winter of deal making. I should have spent part of every day building products and technology. When I finally started doing that again, it helped me reorient. Some of the joy came back.

3. Lean on your cofounders

Often, the only person who truly understands what you're going through is your cofounder. You can't talk to employees about any of this. Your family would be saints if they could tolerate M&A updates for more than a week. Lean on your cofounders. Talk regularly about the stress and brainstorm ways to push through.

During our M&A, Borui and I talked every day. Sometimes for hours, sometimes just a few minutes. At minimum, we checked in on each other and analyzed the latest situation. We are emotional beings. Having a partner who supports you during this time is invaluable. There were many times I was about to send an email to a straggling buyer that I would have regretted, and Borui talked me down. There were also times when Borui was losing his mind, second-guessing whether our buyer was even interested, and I talked him down.

4. Find your support group

Every M&A is different. Lessons from other founders' exits rarely applied to my case. And these conversations are confidential. I didn't tell even my closest friends we were going through a process.

This is where having bankers and advisors helped. The main value they added wasn't finding buyers or negotiating deals. It was the therapy sessions. If it weren't for our bankers, I would have taken the worst deal on the table early in the process. Find a support group or advisor who's been through this before.

5. Know that failure is an option

This is the hardest thing to accept as a founder: years of hard work and sacrifice may not result in any financial return. Take solace in the fact that you learned a lot and will come out stronger.

When I ran calculations on what my payout should be to match big tech compensation, I became bitter and self-destructive. So I stopped. The worst outcome is not finding a buyer or winding down. It's not as scary as it sounds. There are plenty of opportunities for the next company or a role at another tech company. There is no shame in swinging for the fences and striking out. At least I took my shot and did everything I could.

PART IV: MANAGING A LOSING POSITION

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 outreach, due diligence meetings, and endless iterations of our M&A decks, the bubbly market we first saw in September 2021 was gone. Borui and I started with five real inbound inquiries from three tech giants and two unicorns. We were on friendly terms with companies that had previously approached us about acquisitions we turned down. We had partnerships with several Android OEMs. All of them said no.

What I expected to be a one-quarter sprint to find the best offer turned into no offer at all. Well, not entirely true. One private company that had raised over a hundred million dollars but was struggling to grow offered to take all our assets, IPs, and some team members in exchange for the lowest tier of common stock in their options pool. We would have been better off staying independent or returning our remaining cash to investors. The investors would have gotten a better payout. The team members would have had better job prospects.

I went through the seven stages of grief over six months. First came shock. I had thought those early meetings were extremely positive. Then denial and anger. Deals were still happening in mid 2022, but the market dried up fast. Then bargaining. I reached out to anyone who had shown interest or done any diligence with us, asking for any offer, even below what the investors had put in. I felt guilty for going down this path. There were weeks of intense depression. And finally, grudging acceptance. We had to keep operating independently. There was no longer a market for our company.

I still carry some guilt about 2022. Maybe I didn't speak up enough during initial meetings. Maybe I wasn't prepared enough. Or maybe I was too rigid about my vision for the joint venture and ignored what the acquirer was looking for. Either way, it was expensive tuition for my first startup. Inexperience cost us a deal that could have been much better than what we eventually got in 2025.

I sometimes wondered if our bankers were part of the problem. Maybe if we had talked to acquirers directly, the conversations would have been more straightforward, without the posturing or unrealistic expectations.

I blamed the board for various things, but they were supportive throughout. They never set a minimum multiple that the deal had to hit for their approval.

Not getting an offer was a function of the market. Our thesis was creator economy and the metaverse. But halfway through the pandemic, the market shifted toward crypto. There was very little interest in what we were selling. Companies are always bought, not sold. No matter how strong our metrics were, we needed a buyer with a real offer. And there wasn't one.

If you're drowning in rejections and unanswered emails, know that this is normal. Even great companies with positive cash flow and deep technical talent don't get offers. It's not about you, your company, or your banker. It's the market.

But markets come back. Take what you learned from those conversations and figure out which products or technologies got positive feedback. Go back to the drawing board. Build the next version. As long as there is a path to profitability and you have the patience to make it through, a buyer will show up.

Chapter 36

There is No Shame Approaching Your Competitors

When there are no offers and you still want to sell, the most gut-wrenching option is reaching out to your most bitter competitor about a potential consolidation. This should be your last resort. Talking to a competitor means sharing your metrics and some trade secrets that benefit them directly. And they have no obligation to buy you, even after you hand them insights they'd normally pay top dollar for. But sometimes the only way to find a deal is to approach your rivals.

Swallow your pride. There is no shame in two competitors joining forces. It happens all the time. Some of the most successful companies came from competitors consolidating: PayPal and X, Pixar and Disney, United Airlines and Continental, Exxon and Mobil, Sirius and XM.

But since you're reaching out, expect the competitor to extract as much information as possible. If they like a segment or product enough to absorb it, expect the initial offer to be much worse than even an acquihire deal. If they're also privately held, you'll most likely get an all-stock offer.

Still, finding a home for your employees is worth something. If the competitor's prospects are better than yours, or the combined company has a brighter future, your stock might actually have a chance of becoming liquid someday. It's always more satisfying to beat your competitor than to join them. But sometimes combining makes sense. You consolidate duplicate functions, pool talent, and lift pricing power.

Before you call off the M&A effort, ask yourself: have you talked to all your competitors? Would joining forces with a bitter rival create something worth more than either company alone?

Chapter 37

Act on What You Learned

The time you spent meeting potential acquirers and doing due diligence is never wasted, even when you get no offers. As long as you weren't the only person talking in those meetings, you picked up valuable insights. Sometimes the signal is explicit: "This is an area where we're spending a lot of resources and could use help." That's a direct clue to position your company as the solution. Other times the signal is subtle. The acquirer leans in and asks more questions about a particular product, or requests extra materials on a specific topic. All of this is useful as you go back to the drawing board and build the next version of your product and strategy.

You also have to separate what you can control from what you can't. Focus your time and resources on what you can control. That's what will improve your chances next time.

1. Things You Can't Control

1. Market Conditions: The market is the market. It shifts with macroeconomics, regulatory policies, central bank decisions, and investor sentiment. A vertical that was once the darling of Sand Hill Road can get abandoned overnight because something shinier came along. You can't control this. Don't waste money trying to create a market that doesn't exist. PR firms will happily take your money for blitz campaigns, but they probably won't move the needle.

