DIY TRANSACTIONS: FACT CHECK

When business owners consider selling a company, they face an important decision: should I get help? When determining whether to hire an investment bank, consider the perceived risks of going it alone in what may be the most important transaction of your life. There may seem to be benefits to a Do-It-Yourself (DIY) approach, but let's examine whether those perceived benefits are real or imaginary.

Perception: "Doing a transaction without an investment banker saves money."

Reality: Studies prove investment bankers add net economic value by:

- Leading marketing processes that builds a menu of options and an auction environment.
- Creating leverage during the M&A process through competitive bidding.
- Focusing on "under the radar" considerations beyond the headline valuation number such as the structure of consideration (rarely 100% cash upfront) and hidden deal economics (e.g., Net Working Capital).
- Protecting the client from unexpected decreases in valuation during due diligence.

Takeaway:

The best investment banks always, at the very least, commit to paying for their own services by creating value beyond what Sellers could realize on their own. Based on SDR's experience, investment banks create at least a 5-10% increase in net economic consideration.

Perception: "Doing the transaction without an investment banker saves time."

Reality: All else being equal, we find using an investment bank gets the deal closed faster and more efficiently.

- Sellers typically "don't know what they don't know" about the complexities of an M&A process and lack of understanding of market terms can derail a deal.
- Buyers may drag their feet without the push of an investment bank.
- Selling a company is a full-time job. The most important thing throughout a sales process is making sure the business continues to perform. A DIY approach often leads to sellers taking their eye off business performance – which is the biggest reason deals die.
- DIY processes lead to a lack of Seller negotiating leverage when saying "no" to buyer-driven concessions.

Takeaway:

An investment bank's experience and expertise can create a higher likelihood of closing a quality deal – faster. Unless a Seller is willing to sacrifice significant value and terms, and has an abundance of free time, using an investment bank often increases speed-to-close. Investment banks construct these deals all the time. Most sellers will only sell a business once. Experience matters.

Perception: "Being completely hands-on allows me to control the outcome."

Reality: M&A is an ecosystem of influence, not control. A deal is only consummated between a willing buyer and a willing seller.

- Despite appearing to have the qualifications to do so, professional investors (i.e., private equity) rarely sell their portfolio companies without an investment banker.
- Investment bankers provide a lens of objectivity when negotiations get difficult.
- Investment bankers can play the "bad guy" role, allowing the Seller to maintain hero status – this is especially important if the Seller will have any involvement post-close.

Takeaway:

Investment banks have years of experience navigating the turbulent waters of an M&A process. Control in M&A is an illusion, but the involvement of an investment bank helps Sellers sleep at night in the short and long term.

Most Buyers will have a team of professionals on their side. Shouldn't you?

To access additional content on this topic, check out SDR's blog: "**Is It Smart to Attempt an M&A Transaction on Your Own?**"

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