

## How do I go about selling my Company?

4 Models of Businesses Sales  
6 General Sale Transaction Types  
Steps in a Private Sale Transaction

### *The Sale and Value*

The sale of a privately held business involves a number of complexities above and beyond the baseline intricacies of any business sale transaction. There are often a number of family members active in the business, estate planning issues, and the owner's personal emotional entanglement with the business, its customers, and employees. Thus while a clear objective in the sale is maximizing the financial value to the seller, this maximization is often constrained or bounded by other personal objectives and the requirements of the owner.

### *Sale Process Models*

In the world of private transactions, intermediaries have developed four general sales models that they employ to implement a sale. (Private transactions do not include public stock offerings or securitized offerings made through licensed securities dealers, but the sale of a company between private parties.) In general these can be categorized in the following manner:

*The Dispersion Model* – Utilized by many business brokers this technique follows the real estate model. Lists of companies for sale with a brief one paragraph summary are dispersed through fax, bulk mail, and increasingly e-mail to a non-targeted database of contacts. The lists tend to be regional. The broker acts as a finder collecting a fee on a completed transaction from either the buyer or seller.

*The Catalog Model* – Used in several variants by different firms, this approach uses a very broad prospecting approach that generates a large number of companies for sale. On the basis of a purchased “valuation” the companies are listed in a “Companies for Sale Catalog”. These are categorized by industry and geography and dispersed widely to a network of potential buyers, intermediaries, and other companies. Potential buyers expressing an interest are introduced to the company with an information book that follows a standard format, and a local affiliate works to facilitate the transaction. In addition to the up front costs a success fee is paid by the seller.

*The Database or Internet model* - A more recent upgrade to the Dispersion model where businesses are listed on internet accessible databases that can be searched and indexed by

4 questions for your Investment Banker (#2 of 4)

Private Investment Banking focuses on understanding and helping owners capture the value in their companies through mergers and acquisition, balance sheet and capital structuring, and strategic financial advice. Just as business owners and executives are experts at running their companies, lawyers at legal affairs, and accountants at tax and accounting matters, investment bankers are experts at assisting owners in recognizing the value in their businesses and, if desired, maximizing value in a merger, acquisition, sale, or financing. As investment bankers we are usually asked – what should an owner expect when selling their company and what is involved? The sale of a private company is one of the owner's major life events and the process should be carefully considered.



Todd Peter is a partner of Evarts Capital, a Cleveland based investment bank serving lower mid market companies.

### *Choosing a Sale Model - Best Fit characteristics*

	<b>Dispersion</b>	<b>Catalog</b>	<b>Custom</b>
Size	Small to Medium	Variable	Medium to Large
Complexity	Low	Low to Moderate	High
Confidentialty	Low	Moderate	High

geography, industry, size, etc. This is often used in conjunction with other techniques to uncover buyers for a business that could have wide appeal. As with many internet businesses, fees vary widely with some sites seeking to earn a full finder's fee and others collecting a per lead or subscription fee.

*Customized Sale Model* – Most Investment Banking firms employ a customized sale model where the advisor conducts significant early stage planning to establish a sale strategy for the company given the specifics objectives of the owner, the company, and the market conditions at the time of sale. This model typically will include substantial work in preparing an offering memorandum describing the business, its performance, and future prospects.

The Auction model is commonly used to maximize sale value through contacting a reasonably broad set of qualified potential buyers in a very structured process that maximizes price through competitive pressures. On the downside the business is openly marketed and widely exposed.

The Negotiated Sale model relies on a highly targeted set

of prospects, minimal exposure of the business, and in depth negotiations relative to price with as few as 1 - 3 buyers.

Investment banking fees are negotiated at engagement and typically will include some preparation or due diligence fee, retainers, and a success fee. The fee structures are tailored to the deal just as is the sale process.

As a general rule the larger the transaction value or the more complex the business the more likely a customized sale approach will be appropriate and necessary to achieve best value. Either an owner's desire or the strategic need for confidentiality will often drive the sale model selection.

Because of the planning and preparation cycle, the time frame for a developing a customized sale

can be longer before the "business hits the street", but usually results in a intense concerted activity level from that point forward to closing. Virtually all customized sales are handled on an exclusive basis supported by an investment banking professional or team. The selection and tailoring of an auction or negotiated sale is crafted for the specific circumstances to optimize the outcome and value.

The customized sale is the province of investment banking firms and some accounting and multi specialty financial service firms. The firms providing these services segment the markets they serve by the size of transaction and minimum fees. The firms range from boutique firms serving the lower and middle market to the large Wall Street firms.

