



Everingham & Kerr, Inc.

The selling process and the role of the Investment Banker

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At some point the owners of many good, strong businesses have to reach the ultimate conclusion that they must sell their companies. The reasons are myriad; lack of family members to succeed the entrepreneurs, difficulty in growing the business under current ownership, an unsolicited offer that's hard to refuse. Regardless of the reason, the decision to sell is a tough one.



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Equally difficult, especially since the owner has spent so much time running the business that he or she probably hasn't done much to plan for the sale, is how to handle the process once the decision to sell has been made. That often boils down to the issue of whether the owner should sell the business unassisted or engage an investment banker to manage the transaction. The stakes are too high to dismiss the matter lightly. Yes, nobody knows the business better than the owner and, yes, the banker will require a fee for his or her services. But the owner cannot match the banker's experience in navigating the highly complex and well established market in which businesses are bought and sold. That is a critical difference.

Even the sharpest owner may sell a business only once in a lifetime and may be seriously overmatched in negotiating with a buyer that likely has bought and sold several times in the marketplace. A solid banker can even

the odds. The banker will more than earn his fee by generating a premium return for the seller. A good banker helps package the business to put the best face on it, finding financially impeccable buyers willing to offer the best prices, structuring the most favorable terms and creating a buzz that enhances the appeal of the business.

Grooming the business properly results in an invaluable edge for the seller. The banker, after extensive review, identifies intangible strengths and unique qualities to enhance value and salability and ferrets out growth

opportunities so these precious assets can be dramatized for buyers willing to pay for them. The advisor also offers operational suggestions, valuation opinions, financial analyses and adjusted historical statements to support those prospects.

In the preparation stage, the banker prepares a descriptive Offering Memorandum that includes key fundamentals, including forecasts and cash flow statements for future operations that provide prospective buyers with a clear understanding of the business and specifically address the company's strengths, profit opportunities, growth possibilities and areas for improvement. Advisors recognize that selling a company is much like selling any other product. The fundamentals, more than mere figures and words, are the primary ingredients for whetting a buyer's interest in the prospective values and convincing him to make an informed decision.

Even while preparing the memorandum, the banker has already begun targeting prospective buyers to find and qualify multiple bidders. A significant portion of the value of the sale can be attributed to proper selection of multiple buying candidates in a competitive atmosphere. By under-

standing the seller's objectives and the company's strengths, the advisor can then position the business to attract the desired acquirer.

Selling Advisor Guidelines

1. Understand the acquirer's motivations
2. Manage the pace of the process
3. Focus on the opportunities of the business
4. Include attainable future projections
5. Gather the relevant data for a buyer's analysis
6. Address weaknesses and propose solutions
7. Be creative, solution oriented and flexible

Investment bankers often maintain proprietary databases consisting of active acquirers: private equity groups, entrepreneurs and companies pursuing diversification strategies. They can frequently arrange contacts with prospective buyers that might not have occurred to unassisted sellers, such as foreign corporations. The investment banker will always try to target strate-

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gic buyers looking for acquisitions that will blend profitably with their existing operations. Potential cost savings (i.e. synergies) allow strategic buyers to place higher values on companies they acquire, so it's extremely important to recruit them as suitors.

The investment banker will at this point usually conduct a modified auction. Prospective buyers expressing an interest will be required to sign a confidentiality agreement in order to receive the Offering Memorandum. At a predetermined date potential buyers who wish to proceed must submit non-binding indications of interest including a preliminary price range, the anticipated transaction structure,



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source of funding, and a suggested time frame for completing the transaction. Based on this information, certain prospects will be selected to meet the seller's top management. A limited auction may be conducted even though one particular candidate appears to be the best buyer. If the investment banker can bring at least one additional bidder into the picture, it creates negotiating leverage that can significantly improve the outcome and result in quick execution rather than a protracted period of negotiations with a single buyer.

Experienced investment bankers that specialize in sales of businesses can make major contributions to structuring transactions. The banker will assist in the negotiation of the transaction and utilize experiences and current creative approaches to develop win-win solutions to issues that often hold up consummation. The experienced investment banker spends his working life doing transaction after transaction. It pays big dividends for a seller to have that knowledge base available.

What happens when all the procedures are correctly implemented? Our firm recently completed a transaction in which the process flowed without a hitch from beginning to end and the purchase price was 58% above the seller's predetermined "strike" price! Moreover, the terms included a very favorable agreement for the facilities of the business and a post-closing transition arrangement that was ideal for the seller. Investment bankers that strike those deals for selling clients can be worth their weight in gold.

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