Why consider working with an investment banker when selling a business?

Given the complexities of selling a business, the situations under which it doesn't make sense to work with an investment banker are few.

Prepared by:

Mitch Gorochow, Center for Business Transition, RSM US LLP
mitch.gorochow@rsmus.com, +1 571 341 4061

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It is not uncommon for business owners to reject hiring an investment banker when selling their enterprise. After all, who knows the company and its value better than those most intimate with the business? Who could possibly better represent the company to potential buyers? Couple this with the fact that investment bankers' fees are expensive, then one could make a case that under certain circumstances, an investment banker is not going to add a sufficient return on investment to warrant retaining one.

Frankly, because of the complexities and pitfalls in selling a business today, the circumstances under which it doesn't make sense to hire the right investment banker are few and far between. In the final analysis, the question is "Will an investment banker be able to increase the proceeds from the sale greater than the fees they will charge?" Under most circumstances, the answer is yes. Here's why:

The selling and purchasing of privately held businesses exist in an irregular market. Meaning, buyers and sellers do not have the same information about the value of a company.

The company is not publicly traded, where one can readily research the market capitalization. Public access to what similar privately held companies have sold for is minimal and often confidential. The information that does exist is typically very general and is only valuable for direction. Acquirers of privately held companies are understandably reluctant to disclose sales price and terms of any transactions they are party to.

On the other hand, sophisticated buyers, such as private equity groups, have more knowledge about market pricing given their level of acquisition activities. That's their business. Without having an advocate, like an investment banker, who knows the market and can level the playing field, the potential seller is oftentimes at a strategic disadvantage. Investment bankers often give sellers a realistic sense of what to expect from the sale of the company.

Couple that with the fact that sophisticated buyers are intimate with the sales process and pitfalls. Sellers, on the other hand, typically don't know what to expect, what can go wrong and all the issues that can potentially torpedo a deal, or trigger downward re-pricing. The path to consummating a sale is rarely without hitches, and having a guide to lead the way and deal with issues in a favorable manner, will often times be the difference between success and failure.

Just like selling anything, often there are window shoppers or unqualified buyers. Investment bankers have the time and experience to weed out candidates who ultimately are not viable. If sellers cannot separate who is real from who isn't, it can often be a big, time waster.

The time required to position a company for sale in a professional manner is very time-consuming. There is a substantial investment in the time and effort that information should be gathered, organized and packaged in a professional manner in order to appeal to potential buyers. The investment banker plays a key role in creating the best offering on behalf of a potential seller. Without their involvement, this task is likely to be an overwhelming and distracting process. It is critically important that management remains focused on driving current results and moving the organization forward. Potential buyers look closely at how the target is operating today, and any dip in results could prove to be very costly and could even sink a deal.

A competent investment banker will have a sense of potential buyers that might express strong interest in consummating a transaction. Over the past decade, competent middle market investment bankers have gotten better representing "smaller" companies. To the extent that the buyer list is not complete, bankers also have the ability to scour the market and create interest with organizations that were not originally contemplated. Usually, an increase in interested, qualified buyers, the more likely it is that, ultimately, there will be a successful event.

Investment bankers are in a better position to manage a controlled auction. Typically, whenever there is competition, it causes the price to escalate. And, an investment banker will always act as a buffer between their client and all prospective buyers. The banker will address objections and problems and remove some of the challenging elements in what can sometimes become an emotional roller coaster.

Finally, when the time does come and offers are received, an investment banker can be invaluable in negotiating the price and terms on the seller's behalf, usually, much better than the seller can do representing themselves.

Business owners need to think long and hard about choosing an investment banker. Having the right one could make all the difference between success and going back to the drawing board.

+1 800 274 3978
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