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Professional M&A Negotiating Adds 20%+ To The Client's Selling Price

Professional M&A intermediary negotiating can add huge value to our clients. The task is for intermediaries to convince sellers to use your service even when they initially have their own buyer. However, as a value-added service, M&A negotiating does not get the attention and respect it rightly deserves. Witness two recent client case studies.

Introduction

The professional intermediary contributes extraordinary value added services to the M&A process thereby uniquely increasing the seller's price and deal structure at the close. As a relatively new profession the marketplace does not fully comprehend the full scope and depth of value added contributions of the professional intermediary to the M&A process. The purpose of this article is to describe the special and indispensable contributions the professional M&A negotiator makes to achieve the "highest and best" price for a private company. Witness two case studies to illustrate the process and the outcomes.

Case 1: *A father and son team asked us to help them sell their business. After the typical M&A process presentation, they replied: "great process, but we know the buyer and have already talked to him." "Great" I replied: "but with several buyer prospects I can drive the price." "That's great for others" they replied: "but we want you to negotiate with this one and only buyer." Although I did not agree with their "handcuffing" requirement, I took the engagement. Two and half months later we successfully closed the merger. After closing the client told me he thought professional M&A negotiating added 20% to his price.*

Case 2: *In a more typical M&A engagement the final selling price exceeded the initial offers by 75%. In this typical process the professional M&A negotiator: (1) helped the client recast the historic cash flow and build a professional growth plan; (2) confidentially and proactively marketed the client to over 1,000 strategic and professional candidates; and (3) negotiated initially with 23 prospects, received four final offers, and then held a "last day final offers" for the top two prospects. On the "last day final offers" the price jumped 25%.*

In addition to the author's years of experience, hundreds of first-hand conversations with intermediaries from all parts of the world confirm that professional M&A negotiating can add a minimum of 20% to the private company's selling price. The article below will detail and illustrate the complete value added negotiation process.

The Professional M&A Negotiator

What is professional M&A negotiating? Historically, M&A intermediaries are viewed as finders whose primary role is only to "find" the buyer and get out of the way of the negotiating process. Although this process of confidentially communicating with all motivated and qualified buyer prospects is critical, the professional intermediary is more than a "finder." The professional can add unique value even if the buyer is known from day one (see case #1 above).

If the intermediary is more than a finder, what is the complete role? The complete professional M&A process has three major, interlocking component phases: (1) corporate recasting and growth planning, (2) confidential and proactive marketing, and (3) the resulting M&A negotiating process. In order to be fully equipped to negotiate, the M&A professional must confidentially and completely execute the entire M&A process in order to answer the three fundamental M&A negotiating questions:

1. What was the historic company cash flow performance without respect to owner's extraordinary decisions and nonrecurring events?
2. What is the "due north" future, profitable cash flow potential?
3. Who are the members of the "UNIVERSE OF ALL" qualified and motivated buyer prospects?

Armed with the answers to the three fundamental questions, the intermediary can then, and only then, go to work as a professional M&A negotiator to achieve the highest and best selling price. The M&A negotiator's work begins when the "UNIVERSE OF ALL" qualified and motivated prospects understand and believe in the "due north" cash flow potential of the client's company.

At the close, the professional M&A negotiator is the one who delivers with satisfaction for all, the "highest and best" selling price for the private company. The negotiator professionally considers the satisfaction of the client and the client's advisory team in delivering the "highest and best" selling price.

The "Highest and Best" Selling Price

The "highest" selling price is a direct function of the professional presentation to the marketplace and the fundamental economics of the marketplace at that time. The market sets a price range for a company just as it sets a price range for all products and services. The market always has and always will define the fundamental factors to drive the price range. The price wants and expectation so brokers, owners, accountants, attorneys, etc. do not impact the marketplace price setting factors. The professional M&A process is the only way to reach the "highest" buyer prospects within the marketplace. The "highest" price can only be reached when the "UNIVERSE OF ALL" qualified and motivated prospects fully believe the company's "due north" future cash flow potential. Then the M&A negotiator can artfully and professionally guide and motivate the buyers to submit their best offer. The highest offer is only known without doubt when the professional M&A process is fully executed.

Differing from the "highest" price, the "best" selling price is determined exclusively by the seller. A seller who prefers to negotiate with only one buyer and/or prefers to not execute the full M&A professional process is selecting the "best" price to the "best" of their knowledge. They cannot know without doubt they have reached the "highest" price. It is the role of the intermediary to secure the "highest price" with a professional presentation of the company to the full marketplace.

