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A brief guide to buying a business



Introduction

Thinking about buying a business? This guide offers practical tips drawn from our experience of helping clients through business acquisitions.

Whether you are looking to grow, enter a new market, or see off a competitor, buying a business is a big step. Getting it right takes careful planning, good advice, and a solid understanding of the legal and commercial steps involved.

A brief guide to buying a business

1. Choose advisors with care

A strong team of lawyers, accountants and, where appropriate, corporate finance advisors, will help the deal run smoothly and could save you from costly mistakes. Make sure your advisors have hands-on mergers and acquisitions experience at the right level for your transaction.

A good legal advisor will help you spot risks early, structure the deal in your favour, and negotiate the right protections. We are happy to help you decide which advisors you need and find the best fit for your circumstances.

2. Why buy a business?

Buying an existing business can be far quicker than growing organically. It can give you immediate access to an established customer base, a skilled workforce, proven products, and infrastructure that would take years to build from scratch.

Common reasons include expanding into new markets, acquiring intellectual property or specialist expertise, removing a competitor, or strengthening your supply chain. Whatever your motivation, be clear about your strategic objectives before you start — they will shape every decision from target selection to deal structure.

3. Finding the right business

Opportunities can arise in different ways — you might be approached directly by a business owner, spot a target through your own industry contacts, or instruct a corporate finance advisor to search the market for you.

However the opportunity comes about, approach it with discipline. Ask yourself whether the target genuinely fits your strategy and whether you have the financial and management capacity to see it through. Even early conversations may need confidentiality arrangements to protect both sides.



Confidentiality

Before you receive detailed information about a target, you will typically be asked to sign a confidentiality agreement (also called a non-disclosure agreement or NDA).

This is standard practice. The agreement will restrict how you use and share information about the target. Pay close attention to the terms — check that the restrictions are reasonable in scope and duration, that they will not unduly limit your own business activities, and that they cover what happens to information if the deal falls through.

The seller will usually propose the terms, but make sure they are balanced and don't put you at a disadvantage.

The Information Memorandum

If the business is being formally marketed, you will usually receive an Information Memorandum (or IM) — a document prepared by the seller's advisors presenting the business, its financials, market position, and growth potential.

Remember, the IM is a selling document and will present the business in its best light. Read it critically — look beyond the headline figures, consider what is missing, and question the assumptions behind any projections. It will inform your initial offer and shape your due diligence, so take time to understand it properly.

Heads of terms

Once you have decided to pursue the acquisition, you and the seller will negotiate the key commercial terms. These are usually set out in heads of terms (sometimes called a letter of intent or offer letter).

Heads of terms are generally not legally binding, except for certain provisions such as exclusivity, confidentiality, and costs. But they are an important step — they record the key terms, set expectations, and establish a timetable for the deal.

As a buyer, your heads of terms should cover:

- **The transaction structure** — are you buying the shares or the business assets? This is a fundamental decision with significant legal and tax implications. A share purchase means you take on the whole company, including its history and liabilities. An asset purchase lets you pick the assets you want, but can be more complex.
- **The purchase price** — this may be a fixed sum or subject to adjustment based on the balance sheet at completion. It is increasingly common for part of the price to be linked to future performance (an “earn-out”), which can help manage risk and keep the seller invested during a transition period.

- **Exclusivity** — insist on a reasonable exclusivity period so the seller cannot negotiate with others while you are investing time and money in due diligence and documentation.
- **Any special terms or pre-conditions** — for example, retaining key customers or staff, renewing important contracts, or obtaining regulatory approvals.

Due diligence

When you buy a business, you need to know exactly what you are getting. Due diligence is your chance to investigate thoroughly — verifying what you have been told, uncovering risks, and informing the terms on which you will proceed.

It generally covers three main areas:

- **Financial due diligence** — your accountants will examine the business’s financial standing, including the quality of earnings, reliability of management accounts, working capital needs, and tax compliance. Pay particular attention to whether the business has sound accounting systems — without trustworthy financial data, significant value could be at risk.
- **Commercial due diligence** — this looks at the market, competitors, the business’s strengths and weaknesses, and its sales, production, and R&D

capabilities. Consider the management team's depth, whether key people can be retained, and whether the business is over-reliant on any single customer, supplier, or individual.

