



FOUR KEY ELEMENTS OF A SUCCESSFUL DEAL
A BROKER'S VIEW BY IAN HOUGHTON

PACIFIC M&A AND BUSINESS BROKERS LTD.

THE LINK TO SELLING YOUR BUSINESS | LOCAL KNOWLEDGE WITH A GLOBAL REACH

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When the time comes for you to begin the process to exit your business, there are several facts you need to be aware of to ensure you reduce the frustration, and anxiety you will inevitably face throughout the journey of achieving your exit goal.

- Incredibly, around 75% of business sales in North America fail to complete.
- The process of selling your business takes time, on average, 9-12 months.
- This is not the same as selling a piece of real estate, and any comparison needs to be removed from your mind.
- You cannot successfully do this alone, or afford the risk. You need experienced professional advisors.
- There is an investment you need to make to ensure you optimize the business value.

During my time as a Business Broker and M&A advisor, and previously as part of a corporate team transacting to a multi-million dollar publicly traded company, I have seen many similarities to successful deals, be it a \$150,000 vehicle repair shop, or an \$80,000,000 distribution business. Without exception, all these deals need to be managed methodically, and with a meticulous attention to detail.

“Those business owners who do not, will not, or can not accept a process to significantly improve their odds of a successful sale, will become one of the 75% that don't successfully sell or 3 in 4 statistics.”

Successfully selling your business requires a process where all stakeholders are in alignment and committed. At Pacific M&A and Business Brokers, our process includes over 200 steps, which calls into play the seller, accountants, lawyers, bankers, landlords, buyers, and any other parties who can affect, influence, support, or in many cases, damage the deal. We successfully close over 90% of our engagements, and this is due to our meticulous attention to detail, and methodical processes.

I have worked on many transactions over the years, and as I reflect on varied deals, and why many succeeded and some did not, I can identify four key areas of the process, that if done poorly, or not at all, will result in a high probability of failure. As the saying goes, “a chain is only as strong as its weakest link”. All areas of the process are critical to a successful sale, but these four key areas, when done well, will considerably increase your odds.



BUSINESS VALUATION

The day you begin building a new home, you will break ground and start to construct the foundation. If you do this poorly, or God forbid, not at all, then your new house along with all your dreams will collapse. The same applies to the sale of your business, and preparing your business for sale on the open market. Such preparation includes understanding the real value of your business along with the business drivers. The business valuation will be your foundation to achieving a successful close on a deal. A properly constructed market valuation or interpretation of the Most Probable Selling Price from the market will require your complete cooperation in providing all materials, and answers to questions the broker will reasonably request of you.

“Think of it this way, the broker will be requesting everything that a qualified buyer would request, so doing it right now will save you much time later.”

Ultimately, a properly constructed assessment of value report should assist you in making improvements to your business (which could require a delay in going to market), set the stage for preparing a strong marketing package for the business, and provide you and the market with a fair and defensible asking price.

A typical report will take 3 to 4 weeks to complete (assuming your full cooperation) and this requires an investment on your part. Those brokers that do not require you go through a valuation process, or those brokers who offer valuations free of charge, or back of the napkin, should be scrutinized. Compiling these reports requires many hours of work, expertise, and research data that costs money to the firm preparing them. If you want this service for free, then you will be joining the 75% failed deal club, at which point you need to ask yourself how much your personal time is worth.

Our Selling Process: www.pmabb.com/resource/ma-selling-process

BUYER AND SELLER MEETINGS

So the stage is set, you have worked hard with your advisor through a detailed valuation process, and the advisor and the marketing team have prepared a detailed marketing package, including teaser e-mails, postings on multiple business transactional websites, a Confidential Information Memorandum or 'Book' (typically a 40-page document detailing all aspects both operational and financial of the business), and guess what, you are nervous. The business is out there, albeit confidentially, you worry about your staff, customers, suppliers, competition finding out, the business running as normal, the next steps in the process, and of course, the buyers!

When marketed effectively, good businesses will attract a lot of attention. It is not unusual for a broker and their firm receive over 50 inquiries in the first week of going live. However, 90% of buyers simply will not buy a business, and for many varied reasons, however ultimately they fall back to two fundamental issues; their limited personal risk tolerance, or their own weak financial capacity to make a deal happen. Buyers should be required to execute a Non-Interference and Non-Disclosure Agreement along with details of their financial capacity before learning any more about your business. If your advisor is not pre-qualifying buyers, then there is a high risk to the confidentiality and integrity of your business, and you have every right to be nervous.

Okay, so your broker notifies you that he / she has been in discussions with a buyer party who has a high level of interest in the business after they signed the confidentiality agreement, provided details of financial capacity, reviewed the Confidential Information Memorandum, and met with the broker. They have now requested a meeting with you, the seller, and a tour of the facility, with a view to preparing an offer, assuming all looks and sounds in order following the meeting.

