SELLING YOUR PRIVATE, MIDDLE MARKET COMPANY:

THE ONLY GUIDE YOU'LL EVER NEED TO FIND THE "PERFECT" INVESTMENT BANKER

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After negotiating hundreds of M&A and venture transactions, my strong view is there should be four components of every sell-side team.

The first (an owner) is axiomatic. The second and third players are rarely debated: trusted lawyers and accountants, each with meaningful M&A experience and expertise. (No one should rely on their T&E attorney or bookkeeper to run the sale of a business)

It surprises me that cost ("Yikes!") and ego ("I know every potential buyer and nobody negotiates better than me"), frequently delay finding the indispensable fourth participant: a super-competent Investment banker housed in a "right-sized" investment banking firm.

Individual and institutional capabilities, chemistry, and "fit" matter. They take time to uncover and recognize..

Illuminating the path to victory

Most steps aren't secrets. They're common sense. A good process run by an intelligent person should yield a great result.

The initial phase is difficult; honest corporate and personal introspection and self-awareness.

From a business perspective there should be verifiable facts. Financial metrics (historical, current, and projected) are paramount; revenues, margin, profit, and EBITDA. How do they compare to your industry? Will they withstand skeptical scrutiny?

Typically privately-owned, middle-market businesses are staffed leanly; adequate for normal operations and customer service. They're not designed for intense sale-of-business processes lasting months, requiring confidentiality, instantaneous access to documents, and sophisticated financial modeling. Third parties fill those gaps.

From a human perspective, there are few facts. Only you know who you are (and aren't), what you want (and don't), and why you want to sell.

Do you:
*Want to retire immediately and have peace of mind,
*Only care about cash at Closing,
*Want cash at Closing plus continuing as CEO after Closing, or
*Care mostly about legacy, colleagues, customers, and community?

Valid motivations all, though representing differentiated sellers. Different endgames will be more-or-less interesting to specific investment banks (and eventually, buyers).

After you understand yourself and your business, you can look for a right-sized investment banking housing the individual banker you're really looking to engage.

Ideally you're in a Firm's sweet spot based on their last 5 years of M&A. (Older data is stale). Each has meaningful experience in your industry sector, significant reach, and is compatible with your size and probable purchase price range.

You don't want to be an outlier by way of sales price or complexity; neither too high nor too low.

Finding and filtering the investment banking universe

There are several concurrent processes. They key to them all is internal preparation, consistency, discipline, and detail; all combined with self-awareness.

After you've combed the universe, and reduced it to five likely Firms, what remains is the narrowest filtering task; retaining a specific I-banker as Lead Partner.

An extraordinary banker (with internal clout at a qualified firm) can produce an extraordinary result. They get the most out of their human clay and you cannot overpay them. Their core value is up-to-the-minute knowledge of the potential buyer universe, appetite, and expectations, current pricing models, and the skill to present your company (accurately, and evocatively) to best appeal to the market.

A frustrating reality is there is no objectively right price for a private, middle market business. They're worth what a specific buyer needs and is willing to pay for. You'll also never know when it's the right time to sell. Both are unknowable.

That "unknowability" is a major reason you need to trust, respect, and rely on their professional capabilities, external reach to potential strategic partners and Buyers, judgment, relevant experience, expert communication skills, and individual commitment to your deal.

Experts have high emotional intelligence, and can explain complicated concepts in everyday language. Less skilled intermediaries revert to industry jargon and don't adjust.

How do you interview an Investment Banker?

For an initial interview (without a Non-Disclosure Agreement), you can comfortably share publicly disclosed or non-proprietary information. Don't volunteer sensitive or confidential data.

Meaningful discussion requires some guidance and data, best synthesized into a one-page company description. Enough to intrigue, but not overwhelm.

Example?
"We're growing organically, do 8+-figures/year (i.e. $10MM+), have a healthy margin, low cap ex, and typical bank debt. I'm the sole owner."

This profile is radically different compared to a business doing 9+ figures/year (i.e. $100MM+), growing by acquisition, with unusually high margins, funded by venture capital.

The prime questions to elicit the most information

Consider using the "5W" framework. (More on this later). If you can elicit solid answers to "who, what, where, when, and why" you'll generally gather the requisite data for making informed decisions.

Carefully and consistently ask relevant, inquisitive questions, and then listen to the answer for tone, inflection, suitability, and insight.