2. Acquirer Strategies: Buying a company has to be the acquirer's idea. You can never engineer a sale as a seller. Think about the last time you bought anything from a cold call. As the Red Little Book of Selling says, "People love to buy, but hate to be sold." Don't expect a target acquirer to change their strategy just because your company is available. That shift always comes from within.

3. Regulatory Shifts: Government policies on subsidies, grants, or immigration can have a huge impact on your startup's fortune. But you have very little control over them. Be adaptable. Work with the policies instead of spending your time lobbying politicians or gathering signatures.

4. Executive Turnovers: M&A is a relationship business. Decisions are made by people. People leave and join companies all the time. When your internal champion leaves the acquiring company, the deal will likely die. You can try to find the next person in line to sponsor you, but it often means starting over.

5. Acquirer Culture: Don't expect to change the acquirer's culture. If a deal happens, your team will be expected to adapt to theirs. This is why cultural diligence is such a big part of the process. Even if combining forces makes perfect strategic sense, savvy acquirers will pass if there's a cultural mismatch. Cultural clashes lead to conflicts and deeper divides down the road.

2. Things You Can Control

1. Your Product Roadmap: You always have control over what you work on. Companies evolve and pivot all the time. Just because you struck out doesn't mean you have to keep building the same thing. Take the feedback from the market and focus on what potential acquirers responded to.

When we struck out in late 2022, the market told us the persona we were serving wasn't appealing. Everyone wanted the professional audience. Acquirers liked our technology stack, but we needed to build for customers with higher lifetime values. So starting in 2023, we pivoted to a brand new product for professional photographers. That pivot is what got us a term sheet in 2024 and an acquisition in 2025.

2. Your Resource Allocations: Desperate times call for desperate measures. If you're still spending time and money on products that don't appeal to the M&A market, ask yourself why. It's never too late to stop working on something. Beware the sunk cost fallacy. Never throw good money after bad.

3. Quality of Your Narrative: One reason you're not getting offers might be your pitch. You may be too stubborn about your vision. You may be missing cues from acquirers about what they want the combined company to work on. Remember, the acquirer wants you to solve their problem. They don't care about your vision and mission the way you do. Get feedback on your pitch from board members and advisors. Be flexible when questions come up about the joint mission.

4. Team Morale: Your team looks to you for direction and energy. No matter how tough the M&A market is, don't let the negative energy seep into the team. They should keep building and focusing on customers. It rarely helps to prematurely tell the team about M&A prospects. Employees will immediately wonder about job security and whether the company is about to disappear. Go about each day normally. Keep the M&A process to yourself.

5. Personal Resilience and Mental Health: Getting a bad offer is normal. Getting no offers is even more common. It doesn't mean you failed as a founder. It shouldn't affect your identity or values. Go about each day doing your best. What doesn't kill you makes you stronger. You will be a better founder, executive, and person on the other side.

Exercise. Eat well. Be part of a community. Catch up with the family and friends you've neglected. Know that you are loved and valued. And be grateful. Be grateful you still have the freedom to choose what you do. There are always worse situations. It will get better. In a year or two, you'll look back and say, "I'm glad I stuck it through."

6. How You Spend Your Time: While we waited on offers from a couple of longshot acquirers after everyone else had passed, I was completely depressed. Some days I wandered aimlessly, unsure what to work on. Every time I tried to code, write, or learn something new, I'd freeze. Then I'd fall into my vices: scrolling endlessly on the internet or playing chess on Chess.com for hours. I'd feel even worse afterward, knowing I'd wasted time.

To pull myself out, I deleted the chess app and set daily goals for exercise, reading, and one specific accomplishment. That's how I got through. But in hindsight, the right expectation was that no deal was coming. We should have kept building products as the primary goal. M&A tasks should be supplemental to the day-to-day work of running the company.

Chapter 38

Managing Stakeholders When You Can't Sell

When you can't find a buyer, there are three groups of people to manage, ranked by importance: your cofounders, your board, and your employees.

The most important people to get on the same page with are your cofounders. Now is the time to get real. Figure out everyone's personal situation and goals. You may want to keep operating independently while your cofounder wants to cash out and move on. Be transparent and honest about what you want. Try to find common ground.

When we couldn't find a buyer in 2022, Borui and I both felt comfortable continuing. We had positive cash flow and the team was excited about a new product. In 2024, when we were waiting on offers again, we both knew that if it didn't work out this time, we were too emotionally scarred to continue. We would pursue other things.

The good part was that we communicated constantly about our situations and goals during these difficult times. We had heated discussions and debates, but things never got ugly. Nothing spilled over to the team or the board. We each said what we wanted, reasoned through it, and got on the same page.

I'm grateful this worked out. I know other founders who weren't as lucky. Even when the deal was going well, their cofounder relationship soured and blew everything up. The number one reason was that cofounders weren't transparent with each other, or couldn't resolve conflicts. This is the most important relationship you'll manage during an M&A. Especially when things get tough.

Next is your board, which likely includes your key investors. If you have institutional investors, they've seen this play out a hundred times. If there's no deal, they've already marked this investment as a loss. They just want to recover whatever they can by taking back the company's remaining cash.

If you're burning cash with no M&A offers, you'll face enormous pressure to return the remaining balance to investors. This is true even if your investors don't hold a majority. That means either buying out your investors and operating independently, or returning the cash and winding down.

You could try fundraising or a recapitalization, but that's an even tougher lift than M&A. Your best leverage with investors is to make the business cash flow positive. Only if you earn more than you burn will you have the standing to keep building and retry the M&A market later. If you want to keep operating independently, make the necessary cuts first.

Finally, your team. Ideally you've kept the circle small, so only a handful of key executives know about the process. When no offer comes, they'll ask what happened. Before involving anyone, set proper expectations: a deal is an outlier event. The most likely outcome is the status quo.

Some key employees may leave if a deal doesn't materialize. That's a real risk. But your job as the leader is to rally the team and lead the mission with or without the M&A. Give them confidence that the future is bright and great things can still be accomplished independently.

Chapter 39

What Not to Do

Here are mistakes I made when we went through the M&A discovery process and ended up with no acceptable offers in 2022. These mistakes wasted time and resources, cost us key employees, and caused a lot of pain. All of it could have been avoided.

