# TO $ELL OR NOT TO SELL

## The Multimillion Dollar Question for Owners of Mid-size Businesses

*A Publication of*
CLAYTON CAPITAL PARTNERS

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# Mid-Size Business Owners: Countdown To Your Exit

Business owners: You will leave your business. That's certain. The question is: Will you be able to sell your business – and sell it at a good price?

For the last few years, even the most optimistic of us were hard pressed to find the silver lining in the unique lineup of thunderclouds raining on the business owners' sale prospects:

- Banks unwilling to extend credit to buyers.
- Economic uncertainty.
- Bursting of the real estate bubble.

Since the market for mid-size businesses tanked in 2009-2010, the outlook has changed considerably. Banks are once again willing to lend money. Despite continuing uncertainty in several European economies, the U.S. housing market and U.S. unemployment rate have stabilized. Well-run businesses, large and small have weathered the downturn emerging with their profitability intact. With solid balance sheets going into the recession, these companies did not hesitate to trim overhead and have emerged leaner and, one might argue, meaner.

Kevin Short, CEO of St. Louis-based investment bank, Clayton Capital Partners says, "We think that it is an opportune time for owners who have been thinking about selling their companies to take advantage of current market conditions."

If you are an owner in this category, we've identified six factors for you to consider as you analyze your *stay* or *sell* options. Five of these factors attract owners to the marketplace while one inexorably drives owners to consider selling their companies.

# PART 1

## Luring Owners Into the Market

### ■ FACTOR 1 ■

**Private Equity Groups Have Cash To Spend.**

The most active buyers in the marketplace, Private Equity Groups (PEGs), have record amounts of cash to invest in companies that show promise of a good return on their investment. When the merger & acquisition market hit bottom in 2009, PEGs had few places to invest record amounts of cash. According to Preqin, the amount of dry powder held by the entire private equity industry as of March 2014 was $1.1 trillion.[1] Bain & Company notes that nearly $400 billion of that amount is earmarked for buyouts.[2]

Fortunately – for owners of mid-sized companies – these private equity funds must invest this dry powder to provide returns for their investors. Further, PEGs are finding financing easier to secure – especially for add-ons.

According to KPMG's survey of over 1000 M&A professionals (including those at corporations, PEG firms and investment banks), 63% plan to make acquisitions during 2014.[3] The largest targets for investment are: technology/media/telecom (44%), healthcare/pharmaceuticals/life sciences (41%), financial services (28%, energy/oil and gas (27%), consumer markets (21%) and diversified industrials (18%).[4]

### ■ FACTOR 2 ■

**Banks Are Back In The Loan Business.**

During the recession/downturn of 2007 through 2009 banks involved in capitalizing deals in the mid-market lost their sources capital. As Bear Sterns, Lehman Brothers and other large banks collapsed (spring and autumn of 2008 respectively), even large, Blue Chip/Fortune 500 companies could not secure financing for their acquisitions.

While accurate numbers are difficult to establish given gaps in banks' reporting requirements, some experts believe (and those seeking loans confirm) that bank lending earmarked for commercial and industrial loans dropped precipitously in late 2008 through 2009. Banks have finally loosened their grip on capital and are looking to make loans to qualified buyers with solid track records of success.

## ■ FACTOR 3 ■

### Strategic Buyers Need Growth

Strategic buyers, generally publicly held companies, are looking to invest cash accumulated on their balance sheets to achieve growth. Shareholders are looking for growth and to provide it, these companies have entered the market seeking well-run companies to improve their bottom lines.

According to *Inc. Magazine*, other reasons to grow through acquisition include:

1. *It results in the acquisition of a strategic asset or capability that is too costly or too difficult to build internally;*
2. *It will enhance value growth beyond what the core business is able to deliver on its own; and/or*
3. *It can be acquired at a fair price.*[5]

## ■ FACTOR 4 ■

### Low Interest Rates Make Acquisitions Affordable

As long as the Federal Discount and Federal Funds Rates remain low, acquisitions are affordable for those buyers who choose to finance all or part of their purchases.

