Reprint

Anatomy of a Sale

As featured in the
November/December 2013 issue

Serving the Electric Wire and Cable Processor
WIRING HARNESS NEWS®
Voice of the industry
P.O. Box 527 • RICHMOND, ILLINOIS 60071

Anatomy of a Sale

As featured in the November/December 2013 issue of
Wiring Harness News

Serving the Electric Wire and Cable Processor
WIRING HARNESS NEWS®
Voice of the industry
P.O. Box 527 • RICHMOND, ILLINOIS 60071

Loren M. Smith, CEO
Blue Valley Capital

Loren M. Smith, CEO
Blue Valley Capital

I'm often asked, "Exactly what does the process of selling a company look like."

I know one reason I get this question is our track record in orchestrating sales, but I imagine another is indecision about whether involving a M&A (Merger and Acquisition) firm is really worthwhile. So before I describe the sale process, let me briefly explain why I believe you are wise to retain a specialist.

A widely accepted (M&A) fundamental is that an owner should not attempt a sale on his or her own. The owner lacks experience in the matter, cannot bring objectivity to the process, and cannot afford to be distracted from priority #1: the day-to-day responsibility of running the business and continually adding value.

A well-chosen M&A firm, on the other hand, with a solid grasp of your business, your industry, and your firm's major selling points, will be adept at stimulating a confidential, competitive process resulting in an optimal selling price and terms. Meanwhile, your ability to run your business will not be disrupted.

These are basic M&A principles, but achieving truly exceptional results for an owner is a bit of an art. When we are honored by being retained to sell a business, we apply our experience––and we hope, artistry––to a proven, seven-step process:

1. *Establishing price buy-in*. It is critical to get on the same page with an owner regarding price expectations. Based on recent experience and widely accepted valuation methodology, we determine a realistic price range [min-max] as well as likely terms. In the event that a seller has price expectations exceeding our most optimistic estimate, we do not over-promise. We wish the owner well and move on.

2. *Building a compelling narrative*. Because businesses do not sell themselves, a central facet of the artistry mentioned earlier is painting a picture of where a company has been, where it is in the current environment, and what the company's future might look like under effective management. This picture should be drawn with the understanding that brevity and precision are far more important than elaborate detail. The most valuable part of the picture, of course, is the persuasive description of how a prospective buyer can grow your business.

Helping prospective buyers appreciate the attributes of a company also includes providing context for historic performance, identifying expenses the new owner will not incur post-closing, and a customer forecast––typically covering three years––of future performance. A key component of the narrative-building process is distilling extensive information that we "download" from the CEO and management team. This data typically reveals a great deal about their market and the way they run their business, but without an insiders knowledge of the industry we wouldn't know what questions to ask. We pose our questions at intervals, rather than taking up concentrated blocks of the executive's time.

3. *Making initial contact with prospective buyers.* During this phase, without revealing the name and location of the selling company, we convey basic information to a broad range of potential buyers including private equity firms, wire harness companies, electronic assembly houses, and connector manufacturers. The wide net reflects the inability to predict likely buyers, seeing as one never knows what a potential buyer may have on its plate.

4. *Narrowing the buyer list.* Gauging interest based on prospect responses and analyzing the strengths of prospective buyers, we narrow the list to no more than a dozen. At this stage we still do not reveal the name of the selling company unless we receive seller approval.

5. *Inviting offers.* Once a viable list has emerged, we invite potential buyers to submit bids-finally revealing the name of the company. Managing the competitive process that ensues requires experience and judgment. This, too, is a bit of an art.

6. *Ranking the offers.* The key criteria in evaluating offers include price, terms, motivation, and credibility. Although assessing buyer motivation and credibility is somewhat subjective, that determination can be as critical as price.

7. *Processing a letter of intent (LOI) from the top-ranked buyer and closing*. The LOI spells out the price and terms a buyer is committing to. Once this document is signed by the seller, the buyer engages in due diligence. Unless something is discovered in due diligence that materially affects value (such as an undisclosed lawsuit, an environmental issue, or misstated financial numbers), we move to a closing. Typically this process takes 45 to 90 days.

The cliché in the M&A world, "There's no such thing as an easy deal," is absolutely true because a buyer and seller need to reach agreement on so many issues. But all of the "deal point" hurdles can be surmounted if the buyer and seller both strive for fairness and if both are truly motivated to get a deal done. And receiving outside support from a seasoned sales firm certainly helps.

Loren Smith can be reached at lms@blvcapital.com or www.bluevalleycapital.com