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5 things no one ever tells you about selling your business

Relying on a team of advisers and a qualified investment banker for the preparation and execution of the deal allows owners to stay focused on growing the company, maintaining key relations, and arriving at the best outcome for their situation.

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By Mono Bhattacharya and Eric Hornung – RKCA
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Ten thousand baby boomers are retiring every day. Those retirees collectively own and operate approximately 3.5 million businesses in the United States. If past precedent holds, there will be more than 3.0 million businesses sold, closed, or transitioned in the next two decades.

Where retirement means selling a business, the transaction likely will be the most significant in the owner's life. It may also be the most challenging, stressful and (hopefully) satisfying. Balancing strong business operations and the transaction process with proper preparation and a team of advisors is not easy. However, without proper preparation and a trusted team the effort is herculean.

Here are five things business owners should consider as they plan for the sale.

1. Rely on a strong team of trusted advisers. The process of selling a business can be stress inducing, but the owner doesn't have to go it alone. The composition of a team is different for everyone but it likely includes M&A attorneys, accountants and/or wealth managers. To navigate the many complexities of the deal, the seller should hire a complimentary deal specialist.

Deal specialists, more commonly known as investment bankers, come in all shapes and sizes from global name brands to regional banks to industry-focused banks. There are benefits and drawbacks to each. The key is that the seller is comfortable with the people running the deal and the process governing the outcome. Deals are intense and sellers spend a lot of time with their bankers. More importantly, you need to trust that they have your best interest at heart.

Regional investment banks can take a more personalized approach, compared to national firms. They generally spend more time with first-time sellers on education and preparation. Sellers may find - through a thoughtful approach to the largest transaction in their life - that price is not the only way to maximize value for their situation.

Every business owner is unique in their outlook of what a good outcome means and an investment banker can help to define those goals upfront. To get to that point, however, a seller must be willing to answer a lot of tough questions.

2. Be ready to answer a lot of tough questions. An investment bank typically likes to start working with a client at least a year prior to sale to begin phase one of a three-phase sell-side process. Those phases are: (i) preparation (ii) process and (iii) post-close.

In the preparation phase, sellers are tasked with answering questions over the course of months, if not years. There are hundreds of clauses and terms that sellers need to consider from rolled equity to post-close expectations, from tax planning to legal implications, and from workforce expectations to re-naming rights. With every decision, a tradeoff is considered.

The result is how a seller actually defines a successful transaction. The answers to these types of questions impact the deal valuation and terms and consistently seem to surprise sellers.

What is often not surprising to sellers are answers to questions related to detailed business operations and strategy. From the history of the company to the present-day workforce to the future prospects of the firm, investments bankers want to fully comprehend the investment opportunity for future buyers and understand the business.

Good advisors will push for all of this disclosure early in the preparation phase. In the process phase, surprises can be detrimental to closing the deal. As a seller, work with your investment banker to be comprehensive with your disclosers early.

3. Be ready to disclose. A buyer will want to know everything about a business that it plans to acquire. If there are skeletons in a closet, a seller can bet the buyer will open that door eventually. Good investment bankers are paid to open that door first and get ahead of the bad news.

Disclosures include financials and revenue trends, customer and supplier histories and contracts, industry trends and growth outlook, legal exposure, and more. The process works best when sellers disclose as much as possible as early as possible following the execution of a non-disclosure agreement. The process is derailed when a risky fact is unearthed at the 11th hour. Months (and years) of stressful, hard work can be erased by a fact that the buyer may consider new information.

A robust data room, prepared by a team of advisors with significant deal experience, gives a buyer faith that the seller is both ready and committed to running an efficient process and completing a deal.

4. Understand the industry and the mergers and acquisitions happening inside it. A seller may have deep insight into what is happening in their industry not readily available in any database. Investment bankers understand broadly how both valuations and industry activity are trending.

Investment bankers understand - through their network of financial contacts - how terms are evolving and what buyers are looking for as market conditions and political climates change. Selling a good business at a bad time is not an ideal strategy. Understanding the "market" allows bankers to work with the seller's goals and objectives to maximize valuation.

5. Be patient and stay focused. To close a deal, a seller's calendar becomes cluttered with meetings and phone calls, a seller's inbox becomes cluttered with document requests, and a seller's singular business focus becomes divided.

Selling a business while still working in the business is disruptive to operations. Failing to minimize disruption could prove detrimental to the business hindering both the business and the potential transaction.

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Mono Bhattacharya is a partner and Eric Hornung is an associate at RKCA Investment Banking in Cincinnati. Investment banking services provided by RKCA, Inc., Member SIPC/FINRA. Other consulting services provided by RKCA Services, LLC. This material should not be construed as investment, legal or accounting advice. To learn more about the investment banking services the firm provides, visit https://www.rkca.com.