## ■ FACTOR 5 ■

### Prices Are Up

Low interest rates and increased competition among buyers have pushed up sellers' expectations of worth. While "sellers held out for a high price…rising public equity markets gave (buyers) reasons to dig in."[6]

# Part II
## Pushing Owners Into the Market

### Aging Owners Need To Sell

It is no secret that every one of the 78 million Baby Boomers is aging. Three to four million per year started turning 65 in 2011 and will keep turning 65 for the next 25 years.

This demographic phenomenon has been dubbed the "gray tsunami" as it relates to the numbers who will need geriatric services, Social Security benefits, etc. "Tsunami" is also an apt term for the glut of businesses that will hit the market as health issues and advancing age force Boomer business owners to exit their companies.

*"If owners do nothing to prepare...and wait on the sidelines until forced to take the field, they can expect a train wreck."*

KEVIN SHORT

"If owners do nothing to prepare for the day they will sell, and wait on the sidelines until forced to take the field, they can expect a train wreck," says Kevin Short. "Owners who fail to read the signs indicating a favorable market or who don't prepare their companies for sale will destroy their chances for long-term financial security."

How many Boomers own businesses? According to Roger Winsby, President and Co-founder of Axiom Valuation, "Our best estimate is that there are approximately 7.5 million established businesses in the U.S. Factoring in companies with multiple owners, that makes approximately 9.5 million owners. These businesses tend to have from two to 200 or more full-time employees beyond the owner; have been in business for at least three years; and have a work location outside of the owner's home."[7]

If we conservatively estimate that only half of 9.5 million of these owners reach retirement age in the next 10 years, that's a staggering number of businesses that will be sold, transferred, or liquidated.

Again, according to Winsby, "Over the next several years, the U.S. economy will experience an unprecedented volume of wealth transfers. The result will be a glut of businesses for sale and downward price pressure for most privately owned companies."[8]

In addition, owners who stayed in their companies after the 2008 declines in both the M&A and equity markets are seeing sustained recovery in the equity market. "As owners grow increasingly comfortable with the returns they will be able to earn in the equity markets on their sale proceeds," suggests Short, "we expect to see more of them put their companies on the market." If the recovery continues, the number of mid-market companies for sale will increase accordingly.

*"If only half of 9.5 million owners reach retirement age in the next 10 years, that's a staggering number..."*

Smart owners understand that an increase in the supply of businesses on the market will heightens competition among sellers for the best buyers, creates downward pressure on prices and sharpens the need to set one's business apart by careful and effective planning. Owners will have to put more time and energy into:

- Increasing transferable value;
- Improving the sustainability of a company's competitive advantage(s); and
- Marketing the business creatively and effectively.

# PART III
## The Business Owner's Options

As owners weigh whether to sell or stay in their companies, we recognize that there are personal factors that motivate owners to sell or to stay. It often helps to remind owners that selling does not necessarily require them to exit.

| PERSONAL FACTORS |
|---|
| **LOSS OF FIRE** IN THE OWNER'S BELLY |
| **CHANGE IN HEALTH STATUS** OF OWNER OR SPOUSE |
| **WILLINGNESS/ABILITY** OF FAMILY MEMBER TO ASSUME THE REINS |
| **OWNER'S UNCERTAINTY** ABOUT POST-BUSINESS LIFE |

Let's look at several options.

### ■ OPTION 1 ■ SELL THE BUSINESS OUTRIGHT.

**Owner Wants To Exit At Closing.**

When one of an owner's exit objectives is to leave the company immediately after closing, we look for a strategic buyer. Strategic buyers have experience in the seller's industry so they generally do not need to engage in an enormous amount of due diligence. They can move through the sale process much more quickly than other types of buyers, thus decreasing the risk of a failure to close.

