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Mergers & Acquisitions Process Overview: Part 1

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The Mergers & Acquisitions Process Overview Series is a sequence of five articles about the purchase and sale process. It is intended to provide business owners with a broad overview of the transaction process and answer some of the questions that are frequently asked:

- What is involved in a purchase/sale transaction?
- What should I be looking for as a seller/buyer?
- What is this *due diligence process* I've heard about and how do I handle it?
- How is the acquisition agreement negotiated?
- What are some suggestions for post-closing integration to enhance the prospects for success?

PART 1

In Part 1 we will discuss the general seller and buyer motivation. Please remember that every business is unique and the factors and forces that motivate sellers and buyers are different in each situation. There is no "one size fits all" but there are some common themes that may resonate with your circumstances.

From the Sell Side

Succession planning is an extremely important consideration for sellers. In many instances either there is no one from the next generation able or willing to take the business mantle and assure the owner or owners of payment commensurate with the value of the enterprise and adequate for their retirement needs. Although the primary next generation candidates would be family members, children often move away and establish their own careers. Key unrelated personnel who have demonstrated leadership often do not have the financial wherewithal or financial backing to allow owners to transition comfortably over a long period of time in and through retirement. Owners should plan for this as they discuss estate planning and retirement goals and objectives with their advisors.

The best laid plans…as the saying goes… oft go awry. Agreements between and among owners try to anticipate events that may trigger the purchase and sale of the owners' interests. Sometimes the agreements are not updated to reflect the current economic reality. Whatever the circumstance, the owners may have a situation in which a sale to a third party is in their mutual best interest instead of a cross-purchase between or among themselves.

Whatever the trigger event or circumstance for the owners, they have created a business that has been at the center of the owners' and their families' lives and has become vital to the community and their employees. There is a legacy associated with the business that they want to preserve and there are employees and customers they want to protect. There are many emotions involved on the sell side.

From the Buy Side

A buyer's motivation may be strategic growth to acquire a new product line or market. It may be expansion of existing business to take advantage of economies of scale. An acquisition may enable a buyer to expand geographically. There may be non-owner key employees the buyer will want to engage to deepen its bench strength not only at the seller's location, but across the buyer's enterprise.

Where Do the Interests of Buyers and Sellers Overlap?

Owners have managed their businesses to generate sustainable profit. Buyers want to capture that and pay back the purchase investment as rapidly as possible. The aggregation of overhead expenses [e.g. accounting, insurance] may create cost savings that enhance the seller's earnings. The reduction of owner compensation may also enhance projected seller earnings. Seller earnings, maintained or increased, through cost reductions and synergistic growth are desirable for the Buyer and may serve to increase the purchase price or result in earn-out opportunities.

The legacy of the seller can be maintained through the reputation and resources of the buyer. The seller will become part of a larger, more sustainable enterprise. Client and customer services may be expanded. Key employees may have greater opportunities for advancement and all employees have the security of knowing the answer to the question, "What happens to me if something happens to the owner?"

How Do the Buyer and Seller Connect?

Sometimes, it's the old fashioned way. They talk to each other. It may be at a convention or a trade association meeting or an educational presentation where one person will say something like: "Have you ever considered…(selling/buying)…?" The rest is history.

More often, the owner will want to maintain the privacy of the intention to sell and engage an investment banker who will work with the owner and the owner's professional advisors to position the seller to be acquired. See some of the items that sellers should address in **this article**.

Investment bankers enhance the value of the seller and smooth the transaction process. Yes, they are compensated as a percentage of the deal; but that means they have every incentive to maximize the return for the owner. The investment banker will prepare information regarding a potential seller (and at this stage of the process, unnamed seller) and solicit interest from buyer candidates. Once candidates complete a non-disclosure agreement, specific information regarding the seller is distributed to the candidates. The investment banker is able to screen buyer candidates and arrange face-to-face meetings for the mutual exchange of information regarding the business and the respective cultural fit of the seller and prospective buyers.

After the preliminary financial disclosures and discussions, acceptable candidates are invited to submit letters of intent which outline the terms upon which that buyer would acquire the seller. The owner will review the proposed terms and in consultation with the investment banker and professional advisors select the buyer candidate that best matches the owner's deal objectives.

In Part 2 of this Series we will discuss the next step in the transaction process with an overview of the letter of intent.

If you are considering a purchase or sale we would be happy to work with you in the process. Please contact Bill Helbling or call us at 814-459-2800.

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