The catalog and dispersion

#### **Avoiding the Casual Seller Trap**

*Identifying your company for sale as a means of testing the waters for price can be a double edged sword. As a non-committed seller it makes little sense to pursue a sales model other than a dispersion or a catalog approach as these offer the lowest up-front cost. Motivated and qualified buyers will quickly recognize the lack of a compelling desire to sell and may discard the deal from their consideration. The lack of a compelling sale process will rarely yield a true measure a potential sale price. Overexposure in the market eventually leads to price degradation when the business does actually come to market.*

models work well for smaller easily characterized businesses. Large numbers of “main street” businesses, small contract manufacturing and service businesses are cost effectively sold via dispersion through the network of business brokers. Larger companies that select these models, which often have the appeal of a very low to no up front cost, are often disappointed with the erratic timing of buyers coming to the table and the varying quality of their bonafide buying interest and capability.

### ***Sale Types***

Regardless of the process used, the actual sale of a business will fall into several typical categories. These sale types should not be confused with the legal structure of the deal as to stock and asset purchases and the form and documentation of the final purchase agreement. The most common categories are described below:

*LBO (leveraged buy out)* – Sale of the company to an investor that uses substantial debt leverage to acquire the business. Includes most private equity funds, private investors, and smaller corporate buyers. Often used as synonymous with a “financial buyer” and refers to a buyer that evaluates the company on a stand alone or financial basis.

***.... the best sale type is the one that allows the owner to maximize their objectives and requires honest appraisal of exactly what are those objectives.***

***Developing a sale strategy must accomodate a complex mix to hone an optimal program***

Owner objectives.  
Company Balance Sheet  
Earnings Performance  
Strategic Profile of the company Industry Profile.  
Debt and equity capital markets environment  
Tax position of the company and the owner.

*Strategic Buyer* – Sale to another corporation with a strategic interest in the business where there is a potential for cost or revenue synergy between the buyer and seller. Usually assumed that the deal financing utilizes the strength of the buyers’ balance sheet to simplify and reduce financing risk.

*MBO (management buyout)* – Sale to the management of the company often with the support of a financial sponsor to provide additional equity beyond the personal capability of the management team. An “in-house” LBO.

*Multi step sale* – Sale of a substantial equity position to an outside investor with retention of a large stake by the existing ownership who will continue in an active management role. This can include the sale of a minority or a majority percentage of the company and the varying use of leverage to achieve a target near term liquidity for the original owner.

*Contingent Sale* – Sale of the business based on future performance with payment amounts and timing

tied to future performance often with creatively structured financial instruments. Often a component of a sale. Very common in professional service firms. Offers opportunity for tremendous creativity in structuring a deal to create a win/win deal for a buyer and seller.

*ESOP* – Sale of the company to its employees via a special tax advantaged structure utilizing the borrowing capacity of the company. Can range from a partial (30%) sale to a 100% sale. Must meet a number of specific financial criteria to be effective.

An investment banking firm will evaluate all these potential transaction types as part of the sale planning process and include the strengths and weaknesses of each in developing a target valuation, sale structure and marketing plan. The decision framework for guiding this evaluation includes a multi parameter matrix of competing criteria. Thorough planning of a team of professionals including investment banking, accounting and legal is essential to assuring the proper outcome.

## ***Evarts Sale Process***

### ***Phase I - Planning***

Owners goals  
Valuation and analysis  
Selection of a Sale Strategy  
Development of Marketing material  
The Teaser  
The Book  
Product Information

### ***Phase II – Marketing***

Develop list of potential buyers  
Qualify buyers  
Develop preliminary expression of interest  
Conduct tours and company visit  
Generate initial offers

### ***Phase III – Negotiation***

Review analyze and select target buyer  
Negotiate basic LOI  
Negotiate formal LOI

### ***Phase IV – Closing the deal***

Confirm and develop Due Diligence Items  
Manage and expedite due diligence process  
Oversee and track buyer financing progress  
Complete Purchase and Sale agreement  
Closing

Evarts follows a structured approach to a customized sale as shown above. In some cases the process can be completed in 3-6 months but is more commonly a 6-9 month process and can extend to 12 depending on the complexity of the selling company and any hurdles in raising financing for the buyer.

The Evarts Sale process assumes that the selling company is adequately prepared to undertake a sale. In some cases the initial company evaluation will reveal that the company needs a period of grooming to prepare for the sale process. This period can allow the company to resolve and demonstrate performance in key areas of weakness that would otherwise reduce the ultimate transaction value. These elements can include filling management gaps, allowing new product introductions to establish

traction, proving out cost cuts or pricing changes in reported profits, or resolving one time environmental or legal matters.