Part of your interviewing rhythm should include having everyone clarify and support all answers. As soon as an interview is finished, while information is fresh, record their answers as well as your impressions, and next steps, using whatever format you employ throughout the inquiry process.

The goal is revealing significant patterns; positive or negative. Apples-to-apples comparisons.

Does something bad happen if you don't? Yes. After a few interviews similarities will predominate while valuable individual differences fade.

After reducing your universe of potential investment banking firms to the most serious contenders, here are five high-level, efficient questions.

Unacceptable responses to any should cause you to quickly vote the investment banker off the deal island.

1. What's your average client assignment; industry, ownership, size, and sales price?
2. What's your industry concentration and individual buy side and sell side experience in the last five years?
3. Do you have potential conflicts?
4. What's your perspective on deal costs, timing, range of financial outcomes, best class of buyers (i.e. strategic acquirors or private equity), and probability of success?
5. What's your recommended critical path and process?

INCREASINGLY GRANULAR QUESTIONS

1. Who would be Lead Partner, which personnel support that deal team, and what are their roles?
2. What's your individual and firm deal batting average in M&A deals in the last 2, 5, or 10 years? What percentage of sell-side assignments closed at (or above) indicated valuation ranges, and within the anticipated timeline you gave Seller?
3. What are your specific access points and relationships with the most probable prospective targets?
4. How do you approach price discovery and creating competitive tension during a process?
5. How should we interact and work together, when should we start, how would we interact, and what do you need before our next meeting?
6. What's your gut reaction to our company's value proposition, potential valuation range, and financial logic behind that.
7. How much CEO time commitment do you need before going to market, as well as during a process?
8. Are there alternatives to selling we should explore?

A necessary final step (often skipped due to process fatigue) is reference checking with deals that closed and some that didn't. You'd be surprised how often someone you're interviewing "rephrases" a prior answer if they know you're going to ask their reference sources the following questions:

- How does the time/attention/availability commitment made by your Lead Partner compare to time/attention delivered? Was there bait and switch?
- Who wrote the Confidential Memorandum, coached the management team for meetings, and negotiated terms and price?
- Was the team initially identified as the team that performed the work?
- Did your Lead Partner meet or exceed your process, schedule, and valuation expectations?

Do I really need to make those pesky reference checks?

Yes. You should have private voice to voice calls with clients (but without the investment banker) whose sale closed as well as deals that did NOT close.

If you only ask a single question, this is it:

"If you were selling your next company, would you unhesitatingly hire them again, or would you pause and conduct a bakeoff with other I-banks".

An unequivocal positive answer informs you more than any more detailed questions. Even modest hesitation should prompt additional probing.

The 5-leaf clover answer.

You're not likely to find a perfect I-banker. If you did, it might resemble this.

"We're a six partner, primarily sell-side, boutique narrowly focusing on your industry. Our partners spun out of Top 10 investment banks and have direct access to most potential buyers.

"Each Partner leads only 4-8 deals/year. Selectivity means we have high conviction about each engagement. Our Lead Partners are totally accessible.

"They recommend the best approach and pricing alternatives; go-to-market timing, tactics, and strategy; prepare your Confidential Memorandum; and negotiate your transaction".

"Our firm's deal batting average is 95% in the last 2 years, and 90+% over the last 10".

I'd never hire anyone who claimed they batted 100%.

Conclusion

Assembling the best deal team sounds like a painstaking, time-consuming process. It is. It should.

Selling your company is life-altering. You're the person who will (or won't) reap rewards from choosing a truly great I-banker.

Take your time. Trust the process.

About Marc H. Morgenstern

Marc's the Founder and Managing Partner of Blue Mesa Partners, Mentor-at-Large for $200MM of early-stage venture funds at UC Berkeley, and taught Berkeley's "Street Smart Startups" course. He co-founded healthcare software company Within3 (sold to Insight Partners).

He was the first outside investor in OfficeMax, CadenceCounsel, Capstone Partners, LoungeBuddy, and Divergent3D. Marc has negotiated 100's of M&A and venture capital deals as a seller, buyer, investor, C-Suite executive, Managing Partner, deal lawyer, or Director.

He's the author of "The Soul of the Deal-creative frameworks for buying, selling, and investing in any business"; sometimes referred to as the EQ of M&A.

Mark's been on the Board (since 1994) of the Rock and Roll Hall of Fame, and (since 2011) the Rex Foundation (founded by the Grateful Dead).