

6-Step Guide to Successful M&As (Part II) (Part II)

By James A. Russell



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As a transaction starts to take shape, it's as important for the seller to interview buyers as it is for buyers to get the measure of the seller.

In the first installment of this series, we looked at strategy and targeting as the opening acts of a six-step process toward successful mergers and acquisitions. With these tasks completed, the parties now should be ready to tackle the deal-defining middle steps: conducting a preliminary review of each side's bargaining position; and negotiating the details to a point where the end-game of closing can begin.

If the first two steps have been executed correctly, the selling owner now should have preliminary letters of intent (LOI) from multiple buyers to consider. The buyers, naturally, will be eager to learn as much as they can about the fundamentals of the company and the intentions of the person or the people selling it. The seller should have the same kinds of questions for the buyers, focusing on the factor that could be most essential to making the deal work: the fit of the respective business cultures.

At this stage, it's as important for the seller to interview buyers along these lines as it is for buyers to get the measure of the seller. When a buyer and a seller interact, the result should be a free exchange of information that sustains the interaction and clears the way to negotiating the particulars of the offer set forth in the LOI.

Dine and Decide

To put our selling clients and their prospective buyers at ease with each other, New Direction Partners typically will arrange an informal dinner between the parties on the evening before business discussions begin. On one transaction a few years ago, we set up three dinner meetings with different buyers on three consecutive nights for a seller. He found the buyer he wanted at the third one – well before a final offer had been made. The buyer's personality and cultural values were so aligned with the seller's that he knew he would sell to this buyer, even before the final offer was put before him.

There is always more to review and question in a buyer's offer than price alone. Determining what will happen to employees after closing is just as urgent. This is where cultural fit comes in. If the seller wants his or her employees to have the same kind of positive work environment they have been used to once the sale is closed, there can be no room for doubt about the buyer's ability to provide it.

The seller can clarify this by asking, for example, how many years the buyers' longest-serving employees have been in their jobs. Company-sponsored social events like picnics and holiday parties are good indicators of culture and atmosphere. The seller might even request a tour of the seller's plant to see how people react when top management is walking the floor.

In most cases, a thorough preliminary review of the offers will narrow the field of prospective buyers to one or two. This is best overseen by an intermediary acting on behalf of the seller – a professional adviser with a track record of bringing M&As to successful conclusions.

Letting a go-between manage the details removes the risk of tension and hesitation between two parties who probably are meeting each other for the first time. The intermediary, on the other hand, may know the buyer from past experience. That acquaintance could yield helpful insights into the buyer's negotiable and non-negotiable positions once that part of the process has begun.

Distilled to Essentials

Now the seller must identify his or her key bargaining points – two or three requirements that will have to be satisfied if a deal is to go through. More conditions could put the buyer off and raise the fear that the longer the discussion goes on, the harder it will be for anything constructive to come out of it.

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Price is always a primary concern during negotiations, as are terms of payment, employee retention, and the status of real estate if a plant is to be part of the transaction. At this stage, the seller's and the buyer's attorneys will be engaged to ensure that transfer of ownership passes legal muster. It's also essential to keep the intermediary in the role of ambassador and counselor as negotiations proceed to conclusion.

That happens when the seller and the buyer have signed the LOI as it now reads, with provisions that both parties have agreed to execute by closing the sale. Now comes due diligence, the buyer's detailed verification of everything that the seller has asserted about the nature and condition of the business. Next is what we call "circling back" as the penultimate step toward closing. We'll cover both in the next column.

New Direction Partners is an investment banking and financial advisory services formed by Peter Schaefer, Paul Reilly, Jim Russell and Tom Williams to serve the printing and related industries. Services include merger advisory services through the representation of selling shareholders as well as buy side representation, valuation services, financing and refinancing efforts, turnaround and restructuring services, and temporary/interim management consulting. To learn more about New Direction Partners, visit New Direction Partners' website at www.newdirectionpartners.com.