In addition, strategic buyers generally pay purchase prices based on their perception of how an acquisition will develop or improve something they are already doing. In short, a strategic buyer bases its purchase offer on its perception of future value: how well it expects the target company to perform under its management, or how successful the acquisition will be once it can take full advantage of the buyer's better market distribution, name recognition or proprietary technology.

First, we look to see if one or more of a selling company's competitors would benefit from acquiring it. Competitors usually seek to increase market share and/or eliminate a competitor. Before we consider a competitor as a potential buyer, we calculate the risk associated with dealing with that competitor. Not only do competitors know all about the seller's industry, but they can be dangerous when armed with the knowledge that a competitor is for sale.

**THE FOUR TYPES OF STRATEGIC BUYERS**

COMPETITORS
VERTICALS
INDUSTRY PLAYERS
ADJACENCIES

We also look at "verticals" as potential buyers. These are the players up and down a company's supply chain. Would one of its suppliers or one of its customers benefit from purchasing the company? If your company is a major customer of one of its suppliers, that supplier may be interested in securing the business of its major customer. It may wish to tighten the link between itself and the ultimate consumer. On the other hand, a seller's major customer may wish to manage its costs by purchasing its source for a critical or costly component.

Industry players are businesses engaged in the same activity as a selling company, but are not in direct competition with it. For example, an IT consulting firm in Boston that wants to expand into Atlanta (the home of its most lucrative account) may be interested in acquiring an agency there. Industry players are sometimes willing to pay a premium for synergies that include expanding geographic reach, acquiring additional customers or eliminating overhead.

Less obvious (and therefore requiring more extensive research) are adjacencies. Adjacencies are those businesses that complement the selling company. For example, an electrical supply company may be interested in acquiring a plumbing supply company to both expand its customer base and product line. Unlike competitors, adjacencies do not know as much about the seller's industry nor are they as dangerous.

*Industry buyers are sometimes willing to pay a premium for synergies that include expanding geographic reach, acquiring additional customers or eliminating overhead.*

**Owner Is Willing To Stay After Closing.**

If an owner is ready to sell, but is amenable to staying with the company for a period of time, selling to a Private Equity Group can make sense. Because there are currently few opportunities for PEGs to do multi-billion-dollar deals, and because they are always allergic to overpaying for assets, they are engaging in buy-and-build strategies. To buy-and-build, PEGs look for platform companies, usually in fragmented markets, that hold a solid niche in their markets. Then, PEGs will add on to this platform to exploit one or more economies of scale. They find this strategy less costly than the mega-million-dollar deals, and easier to finance since lenders perceive less risk when the PEG is familiar with the industry.

*To buy and build, PEGs look for platform companies in fragmented markets that hold a solid niche in their markets.*

## ■ OPTION 2 ■ TAKE SOME CHIPS OFF THE TABLE.

As they age, many owners start to think about taking some of their chips off the table. At age 25, the fact that owners' entire net worth is tied up in their companies is more exciting than worrisome. That perception can change as retirement approaches, and owners become more aware of how they want their post-business lives to look: *comfortable.*

Two options for owners who seek to reduce their risk are recapitalization and Employee Stock Ownership Plans. In a recapitalization the buyer is a Private Equity Group that bases its purchase price on a formula. In a sale to an ESOP, the buyer is an entity whose ownership consists of the employees of the company and the purchase price is based on an independent appraisal.

### Recapitalization

**Recapitalizations are only appropriate for owners who:**

- Want to stay active in their companies.
- Can work for someone else.
- Can tolerate the risk that a marriage with a Private Equity Group may not be made in heaven.

**Benefits of recapitalization include:**

- Owners can convert a portion of the business to cash. PEGs prefer a majority position – 70% to 80% – but will take a minority position only if the seller is a stellar operator.

