

The Benefits of Using an Investment Banker to Sell Your Business

“The M&A marketplace is no place for amateurs.”

Marshall Paisner, Retired Business Owner, Author

Jonathan Ketcham & Walter Lipski

The sale of your company will likely be one of the biggest financial transactions of your life – perhaps THE biggest. You have only one chance to get it right. What risks are you willing to take? Will you be able to get the best price for your company, or leave millions of dollars on the table? Will you be able to keep the sale confidential, or will the word get out and cause customers or employees to leave? Will the deal actually close, or will you be left at the altar with your reputation tarnished? Will you have the time to focus on the sale? or will your company's performance falter from your lack of focus? Hiring an experienced investment banker is not right for every company, but the advantages they can provide often more than make up for their cost.

You do have a choice: you can try to sell your company on your own – using your existing advisors, or you can hire an expert to conduct the sale. Investment bankers create value for sellers by greatly improving the odds that the company will be sold for its highest value. They also work to reduce the risks and stress you will face in this process. The factors below outline how they do it.

Understand the Market

Success in business rarely occurs without a keen understanding of the market where you compete. As a business owner, you no doubt have extensive knowledge of your customers, suppliers and competitors. You use this knowledge on a daily basis to make critical decisions that affect your business. Knowing your market is a key to your success. Knowing the market for businesses themselves is a key factor that enables an investment banker to be effective selling your business.

Investment bankers know the merger and acquisition market. They have the resources to estimate what other buyers have been pay-

ing for companies comparable to yours and what the terms those deals called for, like whether the sellers received payment in cash, promissory notes, stock or other consideration. Armed with this knowledge, an investment banker can reduce the risk of accepting a price that is too low, and/or terms that are unfavorable. You will also gain a more realistic expectation of what a sale of your business will achieve. If you know what offers are likely to be, you will be better able to know whether the time is right for you to sell, and to understand when a buyer's offer is a good one.

Identify the Best Buyers

All buyers are not created equal. Some buyers will be willing and able to pay more for your company than other buyers. What you want are the best buyers – those who will place the highest value on your company. An investment banker can help you find them. An investment banker systematically looks for buyers that are:

- **A good strategic fit.** Some buyers may be able to attain greater benefit from the combination of two companies rather than simply adding the two together. These 'strategic' buyers are often your very best buyers because they will be able to pay more than a buyer who looks to your company's financial performance alone for his return.
- **Interested in your industry.** The buyer might be looking to invest in your particular industry because they already do business in the industry or they believe it has attractive growth prospects and want to enter it.
- **Looking for the type of opportunity your company represents.** Different buyers are looking for different deals. Buyers whose investment criteria – annual revenue,

earnings, price range – match your company are buyers worth going after.

- *Seek the kind of growth prospects your company offers.* Your company's potential to grow may be particularly attractive to some buyers. Whether your growth potential comes from new products and services, geographic expansion, or simply being part of a dynamic industry, some buyers bring the experience and resources to manage and support growth.

One buyer, even one who is a great fit, is not enough to ensure that a business will sell for the highest price. Fit alone is not enough to get a deal done. Any number of reasons can conspire to make even a best-fit buyer to refrain from putting an offer on the table: the timing may be wrong, financing unavailable, or management occupied pursuing other goals.

Identifying multiple, best-fit buyers is critical. An investment banker's extensive network of contacts and specialized databases help ensure that a large pool of high potential, financially capable buyers are identified and included in the marketing campaign for your business.

Position the Company in Its Best Light

The value of a company often exceeds a simple, textbook multiple applied to the company's historical earnings. In fact, a company's hidden value can be the difference between a business that sells for a good value and one that sells for much more – its true value. Investment bankers have the experience and expertise to identify the key factors that drive value in a business – both the obvious and the hidden.

Most privately-held companies are run to minimize taxes. Unfortunately, this usually ends up creating financial statements that understate a company's earning power. Investment bankers understand this and will adjust your financial statements to eliminate the impact of tax savings strategies. These 'recast' financial statements provide buyers with a more accurate view of the company's true financial performance and in effect allow buyers to place a higher value on the company.

Investment bankers will also identify and highlight sources of value that may not be obvious to a buyer. These value drivers will include areas of potential growth, like new products or services the company is poised to launch or new markets the company is well suited to enter. Investment bankers will also identify the value that is created by more intangible sources of competitive advantage including a company's unique market position, its valuable trade secrets, good reputation, recognizable brand name, efficient internal processes, and the strength of its customers.

Create a Competitive Market

A company sells for its greatest value when its best buyers bid at the same time. Buyers don't like bidding against other buyers. When they talk with sellers, they often rationalize this dislike by saying that an auction environment does not allow them to get to know a company or determine whether company cultures align. In truth, it's the competition they dislike. Multiple buyers make it difficult, if not impossible, for a single buyer to dictate terms or string along deal until the seller concedes on important issues.

Investment bankers have the expertise to create a competitive market for your company. Staging your entry into the market and contacting different buyers at different times are some of the many techniques investment bankers use to bring as many buyers as possible to the table at the same time.

