

A Bird's Eye View

Maximizing Value: 4 Stages of an M&A Process

Introduction

Selling a private business is a significant event that requires meticulous planning and strategic execution to ensure maximum value is achieved. Whether you are retiring, moving on to new ventures, or simply capitalizing on your investment, following a structured process is crucial. This guide outlines the best practices to sell a private business and yield the highest possible returns.

The Process:

- 01 Preparation
- 02 Marketing
- 03 Negotiation
- 04 Closing





Preparation

Pre-sale Preparation

In many situations, elements of a business need improvement prior to sale to increase its attractiveness to buyers. Streamlining operations and addressing inefficiencies can significantly enhance the appeal of your business to buyers. Ensure that processes are documented, and key staff are knowledgeable and capable of maintaining operations. Demonstrating a well-run business can increase perceived value and buyer confidence. In addition, ensure that your business complies with all relevant laws and regulations. This includes having up-to-date licenses, permits, and contracts.

Business Valuation

Engaging an advisor to provide valuation advice is essential before going through the sales process. A valuation should take a market vs. a tax or divorce perspective (i.e. What have businesses like mine sold for recently?). A valuation will provide an objective assessment you can expect if your business is exposed to the market. This valuation will give you great insight and be a guide for you to decide if you should go to market or wait until market conditions or business performance improve.

Financial Documentation

If you decide to proceed, the first step in selling a private business is to ensure that all financial documents are in order. This includes accountant-prepared financial statements, tax returns, profit and loss statements, and balance sheets for at least the past three years. Potential buyers will scrutinize these documents, so accuracy and transparency are paramount.

Marketing

Confidential Marketing Strategy

Maintaining confidentiality during the sale process is crucial to prevent disruption to your business operations. Develop a marketing strategy that targets potential buyers without disclosing your identity and ensure any prospective buyer receiving information has executed a non-disclosure agreement.

Creating a Marketing Package

Prepare a comprehensive marketing package that includes an executive summary, detailed business information, financial projections, and growth opportunities. This package should highlight the strengths and potential of your business, making it attractive to prospective buyers.

Data Room

Buyers will conduct significant due diligence once they determine they have a strong interest. To facilitate this due diligence, a buyer will ask a significant number of questions and require backup data. A well-prepared data room anticipates most of the data and questions from buyers and should be prepared in advance to facilitate buyers' due diligence and keep the process moving efficiently.

Identifying Potential Buyers

Identify and approach potential buyers who have the financial capacity and strategic interest in acquiring your business. These could include competitors, industry investors, or private equity firms. A targeted approach ensures that you engage serious and qualified buyers.

Create a Competitive Process

To achieve the highest possible value, fostering competition among potential buyers is crucial. Competition drives buyers to put forth their best offers, often leading to a higher sale price and better terms. When multiple prospective buyers are vying for the same asset, it creates a sense of urgency and increases the business's perceived value.

Negotiation

Initial Discussions

Engage in preliminary discussions with multiple buyers to gauge their seriousness and understand their intentions. This is an opportunity to establish a rapport and provide further information about the business while maintaining confidentiality.

Expression of Interest (EOI)

Once buyers have had an opportunity to understand the business and if interested, they will be in a position to provide an expression of interest (EOI). An EOI is the first indication a seller receives that a buyer has significant interest in pursuing a transaction. This will allow the seller to short-list candidates while keeping the element of competition alive. Parties that make it past the EOI stage will be given more detailed information on the company in order to facilitate a well-defined Letter of Intent from each party.





Letter of Intent (LOI)

Following the EOI stage, prospective buyers should be given more detailed information for the purpose of each party developing a letter of intent. As a seller, you want each party to fully understand the business, good elements and bad. After the LOI stage, the seller will select one party to conclude the transaction, and it is important to take out the risk elements of the buyer walking away or renegotiating the deal due to undisclosed material information. The LOI outlines, in detail, the buyer's intent to purchase the business, including the proposed purchase price, terms, and conditions. It is important to have legal counsel review the LOI to ensure it aligns with your interests. It is advisable to have a professional advisor to assist in the negotiation of the terms of the sale, including the purchase price, payment structure, and any contingencies to ensure that you achieve the best possible outcome.

Due Diligence

Elements of Due Diligence occur throughout the transaction, from the delivery of the initial marketing documents, all the way to the closing of the transaction. This process involves a thorough examination of your business' financial, legal, tax, and operational aspects. Be prepared to provide additional information and answer questions. Transparency and cooperation during due diligence can build trust and facilitate a smoother transaction.

Closing

Drafting the Purchase Agreement

Once the terms are agreed upon, a purchase agreement is drafted. This legally binding document outlines all aspects of the sale, including responsibilities, warranties, and indemnifications. Legal counsel should review the agreement to protect your interests.

Finalizing the Sale

Finalize the sale by meeting all conditions outlined in the purchase agreement. This may include transferring assets, settling outstanding liabilities, and ensuring a smooth transition for employees and customers. Once all conditions are met, the final payment is made, and ownership is transferred.

Post-Sale Transition

Assist the new owner during the transition period to ensure continuity and minimize disruptions. This may involve training, introducing key contacts, and providing ongoing support as agreed upon in the purchase agreement. A smooth transition can enhance the overall success of the sale and maintain the business' reputation.

The Takeaway

Selling a private business is a complex process that requires careful planning, execution, and professional guidance. By following these steps, you can maximize the value of your business and achieve a successful sale. Remember to seek the advice of financial advisors, legal counsel, and business brokers to navigate the intricacies of the sale process and secure the best possible outcome for your hard-earned enterprise.

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