- Reduces owner's financial exposure by diversifying assets.
- Reduces owner's risk through asset diversification and transfer of personal guarantees to the PEG.
- Negotiations may include allowing owner to remain in charge of the company often for two to three years. On occasion, PEGs require the owner to remain with the company and only the term is negotiable.
- Injects into the company the cash necessary to expand, hire new employees, and/or fund additional acquisitions.
- Increases the yield on owner's remaining interest in the company if PEG ownership is successful.
- Rewards key managers as the PEG usually creates option plans that give key managers a piece of future growth of the company.

Again, according to Bain & Company,

> *An emerging new source of deal activity is the product of the creativity of General Partners to think outside of the buyout box and consider minority control stakes and partnerships. These less conventional deals can be more lucrative than buyouts because they are the product of custom-tailored agreements that do not involve auctions.*[9]

**If a recapitalization meets an owner's exit goals, Clayton Capital Partners evaluates:**

- How the owner might retain control via real estate leases. (Leasing real estate to the PEG gives the owner some leverage.)
- How the seller might retain control via classes of stock. (Sales can be structured so that one class of stock owns the profits while another class retains control.)
- Whether the seller/owner can afford to lose its stake (retained interest) if the arrangement with the PEG does not go well.

**The recapitalization process looks much like a sale to a third party:**

- Our analysis of prospective buyers is critical because PEGs will usually require the seller to work for the company at least for a limited period of time.
- Multiple buyers, in this case PEGs, are invited to bid simultaneously.
- Buyer due diligence is just as (and is usually more) extensive.
- Closings are mostly cash – with some earn outs.

**When Clayton Capital Partners looks to find the best match between a PEG and a seller, we look for a PEG:**

- That fits the seller/owner's business philosophy.
- That the owner can work for/with for at least two to three years and maybe longer. (PEGs want strong owners.)
- With a solid performance record in dealing with its partners. Past performance is a good indicator of future success, but a PEG's track record need not be in the seller's particular industry.
- With a management history that the seller can live with.
  - Does the PEG sell its acquisitions in fewer than five years? More than five years?
  - What are its historical returns?
  - How does the PEG deal with its partners in good times and in bad? In bad times, is the PEG reasonable?

## Employee Stock Ownership Plan

An ESOP, or Employee Stock Ownership Plan, is another way owners take some chips off the table while remaining active – at least for a time – in their companies. ESOPs can buy all, or a portion of, a business and pay owners (over time) an amount established by an independent appraiser.

> *Employee Stock Ownership Plans are a kind of tax-favored employee benefit plan funding by pre-tax company contributions… ESOPs can also borrow money to purchase an owner's interest in full or in installments over time, again with the company using pre-tax dollars to repay the loan…Many owners can then defer the gain they make on the sale by reinvesting in other companies. Ongoing ESOPs have additional tax benefits, and Sub S 100 percent employee-owned ESOP companies do not have to pay any federal or state income tax at all.*[10]

Owners who are willing to work for several years prior to their exits and whose primary goals are to: (1) achieve financial security; and (2) keep the business *and jobs* in the community, may find this exit option desirable. While ESOPs do allow owners to pick their retirement dates and reward long-time employees, they don't allow owners to pick which employees benefit. All eligible employees must be allowed to participate.

**ESOPs ONLY WORK WELL IN COMPANIES**

**WITH COMPETENT MANAGEMENT TEAMS IN PLACE**

**WHOSE PROFITS ARE SUSTAINABLE OVER TIME**

**WITH SUFFICIENT DEBT CAPACITY**

**WHOSE OWNERS ARE WILLING TO SELL AT LEAST $3 MILLION OF EQUITY TO THE ESOP**

**THAT HAVE AT LEAST 25 EMPLOYEES**

ESOPs require seller/owners to comply with strict legal guidelines and are expensive to establish and to maintain. Because employees generally have no money to purchase ESOP stock, owners must seek ESOP financing from banks – banks that *rarely lend without the owner's guarantee.*

## ■ OPTION 3 ■
## SET THE SALE CLOCK: START PLANNING YOUR EXIT TODAY.

If, after analyzing your exit options, you are emotionally prepared to set a date to sell, but need time to prepare your company for sale, please turn to Part IV, Owner Option 2 on page 17.

