MERGERS & ACQUISITIONS

DEAL PRIMER

SELLING YOUR BUSINESS

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DECISION MAKING

DECIDING TO SELL

The decision to sell a business is emotionally taxing as it involves factors, such as retirement, liquidity, and health. While one can decide to stay independent and execute business plans with the expectation of selling at a higher valuation in the future, it requires a significant effort, dilutive financing, and no liquidity in the near term, not to ignore the competition, technological changes, and market risks. The alternative is to wait opportunistically for buyers, but it could result in a lowball offer or blow the deal after rigorous due diligence. On page 3, you will find some helpful tips even if you have not decided yet but want to get started or consider selling in the future. In any case, do your work early and never forget that selling is not the only way out if you feel overwhelmed. At times, taking chips off the table in conjugation with succession planning can also work. Consult your peers, board, and advisors or contact an investment banker to evaluate your goals and options. A lack of an efficient sale process will waste time and energy. When you choose to pursue it, be proactive.

HIRING AN INVESTMENT BANKER

VALUE ADDITION

Investment bankers help businesses and companies in running and managing a formal sale process. For most business owners, selling their business is their first experience, so they need additional guidance and support at every stage of the process. As a trusted advisor, the investment banker begins by acquiring deep insight into the company's business and evaluating the strategic objectives of the seller. They review and analyze the company's business, finance, and operations to prepare compelling marketing materials, contact potential buyers, help review and negotiate offers, manage due diligence, and negotiate the purchase agreement through closing. As a result, running a formal sale process saves time and effort and maximizes shareholder value by managing a competitive bidding process leading to a higher valuation.

An investment banker is crucial for small business owners who need to manage their company's daily operations without getting bogged down by the sale process running simultaneously.

THE PROCESS

STEPS AND TIMELINE

An average transaction may take six to eleven months. The entire process is summarized in this section. The first step of the process is for the investment banker to **gather and analyze** the company's financial, organizational, sales and marketing, employee, and operational data to achieve a good understanding of the company. Following that, a detailed confidential **information memorandum** (CIM) is drafted, which includes the business overview, investment highlights, market information, key operational metrics, biographies of key personnel, and financial information. Usually, a **teaser** is then carved out of the CIM, an anonymous one-pager on the company that summarizes the above information. Once the banker has shortlisted the potential acquirers, he/she contacts them with a CDA and teaser. The CIM is then shared with interested parties who sign the CDA. Prospective buyers typically contact the investment banker with initial commentary and questions during this process. The banker serves a vital role in communicating the seller's desires or goals and setting up expectations on the timeline.

Weeks 1-3: Strategic Assessment

- ✓ Information gathering
- ✓ Business Valuation
- ✓ Strategic assessment of objectives
- ✓ Identify potential acquirers

Weeks 4-8: Preparation

- ✓ Information Memorandum ("CIM")
- ✓ Executive Summary ("Teasers")
- ✓ Legal Docs (CDA & Process Letter)
- ✓ Initial outreach: send Teaser and CDA

Weeks 9-14: Bidding - Round 1

- ✓ Execute CDAs
- ✓ Circulate Information Memorandums
- ✓ Populate electronic data room
- ✓ Obtain Indicative, Non-binding Bids ("IOI")

Weeks 15-19: Bidding - Round 2

- ✓ Management Meetings / Site Visits
- ✓ Access to Virtual Data Room
- ✓ Definitive Bids / Letter of Intent ("LOI")
- ✓ Selection of preferred acquirers

