

DON'T BE A LONE RANGER WHEN SELLING YOUR COMPANY

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We have all heard the ageless sayings, “Penny wise, pound foolish,” and “An ounce of prevention is worth a pound of cure.” Each is especially relevant today to business owners considering the sale of their companies.

Selling a company is one of the most intricate transactions a business owner can make and with the millions of dollars at stake; it is not the time to pinch pennies. The extensive planning, evaluation, marketing and execution details that are involved make it inadvisable for a business owner to be the lone ranger on such a complicated task. A recent survey by a national consulting firm representing buyers shows the price differential can climb as high as 50 to 60 percent when a seller is not represented by a professional merger and acquisition (M&A) advisory team.

While it is likely no one understands a company better than its owner, there are aspects of selling a business that require the skill and collaborative efforts of a professional M&A team. According to an independent research study, owners who sold their businesses without help from an experienced M&A intermediary did not close the sale as often, received a lower sales price, spent more time in the actual sales process and suffered more frustration throughout the sale.

A professional M&A advisory team adds value in the following ways:

- Identifies value within the company
- Presents the company to the market
- Preserves value through confidentiality

- Identifies and engages qualified prospective buyers
- Creates a competitive negotiating environment
- Maintains the flow of the transaction process
- Allows the owner to concentrate on the operations of his/her business

Identifying Value & Presenting the Company

First-time sellers often have unrealistic expectations about what their businesses are worth, which can result in overvaluation or emotional attachment. The other side of the coin is undervaluation, which may result from unfamiliarity with either the business’s marketability or the overall industry trends. Because an investment banker, attorney and CPA typically comprise an M&A team, it can come to the table

with a comprehensive understanding of today’s markets, a knowledge of what similar businesses sell for and what is needed for proper valuation and execution.

Every facet of a company – from its business history or future prospects to its style of operations – will affect value in either a positive or negative way. Therefore, presenting a company to prospective investors can be a heavily involved process. When looking from the outside in, an M&A team is positioned to see the big picture and its experience and objectivity can help present a company in its best light.

Preserving Value Through Confidentiality

It is not enough to simply keep a transaction confidential; it is also important to safeguard sensitive

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information. Throughout the transaction process, a main concern of many business owners is confidentiality. Signed confidentiality agreements do not entitle a prospective buyer to see every detail of a business. An M&A team can help offset some of the complexities involved in maintaining confidentiality by basing its marketing strategy on the owner's confidentiality terms. Divulging too much sensitive information to too many buyers can impair a company's value proposition. Communicating solely through an M&A advisory team, business owners can significantly reduce the risk of leaking confidential information.

Identifying Prospective Buyers

Choosing to work with an advisory team can increase the number of prospective buyers. Investment bankers have access to thousands of financial and strategic investors, which is especially beneficial to middle-market companies. The lone ranger would find it very difficult, if not impossible, to market his/her company on such a large scale within a reasonable time frame and maintain complete confidentiality. When an M&A team represents a company, it shows prospective buyers it is serious and can help weed out unqualified buyers.

Creating a Competitive Negotiating Environment

M&A teams can help transfer the balance of power from the buyer to the seller by implementing the above

marketing strategy and by serving as the "point man" during the negotiation process. The seller may be able to get the best price for his/her company with the help of an experienced, capable M&A team. As the intermediary, it can establish a strong bargaining position on behalf of the seller without compromising the goodwill between the principal parties.

Maintaining Transaction Momentum & Focusing on Day-to-day Operations

Sometimes a transaction's success hinges on maintaining momentum, especially when large buyers are involved who are actively seeking acquisitions. As the member of an M&A team, an investment banker can provide much-needed persistence and help the business sale run smoothly, from assessment through execution. Because the transaction process can stretch from six to twelve months or longer, it is important to have a qualified intermediary who can keep buyer and seller focused, should things stagnate.

As a company's financial condition, operations and objectives are being assessed; an M&A team can value, prepare and time the transaction to the seller's best interests. In addition, the team shields the owner and management team from the many distractions involved in a sale. During the transaction process, it is critical for the owner to stay focused on the business because dips in performance give buyers pause. Repeatedly missing financial performance forecasts during negotiations is a sure-fire way

to lose credibility, if not the deal. The most important thing business owners and key executives can do during the M&A process is attend to day-to-day operations.

Remember, selling a business is a team effort and an M&A team can add value to your sale – throughout the transaction process to its conclusion. If you are considering selling your business in the next three to five years, don't be a lone ranger. Assemble your transaction team now.

Take Our Advice

BKD Corporate Finance, LLC, a subsidiary of **BKD, LLP**, can help you evaluate ways to achieve your business succession goals. Let our team of corporate finance professionals and financial and market analysts help you benefit from implementing strategies to preserve and protect your wealth. Call us today.

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