TobinLeff
M&A Advisors
WHITE PAPER

Somebody Says They May Want to Buy My Business – What Do I Do Now?

By Scott Leff

It happened to all of us when we were young – a potential romantic partner expressed interest and we exchanged numbers or made a date, only to wake up the next morning and ask ourselves, "What was I thinking?!!!"

Being wanted is seductive. Even if selling your company is not on your priority list, when you get a call from a friendly-sounding voice saying they think you've built a great agency and they'd like to talk to you about buying it, you have to be a very rare person, indeed, not to feel a sense of pride and accomplishment and give it at least some consideration. After all, what can it hurt to talk?

Until you wake up the next morning and ask, "What do I do now?"

At TobinLeff, we have been seeing an increasing number of agencies and clients come to us in this very situation. So, below are 9 ½ steps you can take when you get that exhilarating and potentially unsettling inquiry. But before you go through the emotional roller coaster and expense of developing the relationship, make sure you want to date. Here are a few questions to ask to begin to qualify the opportunity:

- Why did you contact me?
- What do you know about my company?
- What is the vision for your company and how do we fit with your plans?
- How many acquisitions have you done over the past three years?
- What are your acquisition criteria?
- What is your typical deal structure?

Assuming you like what you learn from the above questions, then you should consider the following steps.

Step 1: Take a good long look in the mirror.

Who am I and what do I really want? That's the first question you need to answer. If you haven't been thinking about an exit, is that because you just figured no one would want to buy your company (at least, for a price you'd be willing to accept), is it because you love what you do and couldn't dream of giving it up right now, or maybe is it just because you're so busy with everything else in your life that it never occurred to you to think about it? Once the door has been opened to consider a sale, you need to decide whether to walk on through or just politely close it. And you can't make that decision until you honestly assess your personal goals.

One technique for this is to do the magic wand thought experiment: If you could wave a magic wand and have exactly the life you want in 2-3 years, what would that look like? Then compare that vision with what will happen if you sell your company. Will selling your business potentially move you closer to that ideal? For example, do you picture yourself running bigger accounts like a larger organization might offer, or, perhaps, pursuing your long-repressed passion for sailing? If so, then move on to Step 2.

But what if the ideal you is running your current company just as it is, or feeling the sense of accomplishment of growing it steadily through your dedication, good management, and organic expansion? Then it's probably time to say, "Thanks for your interest, but I'm happy where I am," and move on without – and this is the crucial point – wasting the time, financial, and, most importantly, emotional resources that considering a sale will require.

Step 2: When is enough enough?

Some people say that everything is for sale, it just depends on the price. Well, what is your price? You looked into the mirror and you have your vision, now you need to figure out what it will take. How much do you feel like you'd need to get for your company to take care of your financial needs *at this time*? Keep in mind that those needs vary a lot based on where you are in life and what your vision is. If you think that selling now is your pathway to retirement, your need might be very different than, for example, a younger seller who is looking for a nest egg while they strike out in a new direction.

And don't forget the emotional side. The price that satisfies you is also going to reflect your sense of worth and accomplishment. You have built this company through your own hard work; you are going to want to feel like you are being rewarded and recognized for that effort.

Step 3: Is what I want what it's worth?

It's all well and good to decide what you need to get out of the business in order to make a deal attractive to you. You also need to know if your expectations are realistic.

Your business is likely to be your largest financial asset; for many owners, it represents the bulk of their retirement. But if what you need that number to be as described in Step 2 is way more than what the market will bear, you have a disconnect. Now you have a decision to make: do you hold onto the company and try to build it to a value that equals your need, do you reassess your need, or do you just take what you can get?

The problem is, how do you know what the market will bear? Most of us value our own assets higher than others value them. On the other hand, a few agency owners we've spoken with greatly undervalued their businesses. Google isn't going to tell you if the offer coming your way is reasonable or not. So what do you do?

Go to Step 4.

Step 4: This is no time for your first solo flight.

If you've spent a lot of time buying and selling businesses, you may have a pretty good idea of how the marketplace works. Chances are, though, that you've been a lot busier developing marketing strategies and exercising your creative faculties than you have been building spreadsheets to project a "pro forma normalized EBITDA." So how do you even figure out if the offer you've received is fair?

Quite simply, hire an expert, just like your clients do when they engage you. TobinLeff, like any reputable M&A advisory firm, does a value estimate for every one of our agencies and businesses – some 150+ over the past decade. An experienced advisor understands who is buying firms like yours and what range they are likely to pay.

Step 3 redux: Is what I want what it's worth?

Now that you've obtained a realistic estimate of your firm's value, make your decision based upon realistic expectations.

Remember that estimating market value is as much art as it is science. The numbers matter, but so do countless intangibles. A good estimate requires experience within your industry, as well as objective metrics reflecting deal values that can only be acquired through experience. We have seen valuations that are ridiculously low and others that are even more ridiculously high. And, unfortunately, a bad valuation is probably worse than having no valuation at all.

