

How To Choose An M&A (Mergers & Acquisitions) Advisor

By Holt Vaughn

Congratulations! You're doing well, you've built a terrifically attractive company, and people are knocking on your door asking if you want to sell.

Or maybe pressures have been building, things are trending downward, and all you're thinking about is getting out before you have to struggle through *another* economic downturn.

Perhaps a CPA, attorney, family member (have a spouse who wants to travel and spend more time with the grandkids, anyone?), or an associate points out that it's time to think about what's next in the life of your company... after all you're not getting any younger.

Or maybe you've simply been approached by an M&A person like me who wants to talk with you about selling to a prospective buyer(s) or internal management group or just wants to chat and help you think about what your exit strategy is.

Who are you going to get to help you with this?

The point is, when the time comes to start thinking about the prospect of selling your business, one question looms very large: *Who are you going to get to help you with this?*

That, quite literally, can be a multi-million-dollar decision. *Getting the right M&A team in place can equate to a serious impact on the bottom line of what you walk away with when you decide to sell your company.*

There are lots of Mergers and Acquisitions folks out there, and most of them agree on the same core principles: Make sure your M&A people have experience, integrity, a great reputation, references, a strong network/abundant contacts, and your best interests at heart. So how do you choose?

Here are some suggestions:

1. Culture and Fit

Does the M&A team you're hiring feel like someone you want to work with? If not, then not much else matters. Are they there to try and get a deal done quickly so they can move on to their next transaction (and transaction fee), or will they work with you patiently for as long as it takes to maximize your value... even post-closing?

2. People

One of our clients said it best: choose a great M&A team that you really love, because you're going to be closely tied to them throughout the process. If they are a good team, they'll be working with you right up to the close, the celebration dinner, and, yes, even post-close, which is something a lot of business owners don't realize is still an important part of many deals.

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So, right alongside culture and fit, of course, is the people factor. Interpersonal and communication skills are at the top of the requirements list (after all, your M&A team will be working with all kinds of people throughout the process, not only yourself and your team, but also prospective buyers and their teams, CEOs/CFOs and other C-suite executives, CPAs, attorneys, bankers, etc.).

As a successful entrepreneur, you know that successful business deals require a deft hand: Likeable, honest, authentic, and transparent relationships are a must.

- Look for no-nonsense, articulate, humble people with whom you can converse easily and readily.
- Get a feel for how much of the work will be handled by senior people and how much they delegate to junior trainees.
- Look for comfort with their negotiating skills. You get what you negotiate, goes the saying. You'll need a team that understands big picture and subtle nuances, getting you the deal you want, striking the balance of compromising where, if and when it makes sense (with your approval), while avoiding unsavory situations that could derail or delay closing. Are they scorched earth deal-makers, or do they negotiate towards a true win-win scenario for seller, buyer, employees and clients?

Business is about people: don't underestimate the people skills/likeability factor when selecting an M&A advisor! Choose an M&A team who cares about you, your people, and your future.

3. Experience and Industry Knowledge

Selling your company isn't a one-size-fits-all deal. You need a firm that has the knowledge to advise you on the best way to exit your firm, because they've been there, done that. Repeatedly.

What we don't know can hurt us. And there may be myriad ways to transition your company to its next stage. *When it comes time to exit plan and/or sell, it does you little good if the folks who are advising you simply aren't aware or haven't had experience with the many opportunities that may lie within your company's exit future.* When you're interviewing them, ask yourself: "Did they start off by telling me the solution (that also just happens to provide them with their biggest fee), or did they start by getting to know me and asking questions so that, together, we can develop the exit strategy (and Plan B) that best serves my personal goals?"

For example, is a strategic buyer in an auction environment the best fit? Should you consider a private equity deal even though you think your company is too small or you think you hate private equity? Would a strictly financial buyer or family office be the ticket? What about selling to current employees or partners with a Management Buy-Out (MBO)? Or an ESOP? Or maybe will a conscientious M&A team tell you that the time isn't right for you yet and there are some strategic steps you need to take to position yourself better for the future? When it comes time to evaluate your M&A advisor:

- Ask about their depth and breadth of experience with the many options available in today's marketplace. Seek to determine if they care more about signing you as a client than following the right path to serve your interests instead of theirs.
- Take the time to check out their references.
- Ask to see case studies of deals they've done.
- Explore how they will be a resource that helps you be able to stay focused on what you do best: keeping your business running profitably during the M&A process.
- Do they have experience in your space? Deals are generally private, so price and structure information is not readily available. Do they have the track record with your industry to be able to show you comparables? Valuation is art and science. If they don't know your market, they can't know your true worth. Simply applying formulas for multiples across industries leads only to inaccurate expectations.
- Do they have the industry experience to lead to the contacts that will get deals done? Do they know the players and which buyers to court or avoid?

4. Technical Expertise

In one sense, M&A really is "all about the math". Not sure about that? Simply ask any buyer how important a company's numbers are when they are about to make a wire transfer for millions of their hard-earned dollars.