These meetings can be the make or break event of a deal proceeding, and for a seller experiencing this for the first time can be quite overwhelming and even nerve-racking. A professional broker will prepare you properly for the event, and usually after the first time (you will probably experience several of these meetings) you will become well-versed on the process.

“At the bear minimum, your broker should discuss expectations prior to the meeting, but even better, he / she should provide an agenda and a document outlining the process, along with dos and don'ts.”

Some key points to these meetings:

- They typically occur after hours, when staff have left the building, and to avoid causing concern.
- This is an opportunity to build a relationship, for all parties. We are all different and if personalities don't fit, then there probably isn't a deal fit. Good brokers can often identify this prior to a meeting.
- The buyer will have lots of questions, and so should you as the seller. We will request buyers to send across a bio and their questions in advance, and there is no reason why you, the seller, can't do the same.
- This is not the time to comb through financial reports or other details on the business, that should take place during due diligence. This is the time to build comfort, relationships, and a level of trust to proceed.
- Also, ensure the business looks as clean, and as organized as possible. Desks piled high with paperwork or unorganized warehouses can be a red flag, and scare or concern a buyer.



DUE DILIGENCE PREPARATION

Congratulations, you have take the steps to hiring a qualified M&A firm, had the business valued, and built the foundation ready to go to market. After a successful campaign and several buyer meetings, you have just accepted an offer on the business which is fair to all parties. Now, as they say, the real work begins. This, is where you enter into a period where most deals fall apart. Your buyer at this stage loves all that has been presented, but just be sure they are making the right decision, and for the right price, they want to delve into all aspects of your business operations, past and present, to dig up any skeletons hiding in the corners. This will involve themselves, but more likely their personal advisors such as their accountant and lawyer.

Your broker should already have you prepared for this part of the process. They will take all the information provided through the valuation process, and request even deeper back up information such as payroll reports, GL reports, copies of all contracts, business licenses, communications with governing bodies, customer and supplier contracts, etc. This list can and will be comprehensive. A professional M&A firm will work with you to have this information ready and organized in a secure data room and ready for a qualified buyer to access, even before they go to market; but you can always expect more from the buyer side.

I once worked on a deal where the seller told me he would work on the due diligence material once I brought him an offer. Once I brought him one that was acceptable, it took the seller over two weeks to complete the due diligence requests, at which point the buyer got nervous and walked away from the deal due to loss of confidence in the seller. As the saying goes, "time kills deals." It is not the time itself but what goes on during that time, and within either the seller's or buyer's head.

"It is absolutely critical for you as a business owner to be ready, organized, and completely transparent throughout the whole process."

No business is perfect, and all have issues, so get these out in the open early, to avoid real pain later.

You should also expect another meeting with the buyer during this process, and in my view, these due diligence meetings are absolutely critical. They answer questions face-to-face, they build a huge amount of trust, and in many cases, they end with two parties planning the post-closing activities.

That is a good place to be.



HIRING YOUR PROFESSIONAL ADVISORS

In this area, much is dependent on your own personal circumstances, and the size of your business operation. At the very least, you will require your broker, accountant, and lawyer by your side, especially through the final 4 weeks of a deal. In some cases, you may have tax experts and financial advisors and possibly even your banker working with you.

“Ensure all your advisors, especially the lawyer, have business transaction experience and are not deal killers but deal makers.”

Problem solving should be a key trait to look for. The best family lawyer in town could be the worst transaction lawyer, a litigator, could even be worse. So ensure they are qualified to support your deal and objectives. Our firm works with many fabulous lawyers across Canada, and at the same time we had the misfortune of working with many deal killers. Also, it is highly recommended you understand their fee structure ahead of engaging their services. Surprises are never good.

All your professional advisors are now on the same team, and it is important they all get to know each other and form a professional working team relationship. It is not uncommon for certain personalities trying to seize control of a transaction ensuring it moves along to the beat of their drum, especially when they have an hourly fee structure. Remember, you are the boss, you are in control, or should be, and when everyone is working efficiently to achieve your ultimate goal, then you increase the likelihood of success. At this juncture, your participation in assisting in introductions and getting the team all on the same page is critical.



YOUR GOAL

Ultimately, this should be your successful exit from your business. If you wish this to happen on your terms, then start early, long before you decide it's time to sell. You always need to be in a state of readiness, as you don't know what is around the corner.

Prepare for the Unexpected: www.pmabb.com/whitepaper/prepare-for-the-unexpected/

I can assure you the process of selling will come with challenges, and you should go into this with the mindset of minimizing those challenges and maximizing the odds of success. If you want those odds to be over 90%, then invest in the process, and follow the lead of your professional advisors.

Trying to save a few dollars may be your ticket to the 75% failed deal club.

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