M&A acumen

How to deal with an unsolicited offer and ensure you get the best deal you can **Interviewed by Troy Sympson**

Even in today's choppy economic environment, mergers and acquisitions (M&A) are a common component of the business landscape. And with millions of baby boomers reaching retirement age within the next few years, they will become even more common. Selling your business can be a lucrative endeavor, one that provides you the security and financial freedom needed to retire comfortably.

"Selling their business is frequently the largest transaction an owner will ever be involved in," says Rick Hunter, a managing director with B&V Capital Advisors LLC, a subsidiary of Briggs & Veselka Co. "It's the culmination of years of effort and a transaction that can definitively determine an owner's net worth and standard of living during their retirement years."

Smart Business spoke with Hunter about what you should do if you receive an unsolicited offer on your company.

Rick Hunter
Managing director
B&V Capital Advisors LLC
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What do business owners need to watch out for if they receive unsolicited offers?

The best way to answer this might be to offer an example of a recent acquisition that began with such a letter from a potential purchaser. The timing was right for the owner so he thought: 'Why not let them come in, look around and see where the process leads?'

He actually ended up getting an offer, but it was set to expire in five days. While the offer was more than adequate for the owner's retirement needs, it was well below what he thought his business was worth. Still, he was inclined to accept the offer. He spent the next four days attempting to negotiate a higher price — all the while the clock was ticking. On the last day, the buyer disclosed that it had another target company in its sights and was prepared to let the offer expire as scheduled in order to pursue the other opportunity. That is, unless he accepted the original offer.

The tactic used by the buying company in this case may sound amateurish, but it is not uncommon. And walking away from $6 million in order to start the process anew is not as easy as it may sound. Obviously, it would have been a good idea to have known what the business was worth and to have gotten other competitive bidders involved in the process before the stakes got so high and time so short.

The expiring offer equaled three times cash flow. I knew the other company had just paid a six multiple for a similar company. I recommended that the seller tell the offering company that he needed to think about such a big decision over the weekend. The owner was concerned he might lose his original offer, but the offering company agreed. By Monday morning, he accepted an offer equal to six times cash flow for a total of $12 million.

What are the lessons a seller can draw from this experience?

Well, I would not recommend depending on a stroke of luck as in this case, where we were able to get a team in there to put an offer on the table over the course of a weekend. A better way would have been to begin a process early on to ensure that you create a competitive bidding environment. If you receive an unsolicited letter, then certainly begin the process before providing any information.

So what would the steps be in such a process of selling your company?

First, get a valuation of your company. This will provide you with a benchmark by which you can gauge potential offers and may give you important insight into the value drivers for your business. You might also consider hiring an M&A adviser. Your adviser would then provide the valuation as the first step in the engagement.

The next steps in the process would include the preparation of a company descriptive memorandum and a buyer analysis, the selection of a marketing strategy, approaching potential buyers, buyer due diligence, solicitation and analysis of proposals, negotiations and closing. An M&A adviser can help with all of this.

In addition to creating a competitive bidding environment, a good adviser will be able to act as your quarterback through the process, overcoming obstacles along the way. And, advisers tend to know how the game is played — they've seen the tactics the other side uses and know how to respond.

Confidentiality and the need to continue to focus on running your business are also critical issues. Letting the business underperform or having a customer find out that you are for sale during the process can kill a deal or result in a painful renegotiation. <<

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