Once you have your value estimate, then you can make one of three decisions:

1. Thank them for the offer and politely decline, because it's clear to you that you can't get enough for the company to be of interest to you
2. Thank them for the offer and tell them that you've decided to go to market and you look forward to them participating in the process, because you're pleasantly surprised by what the company might be worth and your appetite has been whetted for a sale
3. Thank them for the offer and begin negotiations, because if you can get your price, you'd do a deal, but you don't want to go through the challenge of a full-blown sale process

If you decide on either #2 or #3, you are going to need your M&A advisor from here on out, as well as, eventually, your attorney and your accountant. Also, you may not yet have any idea what price range they are considering, but you will be armed with the information you need to evaluate the reasonableness of their interest when that time comes.

Step 5: Sign mutual NDAs.

Even to decide if you're going to enter into serious negotiations, you're going to have to reveal confidential information. Start by protecting yourself. Your advisors will have forms ready to go.

Step 6: Get your house in order.

Start with your financials. You need *accurate* financial records for at least the most recent three years. In all likelihood, the buyer is going to want to see these presented on an accrual basis. They also will want to see your tax returns.

Specifically, and at the very least, you will need year-end P&L statements and Balance Sheets, as well as interim statements and projections for the current year. It is also good to have month-end P&Ls and Balance Sheets for each of the preceding 12 months (known as TTM, or Trailing Twelve Months). Your M&A advisor should work with you to "adjust" these statements as appropriate to demonstrate your performance as accurately, honestly, and positively as possible. Other information you'll need early on includes billings by client for the past few years, a current employee census including compensation and tenure, office leases, and Accounts Receivable and Payable aging reports.

Being optimistic about the deal progressing, this is also a good time to begin gathering the materials you will need for the due diligence process that is hopefully to come, such as equipment leases, insurance policies, client contracts, retention bonus plans and phantom/profit-sharing plans, etc.

Step 7: Yak, yak, yak.

Now the talking begins. If you've engaged an advisor and developed an estimate of value, it's time to connect them with the potential buyer. After your initial call in which they tell you how great a fit they think your company might be and you tell them how interested you are in exploring that possibility, it's your advisor who should take the lead in vetting and coordinating the exchange of information.

Why should they have these initial calls and not you?:

- Your advisor is not emotionally invested in your company and the outcome of the transaction. That objectivity is critical in constructing a successful deal.
- Your advisor understands the market and can argue for reasonableness, especially in the case of buyers who are looking to score a bargain.

- Your advisor can begin to vet the buyer and start to get a sense of how viable their offer is likely to be.
- Your advisor can't make decisions. They provide a layer of insulation that prevents the buyer from being able to ask questions and push for on the spot decisions that can back you into a corner. It's easy for an advisor to say, "I'll have to check with my client, and we'll get back to you on that."
- You still have a business to run. A good advisor should take as much of the burden of the sale process off your shoulders as possible, from now all the way through closing.

Step 8: Fasten your seat belt.

The transaction process is an emotional roller coaster (see this recent TobinLeff White Paper on that subject: Selling Your Business: The Emotional Ride of Your (Business) Life).

After their initial call or two with your advisor and some basic financial information, the buyer is going to want to get to know you, and you them. This is when the Zoom or in person meetings begin between you and them, with your advisor there to facilitate and weigh in as necessary to keep things on track. Think of this first meeting as your blind date where both of you begin to decide whether or not you want to enter into a serious courtship. This is not a time for discussing price and deal terms; this is when you begin to explore mutual visions, strategy, and cultural fit.

If the first meeting goes well, your advisor will actively engage with the buyer to:

- Set some guidance as to what you are looking for in an offer
- Answer questions and facilitate requests for information
- Coordinate additional conversations and meetings between you and the buyer

Eventually, if both parties stay interested, the buyer will provide a terms sheet or Letter of Intent (LOI) outlining the basic elements of their proposed offer. Your advisor will work with you to develop a response to their proposal and then negotiate on your behalf as you go through an iterative process of back and forth revision until, hopefully, you arrive at a price and deal structure that is attractive to both parties.

And now the real "fun" begins. At this point, you've reached the top of the first hill before the first big drop of the roller coaster. The next 2-3 months of due diligence and negotiating the Purchase Agreement will be a constant series of highs and lows. One day you will be sure the deal is sailing through; the next, you'll be convinced it's DOA. And, at some point, you will have "seller's remorse" and be convinced that you should just walk away. Remember that this happens to everyone, and this, too, shall pass.

Throughout it all, your advisor should be there to walk by your side, provide encouragement and emotional support, and, critically, defend your agreed-upon deal as the buyer tries to whittle away at the terms during due diligence.

Step 9: Celebrate!

This is what you've been striving for – the day after closing when your new life begins. Just like a physical roller coaster, this emotional one has pulled up to the finish. It's time to climb off, catch your breath, and head off for your next ride.

Not to mention, to congratulate yourself for being prepared and taking the right steps when that offer came knocking at your door out of the blue.

About TobinLeff, LLC

TobinLeff is an M&A advisory and exit planning consulting firm that helps owners of marketing services agencies and MarTech companies sell to strategic buyers and private equity groups. With over a decade of experience and more than 150 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 www.tobinleff.com for additional information and case studies.

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