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If I am Considering Selling My Company, Should I Handle it Myself or Engage an Investment Banker?

For a private business owner, the decision to sell their business is one of the most important and often gut-wrenching decisions he or she will make. In many cases, the owner will have devoted the better part of his or her adult life to building the business, and the decision to let go is not an easy one. The sale of the business may be the most important business transaction in which the owner has ever been involved. As the owner considers what to do and how to go about it, there is a fundamental decision to be made—do I hire an investment banker to help me or do I handle it myself?

For the owner in this situation there are three basic questions to be answered:

1. Do I need an investment banker?
2. If I decide I need one, how do I go about selecting the right one for me and my business?
3. After I've selected one, how do I work with them to maximize their effectiveness?

In this article, we will address the first question—how does an owner evaluate whether to hire an investment banker to manage the sale process versus handling it on his own? Following is a list of questions the owner can ask himself in order to make this determination.

1. How many businesses have I sold? Typically a business owner has been involved in few, if any, sale transactions. The buyers, however, are likely to have a lot of experience, putting the business owner at a significant disadvantage if he does not have an investment banker.

2. Do I have the time? The sale process is enormously time-consuming. At the same time, the short-term performance of the company takes on a heightened level of importance since the current performance of the company is under a microscope by potential buyers.

3. Is there an opportunity cost for me and my company if I do it myself? Business owners will find the sale process to be time-consuming, emotional, and frustrating, making it more difficult to stay focused on the most important thing—managing current performance.

4. Do I know what my business is worth?
   - To a strategic buyer – a public or private operating company that will buy a company based on the value they perceive in the combined future of the companies.
   - To a financial buyer – private equity groups (PEG) that raise investment funds to buy, grow, and sell companies in a relatively short period of time with a planned exit. PEGs may also be strategic buyers because they own and operate a company or "platform" that will acquire complementary "add-on" companies.

   A buyer will want to understand past performance and the owner's view of the future. The value of the company can vary dramatically to different potential buyers, depending on how well it fits into their current operation and what they think they can do to positively impact sales or reduce expenses. An investment banker can provide objective advice based on years of experience concerning the range of likely sales prices and the things an owner can do to positively affect the value of his business.

5. Do I know how to maximize the value of my business in advance of a sale? Every dollar of improvement to earnings is worth a multiple in a sale. The company's financial statements should be clean and understandable to buyers so that a minimal amount of adjustments are necessary to reflect the true earnings of the company. Sellers should consider having audited financial statements and minimizing the amount of "personal" expenses that are run through the company. It is usually best for an owner to start planning for a sale one to three years in advance so that any changes to the operations have been fully implemented and are reflected in the financial statements.

6. Do I fully understand my options?
   - Strategic buyer
   - Private equity
   - Management buyout
   - ESOP

Each category of potential buyers presents various advantages and disadvantages. Additionally, for privately owned companies there are both quantitative and qualitative factors that are involved in selecting the optimum course. For example, is the owner leaving or does he want to stay? If so, for how long? Is there a successor manager to the owner? Will the business be re-located? Will the name change? What happens to the employees? The list goes on and on.

7. Do I know who the buyers are?
   - Do I know who to contact?
   - Do I know how to approach them?
   - Do I know how to get their attention?
   - Do I know how to screen them?

   A seller of a business is competing for capital along with the other options that potential buyers are considering. It's a big world and there are always a lot of companies for sale. Experienced buyers are excellent at generating deal flow and typically have a well-defined acquisition process of their own. Unless a seller has the experience to look at his own company through the buyer's eyes so that he understands their hot buttons and can position his company accordingly, he is operating at a significant disadvantage. Often, he is not able to get potential buyers to even consider his company.

8. Do I have prior experience in negotiating sale transactions? The various options for structuring a sale are almost endless. The implications of a stock sale or an asset sale can be significant. The consideration in a transaction can include cash, notes, stock, and earn-outs. Negotiating the proper amount of working capital in the business at the time of sale is always tricky. The representations and warranties are an extremely important part of the transaction. The owner may own a building personally that is leased to the company. A buyer will likely want non-compete agreements from the owner as well as key employees. These items and many others have to be thoughtfully considered and negotiated.

9. Do I have the ability to represent my company fairly and objectively? Will a buyer trust me to be completely objective about my company? Do I really think I can maximize value if I'm the point person on the negotiation as opposed to utilizing a third party to represent me?

   Experienced buyers would rather deal with an experienced third-party negotiator than an inexperienced owner-negotiator. There are always difficult issues to be addressed.

If the owner is the point person on the negotiations and will be remaining with the company post-closing, heated negotiations can have a long-lasting impact on the future relationship.

10. Do I know how to manage the process?
    - Can I create a compelling selling document?
    - Do I have the ability to evaluate competing proposals with varying terms?
    - Am I confident I could select the best buyer for the right reasons?
    - Have I managed a due diligence process before?
    - Do I know what a virtual data room is, and I have I used one?
    - Can I get the deal over the finish line?

    Even an efficiently run process can take a minimum of six months to a year. The process, from initial contact, negotiation of confidentiality agreements, gathering of due diligence information, arranging meetings, answering questions, selecting the buyer, and negotiating documents can involve dozens of meetings, hundreds of phone calls, and thousands of emails.

11. Can I handle the stress?
    There is a saying in the investment banking business that "Every deal dies three times." Managing a sales process to completion is like running an obstacle course. If an owner has limited or no experience in dealing with the obstacles inherent in a sales transaction and overcoming them, it is difficult, if not impossible, for him to keep his bearings and make it over the finish line with an optimal outcome. Without experience, it can be easy to overreact to some potential obstacles and be oblivious to other ones that could be potential disasters.

    Even experienced mountain climbers use guides to get to the peak of Mt. Everest because they recognize the value of having someone they can rely on that knows the route to success.

<u>Summary</u>

We believe that business owners should view the benefits of using an investment banker as an investment and not an expense. Independent studies have shown that the ultimate purchase price realized by companies that used an investment banker significantly exceeded their cost. In a study by Mercer Capital, the analysis revealed that the pricing multiples received by sellers that retained a transaction advisor were

20% higher than those who took the For Sale by Owner (FSBO) approach. Further, the peace of mind that comes with knowing you have a trusted advisor who is looking out for your best interests, and providing honest, objective advice along the way during the most significant transaction most owners will ever experience is invaluable.

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