1. I spent all my time on M&A tasks and detached from the company's day-to-day work. When no deal happened, I had an identity crisis. I should have kept contributing to the parts of company building I enjoyed.

2. We clung to our original thesis even after the market clearly moved on. We had early inbounds based on that thesis. But when the tide turned and nobody cared about the creator economy anymore, we should have pivoted fast and gone back to the drawing board.

3. I wasn't open-minded about what the joint venture could look like. Each acquirer had their own vision, and we were too insistent on ours. One company wanted to acquire us for our software tools expertise, but we insisted the future was all about community. They weren't interested and passed on us after a full due diligence.

4. We set up a carve-out bonus for the whole team too early, expecting a deal was imminent. We were confident we'd find a buyer before June 2023. That date came and went with no acceptable offers. Everyone got a one-time bonus but also learned we couldn't find a buyer. Two key employees left.

5. We told the whole team we were exploring M&A. This was the worst mistake. It gave everyone false expectations that we'd be bought for an insane amount of money. Some employees exercised their options early, expecting favorable capital gains tax treatment. The initial excitement lasted a week or two, then turned to anxiety, then despair.

Every 1-1 stopped being about product building and became me giving M&A updates. In a perverse way, it felt like the employees were no longer working for me. I was working for them. Once I told people the company was going to be sold and the goal was to retain everyone, some employees decided they were unfireable. Do not tell employees that the company is for sale.

Here are a couple more mistakes, based on stories from other founders, that you should avoid.

1. Many founders jump into a term sheet too early without enough market discovery or due diligence. They don't realize that term sheets are often non-binding and exclusive. Once signed, the buyer holds all the cards. They stop replying to emails and let the term sheet expire after deciding it's not a fit. It's much better to agree on strategy, finish the necessary due diligence, and then sign the term sheet. That increases the odds of closing and keeps the maximum number of acquirers in the process.

2. Rage quitting when things go badly. This is the worst thing a cofounder can do. The other cofounders or investors have to step in and clean up the mess. It destroys your reputation and usually leads to the worst financial outcome. If you're thinking about walking away, draw up succession plans first and think it through seriously before throwing in the towel.

Chapter 40

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

A startup should not be a trap. It is not a life sentence. Sometimes the only option when no buyers are found and cash is running low is to shut down the company. There is no shame in that. Most startups die. But do it on your own terms.

What does that mean? Don't let the bank shut you down because you couldn't make payroll. Don't let the board fire you because you couldn't see the writing on the wall. Don't let your customers find out you're gone because your app or APIs suddenly stopped working without warning.

Instead, discuss it with your board and reach a consensus. Check with your lawyer on proper procedures. Have them draft a wind-down plan with clear action items. Inform your employees, vendors, and customers about what it means for them.

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

Chapter 41

Pre Term Sheet Negotiations with the Buyer

It's been weeks with no replies. The latest request for information feels like years ago. You're 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. What is this all about?

Chances are, this scheduled call is to discuss the terms for an offer. It would be easy to pass on an acquisition via an email. 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 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

There are three types of deal structures. Stock purchase, merger, or asset purchase. Stock purchase is typically avoided on both sides. It means the acquirer would go and purchase every single share that your company has ever issued at an agreed upon price. The problem is that any stockholder could hold up the deal. It could be an investor that you are no longer on speaking terms with or a disgruntled ex-employee who holds very few shares. The ideal case is to push for a merger. 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. 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 is that the proceeds paid for the assets are considered ordinary income and are subject to corporate level taxes. When the proceeds get distributed to the investors and the team, they are also considered as income. It 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 where you need to get on the phone with your M&A lawyers. Tax lawyers will also 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. 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 is agreement among your key people 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 prefer getting stocks over cash for a hot private company whose private stocks are hard to access in the secondary market. It could also help your investor's brand when they present to potential LPs that they hold certain stocks in their portfolio. Or it could be more tax advantageous for the investors to take stocks than cash. Be sure to ask your board member investors what they prefer during the negotiations to minimize conflicts down the road when it comes to the actual vote of the final deal documents.

The other dynamic in play is that the acquirer would want to maximize the incentives for you, your cofounders, and your team. They would 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 do is minimize the considerations and instead load the main payout in the retention.

This would put you and your investors in an adversarial position. 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 clarifying questions and write down all the key terms and considerations. Do not show any reactions even if it's a great offer or a terrible one. Ask your clarifying questions and let your point of contact know that you will discuss this with your board and get back to her. 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 anyone 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 adds value as they take the role of negotiating. By this point, you could be exhausted by the process and wanting to get a deal done so badly that you take a bad deal. Or you could have unrealistic expectations and pass up on a great deal. Bankers who have done these negotiations before can serve as a buffer

between you and your future employer. There are no ill-feelings when the negotiations get contentious.

4. Your negotiation leverage is a function of how important your company is to the acquirer and whether 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 rigorous calculations. You can take any spreadsheet made by an analyst, change one single cell, and the final output would be off by a mile. 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. 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 the price of remaining independent.

6. 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. Having these terms on paper gives these numbers a certain level of legitimacy and hurts your chances of negotiating for better terms. Focus on negotiating the key terms with the acquirer over the phone or face to face.

7. Whatever numbers you end up agreeing on at this point will be the best possible outcome you could get at closing. As the deal progresses past the term sheet phase and more negotiations and diligence are done, the buyer will 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 agreement quickly and then pass those expectations back to the acquirer in the negotiations.

10. 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 the acquirer would have already had your waterfall at this point. You will realize that how the retention bonus is split among the founders and employees is not yet discussed. This will typically be negotiated after the term sheet is signed.

11. Don't short change yourself or your team. Everyone has worked hard to get to this point. 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 you have been waiting for. After weeks of negotiations and finally agreeing on the terms, an email arrives 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

```
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
```

The term sheet includes the key terms previously negotiated: the type of deal, considerations, and retention. A couple other things to call out. There is a binding section of exclusivity as well as an information embargo placed upon you, while terms for the acquiring company are completely non-binding.

