November 2017

EXECU-BRIEF®

ROBBINEX®
Consulting Intermediaries
Securing Legacies Since 1974

A Voice of Authority in Mergers & Acquisitions

Crazy M&A Myths You Need to Stop Believing Now

BY: TAMMIE MILLER
MANAGING DIRECTOR, [TKO MILLER]

Takeaway: Not all that you've heard about the M&A process is true. Read through this article and see what mistakes many of your fellow business owners have made and which you can learn from!

Whether the result of the media or social networking and tall tales, most people have some misunderstandings when it comes to selling their business. A sales process requires planning, skilled professionals, and an understanding of the markets and transaction dynamics. Business owners who have not engaged in an M&A transaction before can make mistakes that result in a lower valuation or difficult deal terms. Proper planning and an understanding of the process can save some misfortune and distress.

The following is a list of myths that some CEOs believe, but are not true in the real transaction world:

1. The Negotiating Is Over Once You Sign the LOI
While signing the letter of intention (LOI) is an important step that you must take seriously, after it has been inked, you need to be more involved than ever. Negotiating will continue until the signatures are placed on the purchase agreement. There will be countless items, big and small, that you will need to address during due diligence and the drafting of the purchase agreement.

2. You Have to Take Seller Paper
Some buyers will make it seem like everyone takes seller paper, or debt from the company, as part of the purchase price. This is not always the case. In fact, my clients only take seller paper when that debt bridges a big discrepancy in valuation. I often recommend against seller paper because it rarely comes with the appropriate protections professional debt holders (like banks) require. You never want to be in the situation where you are holding a risky instrument and only getting senior debt-like returns.

New Opportunities:

Professional Full Service Auto Service Stores

Cleaning Equip. Mfg/Dist & Service (2 Companies)

Other Opportunities

Our Latest Blog:

A Magic Wand
By: Doug Robbins

Past Issues:

5 Tall Tales Entrepreneurs Tell to Bolster Business Value

A Review of the Emotional Journey of Selling Your Business

The Robbinex Mission

We provide our clients with experience-based knowledge to maximize the value of their companies, to help them make:
…the right exit decision,
…at the right time
…for the right reasons.

ROBBINEX® Est. 1974

Robbinex Inc.
41 Stuart Street, Hamilton, ON   L8L 1B5
1-888-ROBBINEX (762-2463)
Phone: 905-523-7510   www.robbinex.com   Fax: 905-523-4998

SYSTEM CERTIFICATION ISO 9001 SGS

3. Everyone That Makes an Offer Has the Money to Follow Through
Not all offers are the same. If you take an unsolicited offer, and you aren't using an investment bank to check the credibility of the buyer, you might be getting a deal from someone who doesn't actually have the money to buy the business. Unfortunately, there are folks out there that call on business owners to get them to agree to a sale, and then once they have a price and some basic terms, turn around and try to find the capital to get it done. Alternatively, there are people who have friends and potential investors that have said they will invest capital in a deal that they like, but they don't have an obligation to do so.

If you are an owner and you get an offer to buy your business, it is best to check it out with an investment banker or trusted advisor.

4. I Don't Need a Deal Team to Help Me Sell My Business
It is surprising how many business owners think they can skimp on a deal team. While it may seem tempting to save the fees, it has been shown that having an investment banker or business broker on your transaction more than pays for itself, and generates an average of 20% more transaction value.

Additionally, having the wrong deal team — or no deal team — can cause a business owner to lose leverage during a transaction. Buyers typically have bought more businesses than business owners have sold, and are better at navigating the M&A waters.

Lastly, while focusing on the transaction, many business owners forget about running their company, leading to a decline in the business and potentially the loss of the deal. Hiring a good deal team means that as an owner or CEO you can focus your energies on delivering results. An experienced investment banker and M&A attorney will bring value to the table and work to ensure that the transaction happens at the best possible price and terms for the business owner.

5. You Have to Sell 100% of the Business
While most buyers insist on buying 100% of a business, there is a small — but growing — community of buyers that are perfectly happy providing capital for a minority ownership position. Selling a minority stake in your business can give you capital to buy out a partner, make an acquisition, or take a dividend, among other things. When you sell a minority stake of your business, you still own a majority of the business and you can take advantage of partnering with a strategic investor to facilitate growth.

Conclusion
Like many other topics in life, you can't believe everything you hear about mergers and acquisitions. No matter where these myths and misconceptions are generated, they can cost business owners materially in value. If you are in doubt about something you've heard or that seems strange about the M&A process, check with your M&A advisor.