FROM THE FOUNDER'S HUB

Cash versus Stock Acquisitions: Beyond Valuation

As a founder, there are many considerations when evaluating an offer from a potential buyer. Yes, valuation should be near the top of the list! But as I discovered when I sold my SaaS company to a strategic acquirer, there are several other dimensions to a transaction that you, as a founder, will have to think through. **One of those is the question of cash versus stock acquisitions.**

Cash Versus Stock Acquisitions: Considerations

Beyond the headline valuation number, acquisition offers come in several different flavors. One critical consideration is how will you be paid? For example:

- Is the offer all cash?
- All stock in the acquiring company?
- Some combination of the two?

Different combinations of cash and stock present varying risk profiles and can be more or less attractive, depending on your personal situation as well as the specifics of the acquiring company. It is worth thinking through a few advantages and disadvantages of each structure.

All-Cash Offers = Instant Gratification

An all-cash offer is likely preferable if your personal situation favors liquidity (likely, if this is your first meaningful exit). It also puts you firmly in control of how you deploy those newly gained resources into your own investment portfolio. You can immediately use all your proceeds to pay off debts, invest in the stock market, purchase real estate, or deploy the money into any other investments as you see fit. Instant gratification, flexibility, diversification – pretty good!

Why Take an All-Stock Deal?

In comparison to those benefits of cash, taking some or all of your proceeds as stock in the acquiring company comes with several obvious downsides.

1. **The stock is likely to be illiquid** if the buyer is a private company, meaning you can't sell your shares until the company decides to sell or go public.
2. Even worse, **that illiquid stock could create immediate tax liabilities** that you have to find a way to cover with cash.
3. You also almost certainly have **less control over the performance of the acquiring business** than you did over your own company's fate, and you are unlikely to have much influence at all on the timing of that future sale that would provide for liquidity on your stock.

So why would you ever take stock as part of your consideration?
Sometimes you might not have much choice. It's possible that the buyer will want to offer stock as a way to preserve cash on their balance sheet, avoid taking on additional debt for their company, and create alignment by making sure you are financially tied to the future of the combined companies. But there can be benefits to taking your proceeds in stock as well.

All-Stock Deal Benefits

If you believe the prospects are good for the acquiring company, then taking some of your proceeds in stock could present an opportunity to generate an outsized return compared to how you might have invested the cash otherwise and can ultimately act as a multiplier on your original headline valuation.

You should think of acquiring company stock as yet another investment in your personal portfolio – likely a large, concentrated, and illiquid investment that you otherwise might not have access to, but also one in which you may have increased confidence in its future performance given your industry expertise. And while an all-cash deal is immediately taxable, those taxes are typically deferred with stock offers.

Finding Balance: The Mixed Deal

Ultimately the balance of cash versus stock acquisitions is a matter of both your personal finances and risk tolerance and the future prospects for the acquiring company; for many founders, a combination of the two makes good sense. Taking, for example, half your proceeds in cash and the other half in stock may solve your immediate liquidity needs while still providing the opportunity for "two bites at the apple." It strikes an attractive balance between cash upfront that is guaranteed and can be deployed immediately and the chance to benefit from further appreciation in the acquirer's stock and be rewarded with another liquidity event down the road.

For help evaluating your cash, stock, or mixed deal, it's important to work with the right advisors. **Talk to a partner today to get started on your next move.**

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