The term sheet also outlines expectations on the closing date, typically the same as the exclusive period. It includes a set of closing conditions, which are things that still need to be completed. And it lays out 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, the term sheet now needs to be forwarded to your lawyers for review. They will redline any items that could be problematic. For one, if your acquirer is not based in the US, the governing law needs to be agreed 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 away the exclusivity, you could negotiate the exclusivity period down to 30 to 45 days instead of the standard 60, depending on how much leverage you have. A shorter exclusivity period can hasten the final close. It keeps everyone focused on the deal and reduces the risk of deal fatigue if the closing drags out.

There will likely be a set of closing conditions. Consult with your lawyer on how feasible it is to meet each one. Most of the time they are standard. But watch out for terms that are unreasonable or outside of your control. For instance, a buyer could impose a 100% retention of your customers before closing. Push back on that. Minor customer churn does not bring material difference to your business.

There is a sweet spot in how much you should negotiate the term sheet. If the terms are clean and reasonable, just execute and move on to the next phase of due diligence. But if the terms are unreasonable and ambiguous, push back. The negotiations done during the term sheet phase set the tone 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. You or the company directors will end up fronting all the risks and indemnifying for all liabilities. The goal is to arrive somewhere reasonable for both sides and set the right expectations as you move forward.

At this point, hand the term sheet negotiations off to your lawyers if you have experienced M&A counsel. They will be better and more efficient at spotting landmines in the legalese around reps and warranties, indemnification caps, and other critical terms. They can also play the bad cops in negotiations while you maintain a good relationship with the buyers. You still have to work for the buyers once the deal closes. Finally, if 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, relied on expert advice, and did not negotiate 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 this momentous day after months, if not years, of 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 the actual audit phase. The buyer still has the right to walk away at any time.

It is not unusual to close a deal in the targeted time frame if the deal is small, your board is on board, and the transaction is not subject to regulatory or third-party approvals. But there is still a mountain of work that needs to be done to close the deal. See the table below for some of the big ticket items and why they can 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 Negotiation	• Drafting the stock/asset purchase or merger agreement, plus disclosure schedules. • Arm-wrestling over reps & warranties, indemnities, caps & baskets, escrow size, earn-outs or holdbacks.	Every rep or indemnity dollar shifts risk. Lawyers redline for weeks; 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.

Remaining Task	What Actually Happens	Why It Can Drag On
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 exciting the shared future looks. Everyone is optimistic for a fast close and looking forward to working on the joint roadmap and drafting a press release. I can't stress this enough: the communication should be optimistically cautious. The deal could still fall apart. Nothing is guaranteed until the money is wired to the bank. Brace yourself. This is the beginning of a thousand papercuts. 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 is tight and encouraging. You have been on the same page about getting to a term sheet and seeing the company land. But as soon as a term sheet is produced and signed, questions come up. The key terms are still in broad brush strokes. Founders start asking how to divide up the payout, what types of roles are acceptable, and how personal risks like reps & warranties or non-competes hit one founder harder than the other. It is critical that you and your cofounders are fully in sync and work in complete harmony to close the deal. Any fragmentation or acrimony that spills 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 easy. Liquidation follows through the cap table waterfall. You and your cofounders get paid accordingly. The retention at this point serves as an equalizer. It incentivizes key employees who would likely cash out and leave on day 1 without enough retention rewards, and those who have little upside from the sale but are still critical to the integration. You and your cofounders simply need to agree on who those employees are and make the recommendation to the buyer.

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

The cap table at this point plays almost no role in how the retention pool is divided among founders and employees. In the eyes of the buyer, it is simply a function of the retained employee's domain knowledge and replacement cost. Even though a cofounder may have owned an outsized number of shares, if she does not serve a critical role in the integration, the buyer would not sign off on her getting the lion's share of the retention bonus. The retention allocation needs to be approved by the acquirer almost all the time. 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. The founders receive anywhere between 50% to 80% of the total retention. The rest of the team receives the remaining 50% to 20% depending on team size. Bigger the team, bigger the allocation. An even split between the founders spells out a united front when negotiating with the buyers, as long as every founder is staying for the entire retention period. This leaves nobody's ego bruised and shows that every founder pulls her own weight in the acquisition.

Your biggest allies in this entire transaction are your cofounders. By 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. Compromise and come up with an outcome that everybody feels good about. Chances are, this won't be your last company together.

2. Board of Directors

Before signing the term sheet, it is customary to send over the final redlined version to your board for approval. This is not required because the term sheet is non-binding.

But it is critical to be on the same page with your board throughout this process. Your board of directors likely includes your lead investors. They have a fiduciary duty to act in the best interest of the company and its shareholders. During a M&A, this means overseeing a due process of discovery, finding the best possible deal, and ensuring that all the necessary counsel and precautions are in place.

There are two sources of potential conflict with your board at this point. First is the allocation of considerations versus retention. The buyer would much prefer a deal where not a single cent is paid out to the investors or ex-employees on the cap table. They want all the cash spent on the retained team to incentivize a successful integration. This is a conflict with fiduciary duty, as shareholders include investors and people who are no longer working at the company. This is less likely to be contentious if the considerations are well above the preference stack and everyone is swimming in the upside. There could still be board members who expect an outsized return on investment and have veto rights that can block the deal. The work should have been done at the beginning to set expectations so that there are no surprises at this point. When the consideration barely clears or does not clear the preference stack, a balancing act is needed. The investors still need some returns and the team still needs motivation to complete the deal. Imagine a scenario where the upside for the team is zero and all the money goes to the preferred shareholders. The founders would not sign off. 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, typically in the 5-10% range of the total proceeds the investor would receive. This goes to the founders and key employees as extra motivation to ride out the deal. How this money is divided is largely at the discretion of the founders. My advice is the same as the last section: treat others the way you want to be treated. 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 on 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 unforeseen lawsuits or expenses post M&A. The size of the escrow directly affects how much distribution investors get at deal close. They all want everything at once. But the buyer may insist on having an escrow to protect the buy-side from potential risks. This is another area to work out with your board.

The second, and perhaps bigger, area of contention is the cap on indemnifications and reps and warranties. When a company is sold, the board typically dissolves. Board members want to move on with their lives. The last thing they want is an unlimited cap on indemnifications where a future lawsuit wipes out all of the upside plus some. Your board would not sign off on deals with these types of terms. It is critical to have your lawyers flag anything that puts your board members at risk in the definitive agreement. This also means that you and your cofounders may have to front some of the risks personally when it comes to indemnifications and reps and warranties. Do not be surprised if your retention bonuses are used to backstop future lawsuits so that your investors are off the hook.