Regardless of an M&A company's slick website, cool marketing and likeable or fancy appearance, keep this in mind: When you're talking about something as substantial as the sale of your company, you need an M&A team that can positively leverage their shiny personalities and

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processes with the financial acumen and rigor needed to get your deal done and see you through to the promised land.

The reason words like “fast and easy” and “re-invented” are rarely found in today’s real-deal world (other than in marketing hype) is because they tend to be misleading. When choosing your M&A team, look past the marketing jargon. Make sure they have the technical chops and perseverance to put excellence ahead of expediency.

Experienced, savvy M&A teams know the importance of your financial picture, how to accurately frame and interpret it, *and how to tell the story around it with serious accounting acumen.*

Your company’s financials and the story being told about them inform your deal from the very outset. This is a critical differentiator in how M&A people approach your company’s sale. Choose an M&A firm that has impressive financial expertise as part of their team.

- How detailed and deep is the M&A team you’re considering able to go? Besides the typical three years financials, do they ask you for a year’s worth of month-end financials so they can dig into what lies behind your numbers and perform the kinds of working capital calculations that ensure you are being treated fairly? (If you don’t think this can be a big deal, talk to our client who saw a positive \$4 million swing in closing proceeds as a result of this kind of analysis.) Can they assist with *and then defend* budgets and projections? Do they understand the GAAP requirements that buyers will look for? M&A is more than just marketing a business. It’s having the expertise to maximize sale proceeds.
- Are your numbers, and the deal you’re striving for, truly defensible? Will it all stand up to the scrutiny of today’s savvy buyers? A Quality of Earnings process? Do your M&A advisors have the credibility to defend your value when the buyer tries to chip away at it during due diligence?
- M&A is *specialized and substantially different* from what the general counsel of the typical attorney or CPA may provide. Each of them has specialized skills to contribute to the process, but these are different from your M&A advisor’s expertise. This is a team effort that requires cooperation and complementarity among your legal, accounting, and M&A advisors.

5. The Rest

Here are some other thoughts I wish someone had shared with me well before I went to sell my own firm.

Due diligence: The Oxford Dictionary defines it as “a comprehensive appraisal of a business undertaken by a prospective buyer, especially to establish its assets and liabilities and evaluate its commercial potential.” That’s a workable description for our M&A class here. And, depending on things like size, type of company/industry, etc., due diligence can be a behemoth or relatively tame. Either way, you should ask your potential M&A advisor about their role, including who and how much time and complexity they envision for it, and who from your team will be the liaison. Critically,

they need to do more than just coordinate the flow of information. Your M&A advisors need to be in the trenches during due diligence defending the agreed-upon terms of your deal when the buyer raises challenges during the due diligence process.

Staff retention: One of the first questions out of nearly every buyer's mouth is, "Who are your key employees and how do I know they'll stay?" One of the most helpful and proactive things you can do when entering into the sale process of your company is being able to demonstrate that you have a key leadership retention plan in place. This added assurance is invaluable in adding to a buyer's confidence and willingness to pay top dollar. Ask your M&A advisor about their experience designing these types of plans.

Price: A sharp M&A person will tell you that price and deal structure go hand in hand. A good M&A team may get you 3 or 4 good offers on your business. But that's only a start! "I sold my company for \$25 million" may not be as lucrative as "I sold my company for \$22 million," because *the deal structure behind the sell-price counts*. A deal structure with safety nets, guardrails, and incentives can end up being much more attractive than another that seems to offer a higher price but increases your risk and reduces your upside. *Ask your M&A advisor to show you real life examples of how they've maximized deal structure on behalf of their clients.*

Fees: M&A expertise isn't the place to get too skimpy in terms of investment. Simply get each prospective firm's fee schedule, do the research to get a feel for what is the industry standard, and compare. Be cautious of anyone that seems off base, or out of step with the industry. Depending on your particular situation, there may be room for some negotiation.

Bring this White Paper with you when you begin the process of finding the right team.

Size: Solo M&A advisor, small to midsize, or a big firm? You're likely sharp enough (especially based on all the "stuff" in this article) to be able to see the benefits and pitfalls of choosing among the many in terms of size. Is the solo practitioner too small to handle your deal? Or just right for your needs? The big firm, so large that you're a little fish, or you're not sure who is working on what? How many clients/deals do they do each year? You get the idea.

I realize all of this is a lot to take in. But if you simply bring this White Paper with you when you begin the process of finding the right team to work with in planning your exit strategy and/or selling your business, you'll be a long way towards making the right choice.

No team is perfect, but keeping people skills, processes, financial chops, and the other points described above at the top of your M&A advisory must-haves will position you well for a successful transition. No question is a bad question, so never hesitate to ask. And you're likely pretty good at decision making, or you wouldn't have a company to sell in the first place. So go to it!

About TobinLeff, LLC

TobinLeff is an M&A advisory and exit planning consulting firm that helps business owners sell to strategic buyers and private equity groups. With over 13 years of service and more than 155 engagements successfully completed, the TobinLeff team of 10 M&A advisors and exit planning consultants is dedicated to the mission of helping owners maximize and monetize their life's work. Please visit our website at tobinleff.com for additional information and case studies.



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