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VALUED REPRESENTATION

MAPPING THE M&A LANDSCAPE

By JoAnn Lombardi, President VR Business Sales / Mergers & Acquisitions



Thinking of buying or selling a business but not sure how to go about doing it? You're not alone. Many first-time buyers and sellers are unfamiliar with the complicated merger and acquisition process, making enlisting the assistance of a team of business, financial and legal advisors essential. Before you hire an expert, however, learn a little about the major players in M&A deals.

BUYERS AND SELLERS

Buyers can generally be divided into two main categories: financial and strategic. Financial buyers acquire companies for the anticipated return on their investment. They typically have some experience in the industry - for example, private equity funds that specialize in technology businesses. These types of buyers may want to manage the companies they buy themselves, install new management or leave existing management in place.

Strategic buyers are usually companies that seek synergies between the business they're acquiring and their own organization. These synergies might include:

- Economies of scale,
- Elimination of redundancies,
- Addition of new products, customer bases and sales channels, or
- Greater geographic reach.

Because of anticipated synergies, strategic buyers are, in most cases, willing to pay more for a business than financial buyers.

Of course, a company may also be purchased by insiders such as family members or employees. Relatives with an ongoing interest in a business and who know how to manage it for growth often make good buyers. Or a business may offer ownership to executives or loyal employees through an employee stock ownership plan (ESOP), which enables employees to buy shares over some time.

Owners become sellers for a variety of reasons. They may be entrepreneurs who enjoy the challenge and financial rewards of starting or buying a business, growing it, and then selling it for a profit. Or they may be ready to retire and cash out on their years of hard work. Often these sellers don't have family members willing or able to take over the business.

FAMILIAR NAMES, NEW ROLES

A variety of professionals assist buyers and sellers in M&A deals - some of whom you may already work with on a regular basis. These include:

Bankers. A personal banker familiar with your company and the business community can be a useful source of information and may be able to recommend M&A experts. Whether you're a buyer or seller, it's important to keep your banker updated on your plans and progress.

Accountants. Accountants are skilled in preparing and interpreting financial statements for a variety of purposes, including business analysis and valuation, and can draw up adjusted income statements and balance sheets. These financial statements help prospective



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buyers estimate how much of a return they could expect if they operated a business using their own methods. Accountants usually work with attorneys experienced in M&A transactions and skilled intermediaries to procure the deal.

Attorneys. While your attorney may be able to provide M&A advice, lawyers who specialize in corporate transactions are recommended for negotiating and contractually documenting the best terms for a business sale. Generally, these specialists are knowledgeable about securities law, corporate finance, taxation, real estate and estate planning. Drawing on this broad knowledge base, they can help minimize the risk of potential mistakes, misunderstandings and conflicts between buyers and sellers.

M&A SPECIALISTS

Several types of professionals specialize in introducing buyers and sellers and negotiating transactions. Business brokers are most commonly hired by small businesses when a straightforward sale of a company's stock and assets is involved. They're practiced in pricing and packaging businesses for immediate offering to buyers. Brokers typically have access to a network of buyers and actively prospect for business owners ready to sell.

Skilled full-time professional VR mid-market advisors are capable of handling all aspects of an M&A deal - including preliminary valuation, financial due diligence, researching buyers, negotiating a deal's structure, pricing, and working with other transaction advisors. They may work with all sizes of companies but are more commonly employed for larger deals.

DUE DILIGENCE HELP

Business buyers increasingly turn to specialists for help with due diligence - the process of gathering and evaluating data about the business they hope to acquire. Due diligence experts may do everything from inspecting a seller's offices and production facilities to interviewing management and employees and analyzing financial records.

Insurance specialists can also be used in a risk-management role, evaluating company insurance coverage and claims. Auditors may be useful for interviewing accounting personnel and financial statements to verify their accuracy. Finally, private investigators can research the backgrounds of key executives for possible fraudulent activity and misrepresentations.

TEAM EFFORT

Whether you're buying or selling, you will likely be best served by a team of qualified M&A professionals with varied expertise. It's virtually impossible to do everything yourself particularly because you have a business to run so, instead, focus on effectively managing your team.