The professional M&A intermediary and the client will know they have reached as a team the "highest

and best" price when three major goals have been reached:

1. The "due north" cash flow potential of the company is known and professionally presented.
2. The "UNIVERSE OF ALL" qualified and motivated buyer prospects are known.
3. The professional M&A negotiator has successfully guided and motivated each member of the universe to submit his "highest and best" offer.

"Due North" Company Cash Flow Potential

Future cash flow potential is critical foundation information to the professional M&A negotiator. Corporate buyers typically work in specialized teams and are very experienced M&A negotiators. Buyers purchase in order to grow and maximize their future cash flow. Although they never say: "I will pay you more because I understand the future cash flow potential," the price they submit is a direct function of their understanding of the growth potential. As step one, the professional M&A negotiator wants each qualified and motivated buyer prospect to understand the complete "due north" cash flow potential from the seller's perspective.

At the start, the professional M&A negotiator must know and persuasively present the answers to the following eight basic growth considerations:

1. *Given current products and markets, what are the "likely case" profitable sales projections?*
2. *What new products and/or markets can be added to profitably increase sales? What capital expenditures are required to support the new products and markets?*
3. *What straightforward changes can be made to pricing policy and procedure to increase profits as a percentage of sales?*
4. *What new basic marketing programs and sales resources can be added to profitably build sales?*
5. *What are the current and future operational/production assets required to compete profitably and to support the market and/or product growth?*
6. *What past expenses can be recasted to eliminate extraordinary expenses that will not be required in the future?*
7. *What are three to five major critical success factors for profitable corporate growth over a five year horizon?*
8. *What new and/or expanded management capacity and talent requirements are necessary for growth? What are the expenses associated with additional management requirements?*

Three Campaigns to the "UNIVERSE of" Qualified and Motivated Prospects

The professional M&A intermediary must combine experience, production resources, and worldwide contacts to complete a confidential and proactive marketing campaign. The marketing campaign should focus on the buyer candidates who have the necessary business strengths, weaknesses, and resources to take maximum advantage of the seller's growth potential. The first rule for any professional is to do no harm. The professional M&A negotiator should conduct a massive marketing campaign while meeting strict confidentiality requirements. To identify the "Universe of All" prospects the following three major campaigns must be professionally executed as appropriated to the client company:

> **Campaign 1:** Identify and confidentially contact worldwide strategic and industry buyer candidates. This category requires total industry analysis to define all synergistic and integration possibilities.

Campaign 2: Identify and confidentially contact private equity groups, as appropriate, to seek buyer candidates that may see exciting and profitable potential in the company's future.
Campaign 3: Identify and contact attorneys, accountants, intermediaries, bankers, and other r eferral sources to identify otherwise hidden qualified buyer candidates.

Having identified the "UNIVERSE OF ALL" buyer prospects, the professional M&A negotiator is ready to go to work.

The Professional M&A Negotiator at Work

The professional M&A negotiation process has three major stages:

Stage 1: Qualify and educate the "Universe of" initial prospects.
Stage 2: Maximize multiple marketplace "highest" offers.
Stage 3: Efficiently close the "best" offer, while simultaneously building seller and buyer respect.

The buyer prospects are often successful corporations with vast experience in the related marketplace and rely upon large negotiation teams with extensive M&A experience and resources. Typically, the M&A deal must result in a "win-win" position for the seller and the buyer; however, the negotiation is basically adversarial. Strategic information is required to educate the buyers to the "due north" growth potential, but confidentiality is critical. The professional M&A negotiator's experience and resources are required to balance the "true need to know" with constant buyer's demand for any and all company facts.

Buyers and sellers must communicate freely; however, their economic goals may radically conflict. Buyers rarely want to participate in an "auction or bidding contest;" however, a proven way to drive price is to position multiple buyers to compete against each other. This scorned auction process can provide each buyer reassurance that the seller has market value and can ignite the maximum competitive nature within the buyers. Each buyer must be professionally motivated to improve their offer to the maximum that their resources and understanding of the future potential will allow. In the M&A process, multiple personalities, emotions, goals, and plans can and will radically differ and demand delicate, experienced response. The professional M&A intermediary must rely on "hard won" experience to maintain and sustain intense interest between the multiple parties during an emotionally, economically, and technically demanding process. The professional negotiator must have the knowledge, experience and character to withstand the possible "high-ego" personalities and the emotionally rigorous process. The negotiation requires professional expertise applied with an "artful" understanding of the multiple personalities.

