THE EXIT ACADEMY

Forming a

Winning Deal Team

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The Exit Academy

Lesson Download

Forming the deal team

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.

This team enables you to develop a comprehensive understanding of the beginning-to-end process. They minimize opportunities for value leakage, establish your negotiating position, maximize the sales price and execute the deal. They should identify and remain ahead of the fundamental issues and avoid loss of value. Key members of a typical sales team are:

- The CEO / owner
- Other senior members (such as your CFO, a board member, etc.)
- M&A advisor/investment banker
- Transaction/deal attorney
- Accountant
- Tax specialist
- Financial/wealth advisor

On a day-to-day basis, the sale process will be focused around you and your M&A advisor, but don't underestimate the importance of the other team players. Let's take a closer look at each, and the significance of the role they play. In doing so, you'll understand the importance of ensuring that each role is appropriately filled. A common problem we see–and I want to help you avoid–is misplaced loyalty to individuals with whom an owner has a current relationship but who may not be the best players for the sales team. For example, we once had a client who wanted to hire an old friend from university whom he described as a "part-time M&A lawyer." We advised that this was not the time for inappropriate loyalty and strongly encouraged him to find another firm that fit the bill (fortunately, he did).

M&A ADVISOR

No matter which analogy you use, your M&A advisor is your quarterback, captain, chief architect, field general... you get the idea. They lead the day-to-day process of identifying, engaging, qualifying and bringing to the deal table those strategic and/or financial investors interested in acquiring your business. Your relationship with them should be based on trust, integrity and likeability. They will be a big part of your life for a number of months and the driving force behind obtaining the most attractive exit scenario for you and your fellow shareholders. Advisors vary considerably in experience, capabilities, depth of expertise, in-house resources, ability to reach international investors and the like, so do your homework. Get the selection of your M&A advisor wrong and you're likely facing an uphill battle, at best (more likely: you face the potential of a failed sales process right from the start). No advisor can guarantee you a successful result, but the right investor on your side does bring a significantly higher probability of a positive result.

I devoted a lot of ink in The Intelligent Exit to the process of choosing the right advisor – and repeated this pattern again in The Exit Academy. Get the right people in the bus and in the right seats. The rest of this document focuses on the other members of your team.

Disclaimer:
This document is produced for information only in general terms and its application in specific circumstances will depend on the particular facts. We always strongly recommend that you seek your own advice from a qualified M&A advisor and when appropriate, from your lawyer, accountant or other professional advisor as appropriate. The content and opinions expressed in this report do not constitute advice whatsoever and neither The Exit Academy, The Intelligent Exit nor any affiliated businesses, staff or other representatives shall be liable for any loss arising from your reliance on any of the information contained in it.

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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Transaction attorney

The deal attorney typically becomes actively involved at the very beginning and again at the end of a sale process. In the pre-marketing stages, it is helpful to get the lawyer up to speed (if they are new to your company) on the business and the legal structures and entities involved. The lawyer often can flag any legal risk areas or possible structural benefits that can be used in the transaction process. This is especially important when:

- The corporate holding structure is complex or unusual
- There are more than a couple of different shareholders
- The legal entities involved cross jurisdictional borders
- The nature of the business leads to complex or highly specialized agreements with customers and/or suppliers
- There are tax losses in certain legal entities that can be exploited by a buyer

M&A transactions contain complex, multifaceted agreements and deal structures as well as tricky legal issues. They are characteristically fast-moving and argumentative between seller and buyer. To be successful, an M&A lawyer needs to be deeply acquainted with the business realities of M&A deals and the inner workings of the acquisition agreement alike. He or she requires a comprehensive knowledge of the appropriate practical law and needs to be an accomplished advisor, negotiator, and draftsperson. M&A deals necessitate a lawyer who is skilled, M&A-focused and has the battle-scars and wisdom earned through previous M&A transactions.

CPA/Accountant

Like the law firm, the CPA/Accounting firm must have knowledge regarding completing M&A deals. For most clients above a certain revenue threshold, we recommend having audited financials for the last three years before approaching investors. This mitigates concerns a potential buyer may have regarding the accuracy and/or integrity of your firm's financial performance, something that if not sufficiently addressed in the buyer's mind, will lead to value leakage. I speak about the question of whether you may need an audit in the Exit Academy.

Your CPA or accounting firm will often lead the company's preparation for due diligence. Your company's financial reporting should be put in order (if not already the case), requiring only minimal adjustments (such as normalization of EBITDA) and allowing you and your advisors to to respond promptly and robustly to questions and requests for financial information.

A comprehensive, well-managed and indexed data room instils confidence amongst investors. A poorly prepared data room creates the opposite effect. Given that much of the data room contents revolve around your firm's financial data, your accountant's role here is vital. The CPA/accounting firm should work in parallel with your M&A advisor to complete the data room in advance. This will ensure that the deal progresses more efficiently. Further, having due diligence in order reduces the potential for unpleasant surprises and additional probing questions by buyers. Ensure that you have the right accounting resource on your team to assist in this, as well as with any tax or other M&A issues that may surface.

Tax Specialist

A sell-side process – i.e. the sale of your business – can result in several outcomes, ranging from the sale of 100% of your firm's shares, to an acquisition structure with an earnout component, to a joint venture, and so on. Deal structures can vary dramatically, and different structures have different tax implications. Whatever type of transaction you choose, your obligations to the tax office must be prudently assessed and your cash flows optimized. Your tax specialist should ensure that your transaction is structured in such a way that it is focused on your strategic priorities, tax efficient, and advanced with the degree of urgency that a transaction often requires. Thus, it is vital to have the right resource available to you for experienced advice on deal structuring at each point in the deal cycle.

Wealth Advisor

It makes intuitive sense to engage (or at least initiate discussions with) an experienced and qualified wealth advisor to help you plan for life after you sell, yet many entrepreneurs fail to address this until a sale is complete. It is comforting and confidence building for you to establish you own and your family's overall financial needs and goals, so that you can ensure that the sale of your business will enable you to meet them. Your wealth advisor adopts a long-term view of your finances and assets; not just your business but also any other holdings, real estate, investments, retirement savings plans and more. He or she develops a management strategy to ensure that your long-term objectives are met. The wealth advisor can also work with you to determine how to optimize the proceeds of your sale and may take a view as to the best deal structure for the transaction itself.

Final thoughts

Abraham Lincoln once wrote "He who represents himself has a fool for a client." When considering the sale of your business, do not forget these words. Many entrepreneurs are tempted to undertake the process alone. I should know. I was that naïve 25 years ago, when I decided to go it alone in selling my first company. I sold it, sure, but left behind approximately 50% of the sum I could/should have received by way of poor negotiations, legal contracts and tax advice.

Do not make the same mistake. It pays to secure the right counselors. Don't let anyone tell you otherwise. After 15 years leading M&A deals around the world and across a multitude of sectors, I have yet to come across anyone who could have done it him/herself – and we've worked with some incredibly experienced and intelligent entrepreneurs.

The element you can exert the greatest control over is creating the right team to ensure the highest probability for success. This is not the time to cut corners. Do your homework and give yourself the time you need to bring on the correct people.

You'll be glad you did.

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