Outside of these two areas, board members are typically empathetic as long as you ran a clean process and they were all informed along the way. But you want 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. The buyer may have low confidence that the deal can get through. Sometimes buyers put unanimous board approval into the closing condition to limit their exposure to such risks. Dissenting board members could also leak critical deal information, or go rogue and try to sabotage the deal. 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. Start providing weekly email updates to your board at this point and keep them informed on the latest progress leading up to close.

3. Outside Investors

If you onboarded many outside investors throughout the lifetime of the company, most of them will not have a board seat or even an observer seat. They have very little visibility into the M&A process. If you have not informed them on the potential exit, now is the time. Failure to inform them could cause a hold up during the actual shareholder approval process. It could even lead to litigation if these outside investors feel that the board did not fulfill their fiduciary duty in finding the best possible deal.

To approve a M&A (not a share purchase), only fifty percent of the shares need to vote yes. The main thing these investors would care about is what the waterfall looks like with the agreed upon headline considerations. What would they get at close, cash or stocks, and how much.

Non-board member investors typically 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. They either led the last round of financing or owned the majority of shares outside of founders. The reason is 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 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, the work is already done as soon as the lead investors are onboard.

Then there is the other class of non-institutional investors. Family offices, internet celebrities, early advisors, rich uncles, wealthy friends who do not have large ownerships of the company but still hold preferred shares. These investors do not follow the unwritten rules of Silicon Valley, and could be a potential holdout for the deal. For one, they may not be as responsive as institutional investors. You may not even get their signatures in time for a fast close. And if they do have an issue with the transaction, it's most likely because they hold unrealistic expectations on what the return multiple should be. This is where having good prior investor relations helps. Even the smallest investors should be in the loop with company financials and latest strategies. If you 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, be courteous and try to address their concerns. But also make it clear that this deal already has the necessary votes. If you do need their votes to approve the deal, you will need to make sure the demands are met by renegotiating the terms with the buyer and the board. Reach out to your lead investors for help providing additional context or mending the relationship. Sometimes having the same news delivered by a fellow investor instead of a founder is easier to swallow. The deal is not closing imminently. You still have time to get everybody on board. 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 later 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 from the transaction that significantly exceeds typical pay, the compensation package gets put under a vote by all shareholders excluding those who would be receiving such pay. Guess what. Those investors who were holding out the deal in the first place could 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. The point is: be on good terms with all your shareholders. Dissenters can do serious damage to the deal.

4. Shareholders with Significant Ownership

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

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 advise you to hold off until the deal becomes a certainty. Your employees do not have half the context that you have on the M&A. They will not be able to stomach a failed deal as well as you do. You do not want all your subsequent interactions with them to always be about the M&A. Plus, the term sheet may even forbid you from discussing its existence 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 affording bankers, they should have done the heavy lifting of getting the term sheet. They will help you navigate the rest of the process and get the deal to a close. But understand that incentives don't always match between you and the bankers. Your goal is to find the best place to spend the next few years. You want to work on a joint venture, grow your business together, and develop your career. This would mean negotiating hard on titles, areas of responsibility, or even walking away from a deal if the vision doesn't match. 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. They will be more risk-averse than you when it comes to negotiating terms that could jeopardize the deal. They won't work as hard on terms outside of retentions and considerations. They would even nudge you to take a safe deal rather than pressing on with an ultimatum that threatens walking away.

The bankers we hired were not these types of hustlers. But many founders aren't as fortunate. Set clear expectations with your bankers on what you are looking for in the deal. They are working for you. 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 on the sell side, the lawyers get to have a field day. This is likely the last invoice your lawyers will bill you. Expect their team of partners and associates to step in and bill hours for reviewing anything and everything about the lifetime of the company. The majority of the work will be done by the acquiring counsel. They provide the initial draft of the definitive agreement, requests for various disclosures, and manage the closing process. Your lawyers will need to step in to redline and negotiate on the company's behalf, prepare the final disclosures, and manage the close process from your end. That includes getting board and stockholder approvals and running the 280G analysis.

The biggest potential money drain is in preparation of the disclosures. Align with the buyer on a tight list of items to disclose that are 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 below $10,000 a year, open source software usage, or existing employee health insurance plans. All of these documents will be read through by the lawyers on both sides. This could easily turn into an endless discovery process where lawyers flag random items that require further clarifications or supporting documents. Don't let them play this game with you. Each email exchange and additional disclosure schedule 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.

Here are some techniques to help you stay on budget. Not everything needs to go through your lawyers. Reviewing new employment contracts from the buyer, preparing the disclosure schedules, even negotiating key terms can all be done by you.

The lawyers sometimes are only needed to put the final language in legal terms. Set a budget and review the billable hours regularly. If at any time you feel like the lawyers are spinning their wheels and not making progress, bring the matter directly to the buyer. Get agreement 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, refer back to the Key Employee Interviews chapter on how to prepare your team. If interviews and technical due diligence have already been completed, this round mainly serves the purposes of cultural fit and retention assessment. This also means you will need to disclose to those being interviewed that there is a potential offer in place for the company. Manage expectations. Tell your employees 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 run mock interviews. Ideally you have a great culture and everyone is on the same page. But you may still have disgruntled, unmotivated, or underqualified employees who should not be part of the interview process. Terminate those relationships early. Having them strung along could cause serious damage 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. A single bad interview could kill the deal.

It is bizarre, but some employees start to act out of character upon finding out that the company is going through an M&A. People don't know how to react when they face 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 better to communicate this to the team when the context is clear and the decision is already made. For the employees in the privileged circle who you had to share the news with, spend extra effort and attention managing their day-to-days. Give 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.

If you have weekly check-ins scheduled with your main point person from the acquiring company, expect them to become due diligence calls. 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 a line item from your credit card balance a year ago was, whether an ex-employee has returned their company equipment, or why a certain software library is used over another. Other times, the questions are trickier and require thought. For example, they may ask the likelihood of a major customer renewing their existing contract. Be conservative and provide worst case projections. You don't want to be overly optimistic because your retention bonus could be tied directly to projections. Changes in the company direction post-acquisition could result in that revenue target no longer being a priority. The retention bonus you thought you would get never gets paid out. At the same time, don't sandbag or cast overly pessimistic projections for future earnings. That could spook the acquirer and lead to a loss in confidence for the acquisition.