Each sale assignment generally requires a tuning and optimization of the specific steps in the sale process depending on factors driving the sale strategy. The critical keys to success also vary in relative importance depending on the strategy selected. As one example, a gripping pointed teaser that attracts strong initial interest is of minimal importance if the plan is to approach a limited number of closely related strategic buyers. Critical to another deal would be fully understanding a potential buyer's sources of financing and planned financing structure, and tracking milestones to that financing. In another situation, ongoing coordination with the legal teams and

the due diligence teams to manage the progress and assuring that any issues developed do not derail the process or result in unreasonable hold backs and escrows can be as important as negotiating the last 1% of the sale price.

### ***Summary***

The sale of a private company is a complex undertaking unfamiliar to most private owners. The material discussed provides a brief overview of the range of ways to seek assistance in facilitating a sale, the type of sales that can be considered, and an outline of the steps in the sale process used by Evarts Capital. This brief guide cannot begin to delineate the complexities of evaluating properly the trade-offs in developing an optimal approach for a business sale but seeks to provide a familiarizing overview for a experienced business owner.

Some of these trade-offs and strategy elements are addressed in the third paper in this series – Capital Strategy for the Maturing Business. Integral to understanding the sale process are the principles underlying business valuation which are discussed in the first paper in this series – What is my business worth?

***.... brilliant execution of the wrong sale process will rarely overcome the flaws in choosing the wrong strategy.***



# EVARTS CAPITAL

Private Investment Banking

## Private Company Liquidity Assessment

Company owners often desire a *top-level assessment* of their company's position to address issues of company value, and capital liquidity options. Evarts conducts this review based on our experience with a wide range of companies and ongoing activity in the M&A, private equity, growth capital and financing markets.

### The Typical Client

*Privately held companies who*

- *Are seeking alternatives to generate liquidity from the sale of the company,*
- *Are typically in the range of \$5 - \$50 million in revenue,*
- *Have owners unsure of the options available, the direction to take or the attractiveness of the current market conditions.*

### The Program – Brief Overview

Evarts Capital offers an *abbreviated review* process to provide an overview dealing with the following:

1. What is an estimate of enterprise value?
2. How does the current state of the M&A and capital markets affect the company's options?
3. What issues would be faced if the company were to prepare for a sale? What are the tradeoffs in resolving these issues?
4. How do the owner's personal objectives (retirement, continued working, liquidity, next generation succession, risk tolerance) relate and influence the sale options?
5. Who are the likely buyers/investors in the business and how does this impact the options available to the owner?

The process includes review of prepared information, an onsite work session with Evarts lasting approximately one half to one day and includes:

1. Review of company literature, web site marketing material, and industry material available from the company
2. Review of three (3) years of financial statements
3. Interview with the CEO and/or owner regarding the company's business plan, industry and markets, and internal operations.

### The Commitment

Evarts will develop a fee proposal for each company based on the nature of the company. These projects are typically on a consulting basis with provisions towards credit on later transactional work.

Contact one of our Managing Partners: Bill Evarts x 201 or Todd Peter x 202

### Other Investment Banking Services

Private Company Sale or Merger    Corporate Divestitures    M&A Acquisitions Support  
Raising Growth Financing / Capital    Management Led Buyouts

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# EVARTS CAPITAL

Private Investment Banking

## Private Company Sale Services

Evarts Capital has developed substantial expertise in supporting mid market privately held companies in the development and execution of programs to achieve superior results in the sale of a company.

### The Typical Client

#### *Companies who*

- *Are seeking alternatives to generate liquidity from the sale of the company,*
- *Are typically in the range of \$5 - \$50 million in revenue,*
- *Have owners willing to sell at least a controlling interest in the company.*

### The Program – Brief Overview

1. **The Review Process** – Evarts will meet with the company owners and management team to develop a profile and understanding of the business at a strategic level.
2. **Definition of Objectives** – We will work with the owner to develop a clear picture of the full range of objectives in a sale in addition to maximizing the financial result, including the owner's desire for an ongoing active role if any.
3. **Valuation and Analysis** – Evarts prepares an analysis of the business to develop the profile of the best target buyers and set expectations for a transaction pricing level. A key result of this analysis is the development of the sale process that best fits the specific company and owner objectives.
4. **Execution** – Evarts develops the marketing material (offering memorandum), solicits and negotiates offers and supports the transaction through due diligence to closing.
5. **Duration** – A sale program will typically take 6 months - 1 year from the initial planning to closing

This effort is based on our prior experience with acquisition programs for our most successful past clients.

### The Commitment

Evarts develops sale engagements with only a limited number of companies at any one time, allowing senior level attention to every deal. Evarts will develop a fee proposal for each company based on the nature of the company and transaction. These typically include a moderate retainer and a success fee.

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