- **Legal due diligence** — covers contracts, employment, environmental matters, intellectual property, property, IT, tax, litigation, and regulatory compliance. Key questions include whether contracts can be terminated on a change of ownership, whether IP is properly protected, whether key staff have employment contracts, and whether there are outstanding disputes or regulatory issues.

4. Funding the acquisition

There are several ways to fund an acquisition. The main options are:

- **Debt** — borrowing from a bank or other lender, repaid over time with interest. The lender may require security over the target's assets.
- **Existing cash reserves** — using your own cash can reduce or eliminate the need for third-party borrowing.
- **Vendor finance** — the seller may agree to defer part of the purchase price, for example, through rollover shares or secured/unsecured debt. This can help bridge any gap between your valuation and the seller's expectations.
- **Equity investment** — external investors, such as private equity, can support the acquisition. They will typically take a significant stake and expect strong projected returns.

Most deals involve a mix of these. Make sure your funding is in place, or well advanced, before agreeing heads of terms — sellers will want confidence that you can complete.



5. The legal process

During or after due diligence, the legal documentation will be prepared. The main documents include:

- **The sale and purchase agreement** — the central document covering the price, payment terms, warranties, indemnities, limitations on claims, and restrictive covenants. The warranties are especially important — they are binding statements by the seller about the business. If a warranty proves untrue, you may have a claim for any resulting loss.
- **The disclosure letter** — where a warranty is not true, the seller can disclose this before completion. Review the disclosure letter carefully — anything properly disclosed will significantly limit your ability to claim. Challenge disclosures that are vague, too broad, or reveal previously unknown issues.
- **The tax deed or covenant** — this protects you against pre-completion tax liabilities by providing a specific indemnity from the seller.
- Depending on the deal, there may be other documents too — employment or consultancy agreements, finance documents, property leases, and ancillary commercial arrangements.

6. Warranties, indemnities and buyer protections

Negotiating warranties and indemnities is often the most intensive part of the legal process. Warranties give you recourse if the business is not as represented; indemnities provide pound-for-pound protection against specific risks.

As a buyer, you will want comprehensive warranty coverage with minimal limitations on claims. The seller will try to limit exposure through financial caps, time limits, minimum thresholds, and the disclosure letter.

Consider whether warranty and indemnity insurance might suit your transaction. This increasingly popular product can protect you against warranty breaches and help bridge any gap between the protection you want and what the seller will offer.

Restrictive covenants are also important — they stop the seller from competing with the business, poaching customers or staff, or using confidential information for a set period after completion.

7. Completing the deal

Completion involves signing the relevant documents and transferring the purchase price. A date will be agreed, and the parties and their advisors will meet (in person or remotely) to finalise everything.

Sometimes signing and completion happen on the same day. In other cases, for example, where regulatory approvals are needed, there may be a gap. Your legal advisors will make sure your interests are protected throughout.

Be ready for a formal process — completion typically involves exchanging signed documents, transferring funds, delivering share certificates, passing board resolutions, and various other formalities. Your legal team will prepare a detailed agenda so nothing is missed.

12. Post-completion

There is always plenty to do after completion. Some matters will be dealt with through the contractual documentation, such as the timing of announcements to employees, customers, and suppliers.

You may want to integrate the acquired business with your existing operations. Customer contracts, supplier arrangements, and employment matters may all need attention. The seller might stay on for a handover period to help with a smooth transition.

If any part of the price depends on the business's balance sheet at completion, completion accounts will need to be prepared and agreed. This can be a formal and, sometimes, contentious process, so be ready for it.

Ultimately, the success of any acquisition depends on what happens after the deal is done. Plan your integration carefully, communicate openly with the team, and keep the momentum going.





How we work with you

Client success

Our talented team listens so that we understand your needs; we bring empathy, expertise and creativity to help you meet your business goals.

Expertise

We engage and work with you to identify and prioritise your objectives using our knowledge and experience to deliver clear advice that works for you.

Relationships built on trust

We are committed to supporting our clients, our colleagues and the communities in which they work.

We provide exceptional legal services helping you to shape your future.

Our focus is you
If we can help you or your business please get in touch.

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Helping to shape
your future



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