Maintain Confidentiality

The cost of not maintaining confidentiality can be enormous. Employees may fear the possibility of being laid off and leave the company. Customers may fear the possibility of receiving poor service or poor quality, and be receptive to the pitches of your competitor's sales people. Suppliers may fear losing business when a new owner arrives and may hold back on expanding credit lines, or may not make their best deals available to you.

Investment bankers help ensure confidentiality. They screen buyers to determine whether or not they are serious (as opposed to simply looking for information on your company). They will also identify whether buyers have the financial resources to complete a deal that will meet your approval. Investment bankers will also insist that all buyers sign confidentiality agreements. Finally, when you use an

investment banker, all calls and correspondence from potential buyers can be directed to your investment banker instead of to you and your business. This alone can eliminate one of the biggest reasons confidentiality is breached in business sales.

Handle Negotiations

Few business owners get the opportunity to practice their negotiating skills, particularly when it comes to negotiating as large and complex a transaction as the sale of their business. In addition, many business owners don't feel they have the temperament to negotiate effectively on their own behalf and are reluctant to try given the stakes involved. The ability to negotiate through an intermediary restrains sellers from making concessions too fast and allows even the most difficult issues to be addressed with the least risk of causing a negotiation to derail as a result.

Investment bankers act as a buffer for their clients during the negotiation process. You are then free to participate as much or as little in the negotiation process as you see fit. Investment bankers bring negotiating skills that have been developed over many years and, most importantly, sharpened specifically on merger and acquisition transactions.

Meet the Toughest Regulatory Standards

The market for financial securities is one of the most highly regulated areas in the economy. What has this to do with selling your company to a private party? Simply this: the sale of a company, even in a private sale, can give rise to a securities transaction as defined in the Securities Act of 1933. For a seller, this can be potentially devastating.

The owner of a C-corporation often chooses to structure the sale of his business as a stock sale in order to save money on taxes and to facilitate the assignment of important contracts. What many sellers don't realize is that the sale of stock, even to a single buyer, meets the definition of a securities transaction according to Federal, and many state, laws. If the seller uses an intermediary who is not licensed to sell securities, the buyer may have the ability to rescind or reverse the deal. In other words, in addition to returning all of the money the buyer paid, the seller will also have to pay all of the buyer's costs including

the lost interest on the money he originally paid.

Investment bankers with the necessary securities licenses are able to handle virtually any kind of transaction or deal structure. This allows them the creativity to put together deals that maximize a company's market value.

Save Time and Resources

Selling a business takes a lot of effort over an extended amount of time (usually between 6-18 months). An investment banker has the ability and resources to focus on the sale, allowing you to focus on maintaining the success of the business.

Since buyers pay a premium for growing companies, your best course of action is often to focus your efforts (and your management team's efforts) on maintaining the company's success. By continuing to grow the company, you can more than pay for an investment banker's fee.

Manage the Entire Process

An investment banker is uniquely positioned and qualified to bring the sale of a company to a successful close. Once a company is brought to market, an investment banker will screen the buyers who respond to determine their real level of interest and whether they have the resources available to complete a deal. There is no need to waste time with buyers who simply want information but have no serious intent to buy. An investment banker will coordinate with you and your other advisors to get the information needed to negotiate your best deal. When a letter of intent is signed, the most difficult parts of the process begin. Before the buyer hands over the money, he wants to be sure that the company really is as good as he thinks it is. The due diligence phase provides the buyer with the chance to perform a thorough investigation. This is also a time when many deals fall out over misunderstandings and disagreements over otherwise solvable issues.

An experienced investment banker has the expertise developed over many deals to bring together all of the players on both sides, maintain focus on the big picture and, ultimately, get a successful deal closed for the seller.

The Choice is Yours

You do have a choice when selling your company. The services of an investment banker are not for every company. (See the box "When Selling Your Business on Your Own May Make Sense.") Before trying to sell on your own, you are well advised to consider the services an investment banker offers. For most owners, an investment banker is the best guide through the complex and fast-paced world of mergers and acquisitions, and provides experience and expertise you can't get from your other advisors.

When Selling on Your Own Makes Sense

Before you decide to sell it on your own, consider these four questions:

Do you know how much it's worth?

If you don't, hire a professional appraiser or rely on an investment banker. If you price your company too low, you'll leave money behind, while too high a price will turn off potential buyers.

Can you list your business's best buyers?

The best buyers for your business can be one of your competitors, customers, suppliers, or strategic partners. They may also be a private equity group, or a company outside your industry looking to get in. If you really don't know ALL of your best buyers, you're better off using an investment banker who has the resources to find them.

Do you really have the time?

Selling a business is extremely time consuming. If your staff can't keep your company on track in your absence, an investment banker can be a good investment.

Are you the best person for this job?

If you're articulate and, especially, have no hesitation about pitching your company to buyers, you may be the best person. But if your emotions and anxieties may get the upper hand, let someone else handle it.

Do you want to stay around for a while?

If you expect to have a significant role in the company after the sale, it may be difficult or impossible to go through contentious negotiations with the buyer and then be able to work amicably with them once you've closed the deal.

About the Authors

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