THE EXIT ACADEMY

Difference between

Advisors and Brokers

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The
Exit Academy

Lesson Download

M&A Advisors vs. Investment Bankers vs. Business Brokers – Which is Right for You?

As with most things in life, when you want to sell your business, knowledge is power. A good first step to gaining that power is understanding the varying types of advisory services that are out there. Armed with this information, you'll soon grasp the differences between each and can identify the type of advisor that is right for you and your firm.

There are countless examples of business owners who failed to equip themselves initially with the necessary knowledge to make an informed decision. As a result, many embark upon the exit journey with some potentially significant missteps.

Selecting an advisor for the sale of your business can be bewildering. For many entrepreneurs, knowing where to start is the first challenge. Most have heard of the terms investment banker, M&A advisor or business broker, but until now have given little thought as to the differences among them. This is part of the reason many sellers are poorly advised; they simply do not understand the scope of intermediaries available and what each can offer the seller. Subsequently, they turn instead to their lawyer or their accountant, with whom they have a longstanding relationship, as their first point of contact.

However, lawyers and accountants typically do not advise on the process of selling businesses. While there are exceptions to the rule (for example, some firms have internal M&A advisory departments), for most, this is simply not what they specialize in. In my experience, most lawyers and accountants do not possess meaningful relationships with such advisors and so are unlikely to make useful introductions. If they try to manage the sale of your business themselves (and some do), the results are often less-than-optimal for the business owner. Selling a business is a specialized skill, and you should ask a specialist to do it for you.

You may be thinking, "Well, he would say that. He makes his living advising on M&A transactions." And you'd be right. This is how I make my living. However, the data backs up what I'm saying here.

A 2016 Harvard study titled "Does Hiring M&A Advisors Matter for Private Sellers?" examined 3,281 acquisitions of private companies. It found that "...private sellers that hire advisors receive significantly higher acquisition premiums." The study reported that "acquisition premiums ranged from 6% - 25%..." and that "...our findings suggest that M&A advisors...can find and negotiate better deals for private sellers."

Your first step is understanding the differences between categories of intermediaries: investment bankers, M&A advisors and business brokers. The major determinant for selecting among these is transaction size–that is, the value of your company.

Generally speaking, these three types of advisors work on three different scales:

• Business brokers: Brokers operate in smaller transaction sizes, typically less than $5 million

• Investment bankers: Transaction size generally is greater than $250 million, although deal sizes can be lower, provided the banker's minimum success fee threshold is met

• M&A advisors: Typical transaction size is between $5 million and $250 million, although deal sizes can be much larger than $250 million

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If you're considering the exit of your business, contact us at: **ExitSupport@markcarmichael.com**
We work with ambitious clients who want to make the most of their exits. Business owners from around the world come to us to determine their ideal exit strategies. Our market-leading approach to selling businesses drives the development, implementation and execution of the most effective sell-side strategies designed to achieve extraordinary results. We typically work with businesses with an enterprise value of $25 - $500 million.

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Business Broker

Brokers most often work with smaller companies that will be purchased by an individual rather a corporate or institutional buyer. Their process is similar to selling a home, and many business brokers are real estate agents as well. Typically, business brokers sell companies that function as income replacement for the owner-operator. Valuation is based on a multiple of the "seller's discretionary earnings"–that is, the cash flows generated by the business to the owner-operator. The broker assembles information regarding the business and advertises the company on business-for-sale websites, with an asking price. The typical transaction structure is an asset sale (the sale of the company's assets) using a template or standard forms. It is a less sophisticated process than that of an investment banker or M&A advisor, but often an effective strategy for smaller transactions, most often below the c.$5m transaction value range.

Investment Banker

Insofar as mergers and acquisitions are concerned, M&A advisors and investment bankers are somewhat interchangeable, with a few key differences. Investment bankers characteristically work with larger corporate clients and offer a wider range of services than M&A advisors. These can include initial public offerings (IPOs), fairness opinions, raising capital for clients through securities operations in the equity and debt markets, and structuring complex and sophisticated financial products. Investment bankers typically charge fees considerably higher than M&A advisors. It is not atypical for an investment bank to have minimum success fees of $3 million or more, which dictates the minimum size client they can serve. I recently met with employees of an investment banking division of a well-known bank who advised me that their minimum fee for an M&A transaction was $4 million.

M&A Advisor

M&A advisors bridge the market gap between transactions that are led by investment bankers and those managed by business brokers. M&A advisors are typically more consultative in their approach and often work with clients in the strategy and planning phases as they consider their exit options. Due to their smaller size compared to investment banks, M&A advisors often focus on forging close relationships with the seller, with the senior team involved day-to-day from beginning to end.

Both M&A advisors and investment bankers typically execute a sophisticated process that is proactive and focused on creating a competitive bidding situation among interested acquirers. This contrasts with the passive, more basic process implemented by business brokers. The actively managed process tends to add considerable value, equating to a higher price achieved for the seller's business. A business owner should expect the work of a good M&A advisor or investment banker to pay for itself.

Which is Right for You?

For many business owners, the choice is fairly obvious, based on the value of their business. If your business is a small plumbing and repair firm that turns over $750,000 per year, a business broker is likely the right avenue to take. Conversely, if your business is turning over $15-$20 million or more, then an M&A advisor is likely right for you. This is especially true if you believe that there may be an international buyer out there that would benefit from acquiring your business. In such an instance, a competent M&A advisor who can develop, implement and execute an international strategy is your best bet.

Where the choice can become less clear is when the anticipated transaction value is large enough to potentially but not clearly warrant an investment banker. Although there is no hard rule here, transaction sizes in excess of $150 million may be considered appropriate for an investment bank to lead the sale of your business. M&A advisors, depending on their capabilities, will also feel equally comfortable operating in this value range, so it makes sense to do your homework. Speak with multiple parties to develop an understanding of the following:

- Their fee structures
- Their proposed strategy to elicit the highest valuation and best deal terms for you
- Whether they advocate an international process
- How many investors they envision reaching out to
- Their personality (do you like them?)
- Their ability to explain their process clearly and in detail to you
- The anticipated timings to carry out a transaction
- Who their deal team will be comprised of

Make sure that you are comfortable with your chosen advisor's capabilities, experience, intelligence, ability to negotiate, overall fee structure and likeability. As we discuss in The Exit Academy, how a business is marketed, positioned, sold and negotiated can vary dramatically between various advisors. Ensuring that you firstly understand how businesses are most effectively marketed and sold in today's world is a critical first step in determining which advisor is right – and best – for you.

This is, for most business owners, a life-changing transaction. It pays to make an informed decision as to who will lead you down the road to a successful sale of your business.

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