Q&A: HOW TO RESPOND TO BUYERS

BKD Corporate Finance, LLC

Someone calls you out of the blue to say they would like to buy your company. How do you respond? Consider these questions and answers before proceeding.

Why does this buyer want my company?

From a strategic perspective, growth through acquisition is a common approach to expand either horizontally or vertically. Profitability, market/product strength, intellectual property, technology, valued customer base, management expertise and future market opportunities, as well as other synergistic opportunities, are among the reasons your company may be viewed as an attractive acquisition target.

Financial buyers, also known as private equity groups, typically target companies in attractive industries as well as companies that may serve as a platform for further consolidation. Financial buyers also acquire add-on companies to complement a platform company within their existing portfolio.

How will this buyer establish a price for my company?

Ultimately, it comes down to a return on investment for many buyers. The premise is the same as when someone buys stock in a public company, buy low and sell high. As a result, buyers prefer to pay the least amount which makes their potential return higher upon sale.

Many aggressive acquirers will attempt to bait the seller with a high initial offer, only to reduce the purchase price at a later date before closing. Unfortunately, this reduction in purchase price comes after the buyer learns most of the seller's confidential information. Too often business owners concentrate their efforts on dealing with the buyer instead of running the business, which can negatively affect the performance of the business and eventually the purchase price.

Should I share confidential information with the buyer?

It is possible the prospective buyer is more interested in learning about your processes and procedures than acquiring your company. To reduce this risk it is imperative to limit the type and quantity of information initially provided to the prospective buyer. In addition, a professionally written confidentiality agreement needs to be in place before disclosing any information.

How do I know I can't get a better price for my company?

With just one potential buyer, it is impossible to answer this question. The buyer may, in fact, be willing to pay the best price, but may not be motivated to put his/her best foot forward without the competition of other interested parties.

By contacting other strategic and financial buyers and receiving multiple proposals, you can better evaluate whether or not you received the best deal. Having competitive negotiations in a transaction typically results in a higher value for the seller. Equally important, competitive negotiations increase your leverage when negotiating terms and conditions such as currency, non-compete, representations and warranties, offset rights, survival periods, etc.

Take Our Advice

These are only a few of the questions to ask if approached by a prospective buyer. Give use a call if you are interested in learning more about how to respond to buyers and skillfully manage the sale process.

Springfield, MO
Steve Blumreich
Patrick Hayes
800.644.1704

Denver
Tony Giordano
303.837.3562

Indianapolis
Tony Schneider
Patrick Huse
313.383.4000

www.bkdcorporatefinance.com