## ■ OPTION 4 ■
## TRANSFER TO FAMILY MEMBER/CO-OWNER.

If, after careful consideration, you decide that transferring your business to family members or to one or more co-owners is the exit path you prefer, understand that without significant planning and guidance from advisors who know what they are doing, these insider transfers are fraught with risk.

Even with expert advice and careful planning, owners often alienate, not only the family members involved (who often believe they are paying for a company they helped to create), but also other family members.

*…without significant planning and guidance, …these insider transfers are fraught with risk.*

The hard truth is that rarely do insiders have sufficient cash to pay the departing owner the fair market value of the company. It is the cash flow of the company that must generate the departing owner's payoff. Second, most sellers (because they do not consult transfer experts) lose control of their companies before they are completely cashed out. These two perils can be avoided but only with significant planning and expert advice.

# PART IV
## You Decide.
## We Help.

Owners come to Clayton Capital Partners in various stages of their exit decision-making process, but the earlier in their business lives that they start planning their exits, the more options available to them. Interestingly, Bain & Company recommends that PEGs who want to succeed in today's marketplace. "…start thinking about their exit path from day one, continuously tracking options and identifying potential buyers from the start and preparing the business accordingly." [11]

"That's the advice we've offered our clients for years," observes Short. "Our Proactive Sale Strategy™ is all about preparing a company for sale and identifying potential buyers *before* the owner puts the company on the market. As part of that preparation, we carefully assess both the company and the owner for sale readiness," explains Short. "When both owner and company are prepared for sale, my job is fairly straightforward: find the best possible buyer for the company. If the company is not ready, we've got some work to do," says Short.

Let's look at those two situations.

### ■ OPTION 1 ■
### OWNER AND COMPANY ARE READY FOR EXIT.

With the exception owners who face critical health issues, owners generally decide they are ready to exit their companies for a combination of both internal and external motives.

Some owners who come to this decision have companies with good histories of profitability; others do not. Some have excellent management teams in place; other owners are involved in every aspect of running their companies. Some companies are valuable on paper, but their value to a buyer (transferable value) is questionable. Some are in hot industries, others are doing well, but are in dying industries. These and other factors influence the sale-ability and value of a company.

### The Proactive Sale Strategy™

To help all owners to assess company sale-ability, predict purchase price, and reduce risk, Clayton Capital Partners has developed the Proactive Sale Strategy™. This Strategy is built on 25 years of successful transaction experience and is a multi-step process designed to collect the data necessary to:

- **Reduce the owner's risk of entering the marketplace unprepared;**
- **Predict the value that company could bring to the M&A marketplace;**
- **Identify the buyers who could be interested in purchasing the company; and**
- **Create a direct relationship between the company's asset and the opportunity or threat that asset presents to potential buyers.**

Ultimately, this Strategy helps owners determine if their companies are ready to sell, if the market is primed to accept their companies and how best to position the company in the marketplace. In short, Clayton Capital Partners analyzes both the company and prospective buyers before engaging in any traditional selling activities.

At the outset of the Proactive Sale Strategy™, we place a fair market value on the company. We use this preliminary value as a basis for our analysis, but owners use it to determine if the value is sufficient (after taxes) to support their post-business lives. If it is not, we help owners to determine the most effective ways to build business value in the shortest period of time.

We then ask owners to complete a thorough Assessment of Sale Readiness. The owner's answers help us determine how prepared the owner and the company are for sale.

In the next step of the Proactive Sale Strategy™, we conduct the pre-sale due diligence that prepares a company for a buyer's scrutiny. In doing so, we are able to identify and remedy problematic issues before the buyer has a chance to use these issues as a pretext for decreasing its offer or stiffening the terms of the deal.

