PRE-SALE STRATEGY – SUCCESSFUL PREPARATIONS

I recently had the opportunity to assist two clients in separate merger and acquisition (M&A) transactions. One client was selling its company and the other client was considering an acquisition. They had similar goals; both companies wanted to close a transaction. Unfortunately, there were two different outcomes.

The executive teams of both companies were inexperienced in managing M&A transactions. Neither company had an experienced finance team or leader. But one company, the one selling its business, because of the effort placed on presale preparedness had a successful transaction. The other company, on the buy-side, did not have a successful transaction because its target was hugely unprepared to survive a distracting and intrusive diligence process.

THE SUCCESSFUL TRANSACTION

The company I assisted on the sale side understood the need to have its company's business, finances and organizational structure in order. Before initiating a formal sale process, we performed a self-audit of each of the key diligence areas. We reviewed the internal and external financial reporting process, current financial statements, financial forecasts, management reports and key performance metrics. We involved the company's attorney in the process to discuss presale structure issues and to review its corporate governance documents for completeness. We went through an orderly process of composing a sale plan, preparing presentation materials, and discussing sale tactics to make sure that all parties were in agreement on the strategy and execution of a transaction. We engaged the board and investors and kept them in the loop at all times. Our sale strategy promoted strong selling points but we also understood the company's Achilles heals. Company management had a reasonable expectation of sale price and understood how to support its valuation position with current market data. We were prepared with information on positive trends in the business and explanations for expected concerns by buyers.

Our preparedness strategy enabled a smooth diligence process. It made it possible for management to conduct negotiations without the headache of unanticipated issues raised during diligence. The transaction progressed as expected, with a normal amount of hiccups, to a successful sale.

THE UNSUCCESSFUL TRANSACTION

For a second client, I was providing my assistance by managing the process of an acquisition of a complimentary company in its industry. A letter of intent was executed and we began organizing our acquisition plan. We discussed the acquisition process with the client's attorney, set a course of action, and compiled a preliminary diligence list for the seller. We were mindful to keep the diligence list to a practical level so as not to inundate the seller and keep the process on track with our expected timing.

Very early on in the process it became apparent that the seller was not prepared for a sale process. They didn't have a current business plan or PowerPoint presentation. Their budgets and projections were primitive. They were not compliant with income tax filings. They didn't have current interim period financial statements. They didn't know where their corporate documents were located. The diligence process became a scramble by the seller to accommodate our requests. It was very apparent that the seller had not gotten any professional guidance on how to maximize the results of a company sale. As the process continued our confidence level plummeted and the risk profile of the transaction skyrocketed.

The process labored on as the seller attempted to provide information and answer questions. But unfortunately, the seller couldn't make us comfortable on the underlying economics of the transaction along with several business issues that arose during the diligence process. Maybe this company would have been a good acquisition, but the risks involved in making a leap of faith on these issues was higher than my client was willing to take. As a result the transaction did not close.

PRE-SALE PREPAREDNESS STEPS

Before considering the sale of your company, invest in pre-sale preparedness steps. The time and effort spent will be rewarded by a higher probability of close and resultant deal terms.

1. Spend sufficient time transaction planning with management, investors, and board members.
2. Prepare effective selling tools: PowerPoints, executive summaries, financial statements and forecasts, analytical reports, charts and graphs.
3. Address problem areas - Spend time fixing problems before initiating a transaction or have effective plans for remediation in place.
4. Engage professionals - (Bankers, brokers, accountants, lawyers, consultants) to assist in their respective areas and be prepared for the onslaught of diligence requests.

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