

Deal Guides — A Merger & Acquisition Intermediary's Role

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In the purchase and sale of middle market companies, the primary role of most of the principal players is fairly clear. Buyers buy. Sellers sell. CPAs check the books, provide tax advice and assist with financial analysis. Lawyers provide legal advice and draft or review the definitive documents of the transaction. But what role does a business intermediary play?

Unfortunately, the overall market for small- and medium-sized, privately held companies is fragmented, obscure, disorganized and inefficient. In addition, there are only a few business intermediaries in any given metropolitan area who can assist with the purchase and sale of middle market companies. Consequently, many entrepreneurs and their advisors don't have much practice working with a mergers and acquisitions (M&A) specialist. As you evaluate M&A firms to assist you in buying and selling a company, assess their capabilities in the following essential areas:

Educating and Coaching. Buying and selling a middle market company is a complex transaction. Usually, it is not a common occurrence for the shareholders and sometimes sizeable sale transactions may not be all that common for the buyer's and seller's current professional advisors. Consequently, one of the key functions of an intermediary is to assist the participants with education and coaching based on the experiences gained from being constantly in a variety of deals.

Team Building. Frequently, a buyer or seller will not have all the professional advisors necessary to help conclude a successful transaction, and many times the professionals have not worked together previously. An experienced intermediary can effectively pull a professional team together.

Planning. Setting objectives and planning for their attainment is crucial for buyers and sellers. In this process, the M&A specialist can provide valuable assistance in the role of consultant, devil's advocate, voice of reason... and, on occasion, drinking partner.

Preparing. Think of the 5 "P's": Prior Preparation Prevents Pitiful Performance. Both buyers and sellers must prepare for a successful deal. The intermediary provides guidance on important steps to take for buyers preparing to enter the market and sellers going to market.

Finding. One of the most significant and daunting challenges facing a buyer or seller of a small company is finding the other side of the transaction. As expected, "making a match" is an essential function of an intermediary.

Presenting. Obviously, sellers need to present their companies properly to prospective buyers. A skilled intermediary can help sellers position and present themselves clearly, legally, thoroughly and professionally.

Valuing. How much is a company worth? It's often a tough question. The answer must be connected to what reasonable buyers and sellers will do. Deal structure is often as important as price. M&A specialists interface closely with CPAs and



attorneys to develop a balanced, tax-efficient deal.

Structuring an Offer. Designing an effective offer to sell is critical. It's fascinating how often the owner of a company will invest more time and money designing the offer for a new product than they will in designing the offer to sell the entire company. A competent intermediary should invest great care in the design of offering memorandums because frequently, the quality of the offer makes all the difference between success and failure.

Negotiating. Clearly, this is an important role for the intermediary. However, if the previous points have been well done, negotiating is dramatically simplified. "Negotiating" is one of those words that unfortunately has often come to be construed as meaning "figuring out how to get my way, no matter the cost." I prefer to think of negotiating like navigating a whitewater rapid, something I've done a lot of. There are waves, rocks, trees, and a lot of pressure and stress that can flip your boat and keep you from safely passing through the rapid successfully. But you don't "beat" the river, you don't beat big rocks and trees and you don't "beat" deals. You "negotiate" them. A good intermediary is like an experienced river guide...and having a good guide can make all the difference in your navigating results.

Cushioning. Sometimes hard things need to be said to make a deal. Often intermediaries are the best ones to cushion the impact so that the other participants to the transaction can maintain effective relationships.

Assisting. Business intermediaries are not attorneys, accountants, insurance agents, environmental consultants, or personnel experts. However, of necessity, M&A specialists must know something about a lot of things, and a lot about some things. While the principals can't rely on an intermediary for tax and legal advice, a capable intermediary can help them ask good questions and help them understand some of the business implications of the professional advice they receive. Intermediaries can and should also help reconcile the sometimes divergent concerns of the various advisors and suggest approaches that can satisfy all concerned.

Controlling. This is one of the most important functions intermediaries perform. Deals don't stand still. They either move forward or die. Someone has to drive the train and maintain positive momentum. Once a deal starts, the key job of the intermediary is to try to move it to a successful and satisfactory closure.

Just like navigating class 5 whitewater, selling a business can be difficult and dangerous. A top-notch guide can make all the difference.

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