### The Competitive Advantage Analysis

In examining the company in detail we lay the foundation for our next step: The Competitive Advantage Analysis. As we define it, a competitive advantage is the product a company makes or service it offers either better or more cheaply than its competitors – over time. A company may do something differently than its competitors or it may do or make something more cheaply. In either case, differentiation or cost leadership must be paired with the ability to sustain that cost leadership or product/service differentiation over time.

> *"...an **outrageous price**...is at least two times the EBITDA multiple of an average company in its industry."*
>
> KEVIN SHORT

If a company has a competitive advantage, or can develop one, we may be able to seek an **outrageous price** for the company. "I define an outrageous price as one that is at least two times the EBITDA multiple of an average company in its industry," says Short.[12]

### Buyer Analysis

Once we have estimated the company's transferable value and how prepared the company is for sale, conducted pre-sale due diligence and determined – if the company has a competitive advantage – what that advantage is, we then assess the buyers currently active in the marketplace.

Our goal is to identify which companies in the M&A marketplace can use their significantly greater resources to make more money from the company than can its current owner. That may sound simple, but identifying one or several buyers, takes a huge amount of research. Our experience working with a number of large domestic and international corporations to help identify platforms for future growth guides our research. As a result, we have an excellent idea of what strategic buyers look for and how they operate.

Among other attributes, Clayton Capital Partners looks for buyers that could employ their access to capital, or to more efficient processes, or to deeper or wider distribution channels or to their massive sales force to take a seller's company's product or service to a level that its current owner simply cannot.

Not only is it necessary to identify which buyer(s) will benefit most from acquiring a company, Clayton Capital Partners creates a unique strategy that makes buyers aware of the value the company brings to the table. This might involve issuing carefully targeted press releases about product or service innovations or awards, advertisements in selected outlets, or drip-marketing programs designed to inject our client's company into the consciousness of our selected buyer(s).

**Throughout the engagement, Clayton Capital Partners continues to collect and to update buyer information related to:**

- What companies potential buyers have purchased in the past;
- How much they paid;
- Changes in their strategic acquisition plans;
- Problems they may be encountering in their industry;
- Changes in their industry position or reputation;
- Personnel changes; and
- Any changes in their regulatory environment.

In short, we continue to learn everything we can about the parties we have identified as potential buyers for a particular company.

Clayton Capital Partners then launches an active – yet anonymous – program to engage the prospective buyers. "Engage" means contacting representatives of each selected, prospective buyer on the owner's behalf, but without revealing *anything* about the company. "Over time," explains Kevin Short, "we cultivate a relationship with these buyers by repeated phone calls, attending trade association meetings or employing other strategies uniquely designed to sell a particular company."

*If…it is the optimal time to sell, owners decide whether to put their companies on the market…*

Once we complete this Proactive Sale Strategy™, Clayton Capital Partners makes its recommendation to an owner about when and how best to sell. If we determine that it is the optimal time to sell, owners decide whether to put their companies on the market – armed with more than just a hope for a positive outcome. Alternatively, it might be necessary for an owner to align its competitive advantage more closely with the needs of a selected buyer before initiating a sale.

The purpose of the Proactive Sale Strategy™ is not to rush a company to market: it is to arm an owner with the best possible information about the outcome of a sale.

For more information about our Proactive Sale Strategy™ please go to *http://www.thinkoutrageous.com/index.html*. For information about Kevin Short's book visit *http://www.claytoncapitalpartners.com/bookshelf.html.*

## ■ OPTION 2 ■
## OWNER IS READY FOR EXIT. COMPANY IS NOT.

If an owner is ready to sell, but the company is not yet sale-able at the price its owner desires, we first determine why the market values the company differently than does the seller. For example, if the company must be larger to attract a deep-pocketed buyer's attention, is the owner willing to stay with the company long enough to make one or more acquisitions and weave them into the company? If the company does not have a sustainable competitive advantage, can it create and nurture one?

Or, if the company is in a dying industry, is it best to run the company as long as it is profitable then liquidate?