As frustrating as this process is, understand that the acquirer needs to ask all these questions. The sponsor of the deal needs to fulfill her duty to her direct manager. Very often the CEO is the sponsor. She has a fiduciary duty to her board and shareholders. She needs to demonstrate rigorous oversight, eliminate blind spots, and ensure full accountability. She has personally championed this deal and needs to justify it, knowing her own reputation and credibility are directly at stake. The buyer's team might seem overly cautious, even paranoid, as they probe for red flags and hidden risks. They're trying to uncover anything that could later cause embarrassment, financial loss, or operational disruption. The barrage of questions may feel exhausting or intrusive. It's rarely personal. 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 this challenging phase.

4. Disclosure Schedules

Providing disclosure schedules to the buyer requires careful attention in multiple areas. Start by establishing clear alignment with the buyer on which types of disclosures are truly material to the transaction. Without this clarity, legal teams may expand the scope unnecessarily. That leads to bloated documentation and a longer due diligence timeline. Manage lawyer input proactively to keep disclosures focused, relevant, and manageable.

Precision and honesty matter here more than anywhere else. Each statement in the disclosure schedules should be verified and triple-checked for accuracy. Errors, omissions, or ambiguous statements can become significant liabilities down the line. They can trigger disputes or even litigation. Be especially cautious with consulting agreements, employee compensation agreements, vendor contracts, and software licenses. Inaccuracies in these areas can result in major post-transaction issues.

Watch out for subtle "gotchas" like notice periods or first right of refusal related to liquidation or change of ownership. Certain enterprise contracts give customers the right to terminate if there is a change of ownership, or the right to put an offer in place for an acquisition. Pay special attention to contracts needing assignment or consent from third parties. These can introduce unforeseen complexities.

Intellectual property and data security disclosures require particular vigilance. Highlight any dependencies on third-party datasets, models, or tools. Clarify license terms, commercial limitations, and potential replacement costs. 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.

Disciplined management of disclosure schedules, with clear buyer agreement and thorough review, is what keeps the deal on track.

5. The "Oh Crap" Moment

Proactive communication matters most when unfavorable business developments occur during the M&A closing period. Losing key customers, significant employee departures, lawsuits, or material contract terminations can all affect the transaction's terms or even its viability. Don't bury such developments within dense disclosure schedules. Communicate them 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.

I faced this scenario firsthand at Polarr 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. About a couple months later, I received termination notices not from one but two of our largest enterprise customers, OPPO and Samsung. Together they were responsible for nearly a quarter of our entire revenue. This news was unsettling because of the potential implications for the transaction. Fortunately, this segment was not central to our future strategy. We had been transparent from the start that this enterprise licensing business would eventually diminish. But the timing was unexpectedly bad, and 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 showed just how important transparency can be during this sensitive period.

Honesty and proactive communication are always the best choices. They significantly reduce the buyer's perception of risk and uncertainty. Buyers expect some degree of turbulence during the acquisition process. Their confidence in your integrity can carry more weight than the immediate financial impact of negative news. Discovering hidden problems through diligence can severely damage the buyer's trust. It can cause them to renegotiate terms aggressively or abandon the deal altogether. Being forthcoming demonstrates your good faith and positions you as a reliable partner going into the post-acquisition relationship.

Chapter 44

More Negotiations with the Buyer

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

1. Consideration and Retention Allocations

From experience, I've found it's advantageous to propose your own retention allocation plan to the buyer first. Offer a well-thought-out draft based on each team member's criticality to the integration and the future roadmap, not just seniority. This serves as a strong foundation for further discussions. Make sure that retention payout and stock option schedules are structured evenly across the integration timeline. Avoid scenarios where team members feel incentivized to leave early or feel unfairly compensated if payouts are delayed too long. Also avoid the situation where the founders get the overwhelming majority of the retention bonus. Retention is a function of the team's criticality to a successful integration and its size. Do ample research and talk to your bankers or advisors about what a reasonable allocation looks like for your situation. An allocation skewed towards founders could make the buyer think the founders are greedy. It could also lead to key contributors leaving from 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 people are appropriately incentivized and ensure that they stay for the entire retention period.

2. Compensations

Surprisingly, acquiring companies may initially suggest pay cuts for certain employees or executives rather than immediate raises post-acquisition. Most likely it is because your existing salaries are out of band compared to the acquiring company's internal payband. This is especially true if the acquiring company is outside of Silicon Valley. Don't take these proposals personally. Calmly provide clear justifications for the current compensation rates of your team. 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. This approach often feels more palatable and respectful to your employees.

3. Titles

Acquiring companies are usually conservative in assigning titles to new employees. They often down-level 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 shareholders is the best title you will ever get in the startup business. 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. That said, 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.

4. Team Reorganizations

Anticipate that the acquiring company will propose headcount reductions as part of team reorganizations. Push back if proposed reductions could hurt business outcomes or integration goals. There will be redundant roles. But perhaps there are other areas in the acquiring company that could use the extra headcount. Explore those avenues. Communications about employee departures should not happen during the negotiation phase. Time them for the closing. Disclosing personnel changes before closing could crush morale. Key employees may even leave preemptively in anticipation that they may be let go.

5. Other HR Related Negotiation Topics

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

While the headline terms may already be agreed upon, these detailed final negotiations significantly influence employee satisfaction and the success of integration. Engage proactively with the acquiring company. Communicate your rationale clearly. Stay collaborative but assertive to get the best outcome for everyone involved.

Chapter 45

280G Analysis

One of the less glamorous but important aspects of selling your startup is dealing with 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. They are also known as "golden parachutes". This process should start as soon as the compensation packages are agreed upon.

1. Why Does 280G Matter?

Failing to properly address 280G can lead to significant tax consequences. That includes a punitive 20% excise tax imposed on the recipients and loss of tax deductions for the acquiring company. Both parties have a strong incentive 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 are critical. Retention bonuses, severance payments, and equity acceleration all count. Every detail matters. Minor adjustments can significantly impact the outcome of the 280G analysis.

3. Shareholder Vote Requirement: Payments that exceed the threshold can avoid the harsh penalties if approved by shareholders. But there's a catch. Only shareholders who are not recipients of the compensation being voted on can participate in the vote. Founders and other key executives typically cannot vote to approve their own compensation packages.