Weeks 20-24: Final Negotiation

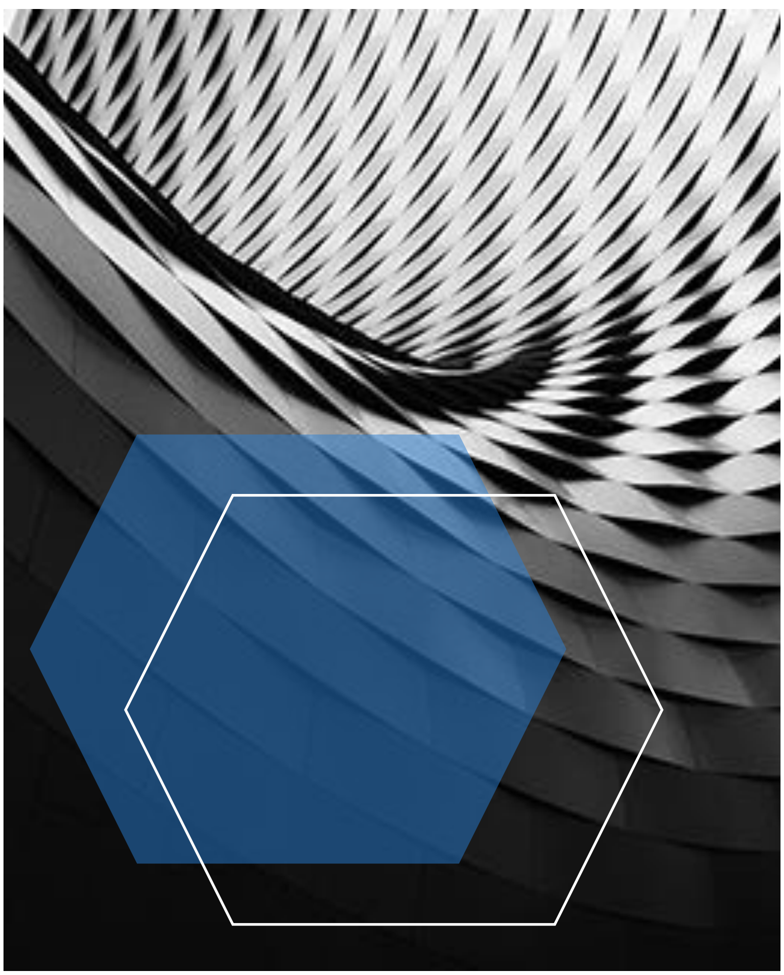
- ✓ Negotiate key terms pertinent to sellers
- ✓ Confirmatory due diligence
- ✓ Select preferred acquirer

Weeks 25-26: Signing and Completion

- ✓ Sign definitive agreements
- ✓ Regulatory filings and approvals (if any)
- ✓ Wire funds
- ✓ Closing

Upon reviewing the CIM, the bidders are expected to submit an **indication of interest (IOI)**, a non-binding offer that broadly covers the valuation range, deal structure, and due diligence requirements. It provides a basis for screening the buyers for **the second round**.

In this round, buyer and seller get to know each other, compare goals, and discuss post-closing terms. Buyers inquire about all aspects of the business, visit the seller's offices, and meet with the management. A **virtual data room** (VDR) is set up and populated with critical data and information on the business. The bidders review and verify the information on which their indicative offer is based. Management meetings are generally followed by a tour of the facility and dinner. It is also an opportune time to learn more about the buyers, their thought process, and post-closing goals. Your investment banker can help with the VDR, coordinate **management meetings**, and handle questions from bidders. Toward the end of this process, bidders submit a **letter of intent (LOI)** or definitive bid, a document containing more precise details about the transaction. Lastly, the preferred acquirer is selected for final negotiation. **Signing and completion** phase involves rendering intents, objectives, value, and structure into signing the purchase agreements, employment agreements, and other deal documentation. All regulatory filings and approvals are taken, the deal is announced, and the fund is wired.



PERSPECTIVE

START EARLY

It is very flattering for a business owner to receive M&A interest from buyers since it validates success and boosts confidence. Do some research on the buyer, their objectives, past acquisitions, and determine whether it could be a good fit for your company. Unless you have a goal for the first meeting, know what questions to ask, or how to respond to their queries, do not engage with them. Consult an investment banker for guidance when preparing to ask the preliminary questions. An investment banker can help in negotiating upfront and gathering information, such as deal structure (cash, equity, earn-out), the buyer's motivation, and the ability to complete the deal within a specific timeline. If you are satisfied and feel that something real is in store, move quickly.

Get started early. Draft your own information deck and keep it updated with current events. Organize the information into sections including Key Strengths, Overview of Business, Sales & Marketing, Operation, Quality & Regulatory, Biographies, and Financials. Also, create a folder and put all the relevant data and information so you will be able to provide all the necessary information to an investment banker. When you update the deck, you will be able to see your business from a buyer's perspective, which enables you to plan how to handle questions like core competencies and why your customers choose you over your competitors. Think about what you want as seller, what you want for your employees.

M&A is a deeply personal matter, so make sure you do not face it alone. Consult your peers and board. As noted above, there are other alternatives to M&A that you can explore. If you have the right resources and time, you can continue to build your business. Evaluate the options and your motivation to sell.

Lastly, consider consulting an investment banker. Their skillset includes analyzing recent M&As, identifying trading multiples, business valuation, and providing support in handling the sale process in a timely manner. It is never too early, and they will be more than happy to assist with advanced guidance and market intelligence so that you will hire them if and when you decide to sell. ▪

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