THE EXIT ACADEMY

The importance of engaging

The right advisor

Mark Carmichael

The Exit Academy

Lesson Download

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Mergers & Acquisitions transactions are major events for a business and its stakeholders. Far beyond the shareholders themselves, the sale of a business has a potentially significant impact on the wider stakeholder community associated with your company, including the firm's staff, customers and suppliers. Finding the right buyer is important not only to ensure the highest probability of a successful transaction; it is vital to all stakeholders involved. Recognizing this, large companies engage some of the most sophisticated investment banks to assist them in negotiating and structuring transactions.

Yet, as we covered in The Exit Academy, the importance of such advisors is not always equally appreciated by business owners (both big, medium and small)–at least, not until they are in the advanced stages of a transaction, when hindsight is of little benefit and the process has advanced to a point where it is too late to change sub-par advisors. Too often, business owners find themselves working with an unsatisfactory team incapable of performing the most comprehensive exit strategy on their behalf. Yet these owners are successful, savvy business people. Why is this situation so common?

Part of the problem is that there is no clear credentialing of those who advise on the sale of such companies. There is no CPA/CA, JD, bar exam or other validation to assure an owner that an advisor is qualified. That uncertainty blurs the lines between consultants, brokers, M&A advisors, investment bankers, and scam artists.

While there is no doubt that the sale of a company can be one of the most lucrative undertakings in a business owner's life, it comes with a multitude of risks and obstacles. These include:

• An unsuccessful sales process, costing you time, money and opportunity

• A sale for less than fair value, depriving the shareholders of realizing the full value of their investment in the company

• A sale with poor deal terms, such as an unfair earn-out, risky deferred compensation or onerous claw back/indemnity provisions, etc

• The disclosure of trade secrets to competitors

• A damaged reputation

I've witnessed the above play out time and time again and have heard of more such instances as a result of discussions with business owners and advisors around the world. Now, if you think that retaining a major investment bank will completely remove the probability of such events transpiring in the sale of your business, my advice to you is: buyer beware.

As I write this, we are involved in advising one of the shareholders on the sale of a multi-hundred-million-euro transaction in which the seller's advisor, a very well-known international bank, is seriously underserving their client. The reason? The deal is too small for the bank, and so the deal team leader has "more important" items on her agenda than guiding this process appropriately. The net result is that a junior team of two are running the day-to-day process, failing their client (the seller) and my client (the buyer) on virtually every level.

Investment banking and M&A advisory are among the most highly compensated industries because they draw smart, ambitious professionals who undertake demanding work. Most of these professionals hold MBAs from leading international business schools. Mergers and Acquisitions requires tremendous intellectual capacity, including the ability to develop a comprehensive understanding of the client's business, who would benefit

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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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from acquiring it, how to represent the client and his/her business in a positive light to potential buyers, how to negotiate with sophisticated buyers, etc. It also requires interpersonal skills to manage the many emotions, egos and agendas that come into a transaction. You should expect a lot from your advisor.

Aside from the fundamental performance and economics of your business, your advisor is the most critical determinant as to whether you will complete a transaction that meets your objective. This means that the most important thing you can do in the short-term to improve your sale prospects is to ensure the right M&A advisor is on board.

I have spent more than half a lifetime of building businesses internationally and the past 15 years of my professional life committed to M&A. I often engage in discussions with entrepreneurs and their fellow shareholders and/or management in which the topic of choosing the right advisor arises.

QUESTIONS TO ASK POTENTIAL M&A ADVISORS:

1. Can you explain your process from beginning to end, in detail (preferably in writing)?

2. Who will specifically be on the deal team?

3. How will you communicate with me and my other stakeholders–and how often?

4. How do you identify potential investors and what research do you do on each before reaching out to them? Do you focus on strategic buyers, financial buyers, or both–and why? What is your approach? Is the outreach focused on domestic investors, international or both–and why?

5. What is your approach regarding the actual marketing and selling of my business? Can you talk me through your approach? Do you email only or do you also engage by video, phone or otherwise? How many phone attempts do you make in establishing contact? What records do you keep of attempts made with each investor? Who does what (i.e., which team members are involved) at the various stages of communication with an investor? (Typically, the outreach team initiates contact to gauge interest and secure the NDA before advancing the communications to senior team members.)

6. What marketing materials do you prepare to distribute to investors? Who designs them? What is your approach to creating a compelling story line that will engage and intrigue investors to learn more about my business?

7. Do you have a strategy to establish and build rapport with each potential investor? In other words, how do you get closer to each party to better understand their interests in my business and what the value drivers are for them?

8. How do you handle confidentiality agreements with potential investors? Are your agreements sufficient to protect my interests but not so comprehensive that they turn off potential buyers? How do you negotiate any changes that an investor may want to make? Does this require me/my lawyer each time?

9. How much experience does the deal team have in M&A? What is their experience working together as a team? What are their levels of education?

10. When discussions advance to drafting the agreements, what role do you play? Are you involved as required to ensure that the discussions between lawyers are advancing efficiently? Will you be a source of counsel to me during this process if need be? What is your experience in this regard?

11. I understand that negotiations on various points of the transaction continue throughout the drafting of the agreements. What ability/experience do you have to assist me in this regard? Can I rely on you to aid in the process of negotiating with the buyer?

12. What are the terms of your engagement letter with me? If I wish to proceed, can you spell out the terms that I should expect to see in the eventual agreement between our two firms?

13. Why should I choose your firm over another?

By considering these questions you can sense the importance of having the right dialogue with potential advisors up front. The more time you spend with them engaged in such discussions, the better understanding you will develop of them, allowing you to make an informed decision.

Hiring the right advisor can multiply your probability of exit success. Hire the wrong one and the exact opposite may well be true.

Choosing the right advisor is fundamental to the success of the deal. Do not enter into this relationship lightly. Do you homework and ensure that the advisor you choose satisfies as many of your requirements as you demand. There's a lot at stake here, so take the necessary actions to ensure your overall success.

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