3. Ensuring a Smooth Approval Process

The approval requires an affirmative vote from at least 75% of disinterested shareholders. This is why maintaining open, transparent relationships with your key shareholders matters, particularly your lead investors. The good news is that votes typically align with the recommendations of the lead investors. Rejections of these compensation packages are rare, provided relationships are strong and communication is clear.

Delays in this approval process can hold up the deal's closing timeline. To avoid this, initiate the 280G analysis and shareholder approval process as soon as the compensation package terms are finalized. Being proactive here demonstrates diligence to both investors and acquirers. It reassures 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 shareholders and lead investors to ensure smooth passage of necessary approvals.

A 280G analysis might seem daunting at first. But careful planning and clear communication make this a straightforward process. Approached thoughtfully, 280G becomes just another checklist item on your path to closing.

PART V: THE END GAME

Chapter 46

What to Do When the Buyer Stops Answering Emails

Perhaps the most unsettling moment in an M&A process happens just when everything appears on track. The definitive agreement seems close. Due diligence is done. Everyone can practically hear the celebratory pop of champagne. But suddenly, communications slow down. Emails go unanswered. Phone calls go unreturned. This period of complete radio silence can be deeply unsettling for founders and sellers. Understanding what's happening, and more importantly how to handle it, matters a lot.

1. The Vulnerability of Non-Binding Agreements

A term sheet is almost always non-binding. This heavily skews 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. But this clause is often omitted intentionally to keep negotiations smooth and flexible. After all, bankers typically only get compensated upon successful deal closure. Introducing friction at this stage may not serve their interest.

2. The Psychological Battle

Radio silence can prompt anxiety and self-doubt. Founders may begin questioning their worth, the attractiveness of their company, or even their competence. 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, is a good example. 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. All to conduct due diligence and get internal people on board. If communication slows, give them the benefit of the doubt. Maybe they are caught up in internal releases, quarterly results, or unexpected hurdles. The acquisition is probably an important but not existentially critical piece of their strategy. That naturally reduces their urgency compared to yours. Staying empathetic helps maintain your relationship. It keeps doors open rather than shutting them in frustration.

4. Strategic Patience and Support

At this point, impulsive reactions can be disastrous. You hold limited control in accelerating the process but significant power to derail it entirely. Lean on the calm presence of your co-founders and trusted advisors. Their perspectives and emotional distance can prevent rash actions. Get on the same page internally. Swallow pride. Sync your frequency with the buyer's pacing.

5. Faith, Not Fear

Mergers and acquisitions rarely unfold rationally or predictably. They require a leap of faith. My personal experience has shown this repeatedly. Deals that seemed like sure bets evaporated at the final hour. Seemingly doomed transactions survived improbable odds, like unexpected customer terminations or critical people suddenly falling ill. The takeaway is clear. Deals destined to close tend to find their way through adversity. Those not meant to be crumble even under minor pressures.

6. Managing Silence Effectively

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

Maintain an air of confident patience. Your professionalism in these moments is the strongest indicator of your maturity as a leader and founder. The uncertainty is part of the process. Whether the champagne cork pops or not, the silence will end. Your path forward will remain open.

Chapter 47

Final Definitive Agreement

You're nearing the final stretch of your M&A process. You've gotten through intense due diligence, delicate negotiations, and survived the ghosting periods and emotional ups and downs. Now it all comes down to one 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 review each detail to protect you and your shareholders. Here are the main areas to pay close attention to:

1. Purchase Price

The purchase price needs to be clearly defined and detailed. It may be a cash transaction, a stock-based deal, or a hybrid of both. Your agreement must outline payment structures, schedules, earn-outs, escrows, holdbacks, and 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: leases, vendor agreements, customer agreements, licensing deals, and employment contracts. Each assigned contract should be listed explicitly. Secure necessary consents from counterparties 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

Be completely transparent and thorough in your 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 spell out the treatment of employee retention bonuses, equity compensation, and vesting schedules. These incentives matter 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 activities. Carefully negotiate scope, geography, and duration to make sure 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 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 scrutiny and attention it deserves.

Chapter 48

Final Approval Process

Once the definitive agreement is agreed upon by the acquiring company and your legal team, it is time to get it approved by your board and then your shareholders. Three documents 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. That could include existing employees who have exercised their shares, or folks who left the company a long time ago. Everyone will pull out their calculators and see if and how much they will get from the transaction. Expect your phone to blow up with reach outs from folks you haven't talked to in a long time. 50% of the votes are needed to approve the transaction. 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 280G analyses and votes have concluded, there remains a real risk that the deal may not close. It may seem like all that remains is the wiring of funds and countersigning of documents. The reality is more complicated. Several factors, some within your control and others entirely beyond it, can jeopardize the closing.

1. Regulatory Approvals and Antitrust Risks

One significant risk is regulatory approvals. Certain deals trigger rigorous antitrust inquiries and regulatory reviews. This is especially true for deals involving large corporations, dominant market players, or specific industries such as telecommunications, technology, pharmaceuticals, and defense. 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 regulatory bodies globally.

Transactions that significantly reduce competition, create 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. These thresholds are adjusted annually and currently exceed approximately $126.4 million (as of 2025). 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 were subject to extensive antitrust challenges. Regulatory approvals can take months or even years. Prolonged uncertainty can 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. Other jurisdictions may require approvals related to foreign ownership or investment restrictions. These processes can be unpredictable and politically influenced. They can 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 parties can halt or derail the entire transaction. The transfer of assets like intellectual property, real estate, or licenses can also encounter unexpected legal or bureaucratic obstacles. You can prepare by maintaining clear contractual language and proactively securing third-party buy-in. But some situations remain 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 is the financial stability and business performance of both parties leading up to closing. The acquiring company may experience a particularly poor financial quarter. Their stock value may decline sharply, especially relevant if the deal includes stock-based consideration. Or they may uncover previously undisclosed material financial issues within the target company. Any of these can lead the buyer to reconsider and withdraw.