It typically takes about three years to prepare a company for the marketplace. When owners gasp at this timeframe, we talk about how long it takes to transfer all of the owner's responsibilities to members of the Management Team – and that assumes that those managers are capable of assuming that level of responsibility. Often, Management Team members are not the proper people to weather a transition and to propel a company forward under new ownership. If that's the case, it takes time to locate, hire and train a new team.

To prepare a company for sale, most owners must take time to spruce up financial records. This means that there is only one version of various financial statements, and that there is no need to revise (or restate) financials to properly account for one-time expenses and various owner perks.

We know that buyers hate surprises so we help owners identify and rectify any issue that might surprise a buyer. The fewer surprises buyers encounter on the road to closing, the faster they move and the fewer shots they take at the purchase price.

"There are a huge number of issues for owners to consider," Kevin Short observes, "as they contemplate their exits from their companies. My job is to help owners to identify their exit goals and to assess various exit options in light of their financial, personal or family-related goals." At Clayton Capital Partners, the process of helping owners to create plans that achieve the exit they desire is called "Exit Planning." Whether owners need help establishing their goals or assessing their exit options, the planning experts at Clayton Capital Partners can help.

# PART V
## How To Choose The Right Investment Banker

Choosing the transaction advisor to help you decide if and when to sell your company is both a subjective and objective decision. Emotionally, you need to "click" with the investment banker. You will be working with that person to make some of the most critical decisions of your life so it is important that you trust each other.

*…it is important that you trust each other.*

Objectively, you want an investment banker who has deep and current experience selling family-owned and entrepreneur-owned companies. According to Kevin Short, "Many organizations that advertise themselves as investment banks have not completed a transaction in years. Or, if they have, they've orchestrated a very, very small number." Short recommends that owners ask prospective bankers specific questions about the number and type of deals they have completed.

**In addition to probing experience, owners need to assess the banker's people skills:**

- Do they have good people skills?
- Do they seem to understand people?
- Can they predict behavior and adapt their behavior to different people, situations and levels of intensity?
- Since they will be selling your company, is your investment banker a good salesperson?
- Can they tell the story of your company in a compelling way?
- Can they formulate creative marketing strategies?

- Are they sensitive to your need for confidentiality and fanatically committed to protecting it?
- In your interviews with potential investment bankers, is one a better listener than the others?

**Second, can you evaluate their intelligence and analytical skills?**

- What examples can they provide about how they anticipated (and dealt with) future challenges?
- Do they have a thorough understanding of and ability to manage numbers?

**Third, as you probe the investment banker's experience, assess whether they are interested in your company's competitive advantage.**

- Do they have ideas about how to leverage it?

Make some calls to professional advisors in your area for input on their reputation in the professional community. Ask those professionals about the banker's reputation in the buyer marketplace as well.

The last quality is a little more difficult to assess: their ability to discriminate. You don't want an investment banker who can't separate unimportant issues from deal breakers, or who can't distinguish between a bluff and a deal-ending condition. You want someone who can separate serious from halfhearted buyers. If your investment banker cannot accurately make these judgment calls, it is likely that deal momentum will suffer and that your deal will collapse before closing.

# PART VI
## Ready Or Not, Your Exit Approaches

Inevitably, all business owners leave their companies. What separates those owners who do so successfully from those who do not is the ability to:

- Look objectively at their companies, themselves and the marketplace;
- Plan carefully, drawing on expert advice, and
- Execute the exit strategy that best achieves their objectives.

If you have these abilities, are the other stars in the M&A constellation aligned? Those stars include:

- Your emotional readiness to exit;
- Your company's value in the view of buyers;
- The state of the M&A market; and
- The buyers' interest in and willingness to buy your company.

There is only one item on that list you cannot control: the state of the M&A market. You control or influence every other factor: your emotions, your company's value and how you present that value to the right buyers.

We hope this article helps you to understand all of the factors involved in exiting your company successfully. We've helped hundreds of owners to decide on exit paths, and to execute the best possible exits. We would be honored to have the opportunity to help you as well.

# 22 FOOTNOTES

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