

FOR EXECUTIVES SEEKING TO BUY, SELL, OR RECAPITALIZE BUSINESSES

The Experience Factor

The folly of going with a single buyer

"When a man with experience meets a man with money, the man with experience walks away with some money and man with the money walks away with some experience" - Anonymous

Recently an insurance company executive approached us about selling her company. She had an offer from a national insurance company, let's call it "XYZ Company", and wanted to see if we could bring in a buyer to pay more for her company. We have seen many instances where a buyer, typically someone in the same industry, makes an offer on a local company and ends up paying a substantially lower value for the company than what a proper business sale would enable. The best advice we could give her was to retain our company to represent her and conduct a confidential M&A Process to maximize her take home.

This buyer, a sharp lady, is a great insurance executive but, as is the case with most business owners, has no experience selling companies. The national insurance company on the other hand, has done many acquisitions in the past and has a seasoned team working on this transaction. Without representation from a competent M&A specialist, here is what this business owner will likely go through:

- ❖ XYZ starts the process off with a basic, generic, non-binding LOI with an offer well below or at the low end of the business's value
- ❖ Seller may ask for more money and the XYZ Company may accede depending on their acquisition strategy and how tough its negotiators are.
- ❖ Once the seller thinks she has got fair value for her company, XYZ embarks on an exhaustive due diligence process. XYZ company's attorneys, accountants, acquisition experts start their inquisition into the seller's company affairs.
- ❖ The owner gets busy with collecting tons of paperwork, preparing many diligence reports, answering questions and starts losing focus on the business
- ❖ XYZ starts finding several small and big things that are wrong with the company's financials, sales pipeline, future projections, leases, etc.
- ❖ XYZ puts out an updated LOI which is lower than the initial offer because of all the things that they uncovered in the due diligence process.
- ❖ The terms in the updated LOI are complex, payments delayed, tied to future performance, and generally structured in a way that is not advantageous to the seller

- ❖ By this point in time, the seller has spent countless hours of precious personal time and has also spent several tens of thousands of dollars in attorney fees reviewing the contracts and other legal documents.
- ❖ The process also takes its toll on the business. With the seller's eye off the ball, the business starts to suffer. Employees get nervous and productivity drops. In some cases, key employees or key customers may leave. XYZ Company's continued due diligence finds signs of deteriorating business and asks for further accommodations from the seller.
- ❖ If the seller realizes she has been had or if she becomes emotional about the process, she will pull the plug, cut her losses, and go back to rebuilding the company for a sale later. But more often than not, the seller is tired, anxious, stressed out, under time pressure to make the transaction, and eager to move on. Faced with the compelling arguments from XYZ Company's experts, the seller decides to take the lowball deal and moves on.

The seller could avoid this with one simple step - Start M&A process with a competent set of advisors and let them work with multiple buyers. The M&A process will enable all potential buyers, including the one that started off the process, to compete for the business. The buyer who sees the most value in the business will likely win and provide the seller with the best value as well as favorable terms. A win-win deal for all parties involved.

At our firm, we have routinely done deals where the final take away was 20% to 40% higher than what the seller would have netted had he/she gone with the first offer.

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