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

4. Human Factors and Emotional Considerations

Sometimes the human element disrupts what might appear to be a solidified transaction. Disagreements, or unexpected emotional decisions from either party's leadership can introduce doubt or erode trust enough to terminate negotiations. There have 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 phase, responsiveness and careful timing become critical. Any unnecessary delay or lack of responsiveness can cast doubt. It can lead the buyer to question the seller's commitment or the accuracy of earlier disclosures. Promptly address all inquiries. Clearly communicate any arising issues. Remain consistently engaged until the transaction fully closes.

6. Early Alignment and Careful Term Sheet Negotiation

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

In summary, although the definitive agreement marks substantial progress, the closing phase still carries real risks. Stay responsive and proactive, control what you can, and prepare contingencies for what you cannot.

Chapter 50

Closing It Out

Closing day is the end result of months of negotiations, approvals, and planning. The definitive agreement, already approved by both boards and shareholders including the 280G analysis, is ready to be officially signed and executed. Despite its ceremonial appearance, closing day demands careful preparation and execution to make sure everything goes smoothly.

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 big part 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. Once received, 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

You or your CFO should manage this process physically at a bank branch alongside your banker. This ensures accuracy, security, and timely execution. Having at least two individuals overseeing this step is essential to reduce the risk of errors or wire fraud, which can be more common 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 verified to prevent future disputes or liabilities.

4. Employee Transition and Communications

Closing day typically marks the last day of employment for all employees. Serve termination documents and finalize severance agreements for those not retained. A generous severance package, along with signed release forms, goes a long way toward maintaining goodwill and minimizing post-transaction disputes.

This is also the moment to announce the transaction formally to the broader team. Highlight the new joint direction with the acquiring team. Invite key executives from the acquiring company to give a talk. Acknowledge the work put into this process by the entire company and congratulate 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, including 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

A pre-drafted press release distributed on closing day can effectively mark the milestone publicly. It recognizes the collective hard work and achievements. It 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 as everybody was interviewed by the acquiring company, there were still some emotions running through everyone. 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. It instantly lifted 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. I headed home for a well-deserved nap.

Closing day is not just an administrative milestone. It's a deeply human moment marking the end of one chapter and the beginning of another.

PART VI: AFTERMATH

Chapter 51

Finding What Brings You Joy Again

People often asked me what my biggest purchases were after my acquisition. Honestly, there were really nothing on my list to begin with. 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 Chipotle a bit of a splurge and typically only eat there 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, so that his lunch didn't go over $12. Now, he simply doesn't give it a second thought.

As euphoric as it 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 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 money 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. But understand this: entrepreneurs are wired to build, create, and solve problems. The idea of endless travel or sitting on a beach may sound appealing at first. Boredom sets in after just a few weeks.

Take time to seriously consider what brings you happiness. 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 to future integration and performance milestones. In that case, dedicate your efforts to ensuring a smooth integration and growing the success of your products and services.

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. Go spend an afternoon on the beach or host a party. Finally watch that movie you've repeatedly postponed.

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? Would I need to work for another day in my life? Or would I soon need to polish my resume and start job hunting? The deal closed. I got to share my experiences with other founders and aspiring entrepreneurs. I find real joy in discussing these experiences, offering guidance, and supporting others on similar paths. Rediscovering this sense of purpose has been one of the most rewarding outcomes of the entire journey.

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, take the time to acknowledge and show appreciation to those who supported you. Success never happens in isolation. Behind every entrepreneur is a network of people whose guidance, patience, and support were instrumental.

Your board members and investors deserve special acknowledgment. Their trust, patience, and backing played a significant role in bringing the deal to a close. A fitting gesture would be hosting a memorable dinner to express your gratitude. This meal might be the priciest dinner tab you'll ever cover. But it's also a rare opportunity to express genuine thanks to those who believed in your vision from the beginning. Make it meaningful. 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. Spend quality time together. Have an open conversation about how to best celebrate this milestone in your shared life. It needn't be extravagant. A heartfelt home-cooked meal, a simple movie night out, or a special activity you've repeatedly postponed. My wife and I considered going back to Northern Italy as that was one of our favorite trips, but 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. They experienced your divided attention and late nights at work. Simple but meaningful gifts or gestures can communicate your appreciation. 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.

Think about those individuals who were consistently your emotional anchors. Friends, mentors, colleagues, or family members who provided unwavering support during turbulent times. A personalized handwritten card expressing your gratitude can be incredibly meaningful and long-lasting.

For your broader team, even those who were not retained, consider hosting a celebratory event or team outing. It could be a weekend retreat, a team dinner, or a simple catered lunch at the office. Publicly recognizing each team member's contribution during these gatherings strengthens team bonds and morale. Another meaningful approach is providing personalized gifts or small bonuses tailored to their individual interests or needs. It reinforces 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 put in. Borui also went out of his way to send referrals to other entrepreneurs who might be hiring for his type of role.

Express your gratitude to your key contact or sponsor from the acquiring company. Their advocacy and support throughout the acquisition process were a big part of why the deal got done. Craft a thoughtful handwritten note or give a modest but meaningful gift. These gestures of appreciation help set the tone for the ongoing working relationship.

Closing an acquisition is not just an ending. It's a chance to express real gratitude. By acknowledging those who helped you get here, you strengthen relationships that will matter long after the deal is done.

PART VI: AFTERMATH

Chapter 53

Your Best Days Are Ahead

As you reach the end of this process, understand one thing: your best days still lie ahead. Companies can be acquired, sold, go bankrupt, or go public. But your identity and value are not defined by the business you built. They live in the relationships you made, the people you helped, and how you grew along the way.

Whether this M&A process exceeded your expectations or left you underwhelmed, you now have a set of experiences that very few people ever go through. Use what you learned, both the wins and the hard lessons, to do something meaningful next.

Whether your next step is to stick through the retention period, start another company, mentor other founders, invest in startups, or do something completely different, this journey is a foundation you can build on.

Your story doesn't end here. Go do amazing things.

Epilogue

If you've made it this far, let me pause to sincerely acknowledge you. Whether you successfully made it through an acquisition or went through the intense process 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 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 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.

Amidst all the victories and the setbacks, there's one important lesson I wish I'd learned earlier: you don't have to go through this alone. The entrepreneurial journey 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 understand your struggles makes all the difference.

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 love to hear your story and support you in any way I can. Building a company and going through an M&A process is incredibly challenging. But doing it alongside others who've been there makes a huge difference.

My hope is that this book has been a useful companion, helping you understand and work through the complexities 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 keep going on this 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.