Stage One: Qualify and Educate the "Universe of" Initial Prospects

As the prospects surface from the extensive marketing campaigns, the M&A negotiator must carefully and "artfully" qualify, educate, and motivate the initial prospects. First, the buyer prospect says, "Yes, I am interested in the seller. Now give me all the information." This is a critical point to maintain confidentiality and gain insight into the buyer's true motivations and qualifications. The buyer prospect wants information, but may not be truly qualified and/or motivated. Here, the professional M&A negotiator must define the buyer prospect's goals without revealing critical client information. An experienced negotiator can get the prospect to describe his/her goals and discover the financial resources that may be available to acquire and grow the client company. The negotiator must be

practiced enough to offer key information and extract key information from the client to accurately qualify and position the buyer prospect. The professional M&A negotiator has two critical stage one goals:

1. Motivate all qualified prospects to go forward, and at the same time eliminate those prospects that are not qualified, are tire-kickers, or are those seeking business information only.
2. Educate the key prospects to the "due north" cash flow potential from the seller's perspective.

After the initial information exchange, the professionally prepared growth plan will be presented to the client business. The growth plan is created to educate the prospects on the client's marketing, operational, and financial potential. The growth plan, in essence, "sells" the credentials of the client to the prospects. Stage one delivers qualified and motivated prospects with corporate growth information which can be tested and verified by way of the buyer's firsthand observations and professional investigation of the buyer's background qualifications.

Stage Two: Maximize the Marketplace Multiple

After presenting the professional growth plan, the negotiator must carefully and "artfully" guide communication between the friendly adversaries to arrive at "win-win" agreement. Buyer prospects almost always want to hear the client present the growth plan and see the company assets in action. Face-to-face communications and company tours are typically required to fully support and fully explain the "due north" seller cash flow potential. The professional M&A negotiator has four major activities in stage two:

1. With client's complete participation, the M&A negotiator builds trust and confidence in the "due north" cash flow potential by way of first-hand communications and eyewitness company presentations and observations.
2. The M&A negotiator "artfully" guides "emotionally booby-trapped" communications without distorting or disguising the deal facts.
3. The M&A negotiator should be able to conduct multiple negotiations while maintaining each "big ego" prospect's intense priority.
4. Working as a team, the client's attorney, accountant, advisors, and the M&A negotiator must guide the prospects to produce clear and complete offers.

In the offer evaluation process, numerous advisors will each play critical roles. The professional negotiator must be able to respond to the multiple 'big ego" personalities and to the technically demanding questions. At this stage, buyer prospects have demonstrated intense interest and ability. The M&A negotiator can now leverage buyers against each other. Buyers, especially strategic buyers, will compete against each other resulting in big price increases.

At the conclusion of stage two and under the client's direction, the M&A negotiator will generate the maximum offer from the final prospects by carefully and diplomatically levering each prospect against the final group. As a team member, the M&A negotiator helps the client select the "best "from the highest offers.

Stage Three: Efficiently Close the "Best" Offer and Build Trust between the Principals

After the best buyer offer has been identified, the closing process begins. The process is characterized

by complex legal negotiations and intense due diligence activities. No proposal or letter of intent (LOI) will clearly define the assets, liabilities, and equity to be purchased; the payment conditions and process; the representations and warrantees, etc. The definitive purchase agreement (DPA) details are always myriad, generally providing a profound impact on the seller and the buyer's team.

The time between the handshake or LOI date and the close date can range from one to six months. During the process, new professionals, i.e., appraisers, environmental consultants, financing types, etc., will be frequently introduced, offering new and unpredictable challenges. Deadline dates, meetings, tours and endless document draft exchanges are necessary components of the process each generating new legal, tax and financial challenges.

DPA arguments are often long and hard, so the professional M&A negotiator must be able to facilitate endless emotionally charged and technically complex information exchanges on an efficient, timely basis. The art of friendly, competent, and consistent communication facilitation in the closing process is a "hard won" skill set unique to the M&A professional negotiator and critical to efficient closing success. Attorneys, accountants, etc. have as their professional goal a complete legal document offering their respective client minimum deal risk. The professional M&A negotiator must start with the legal professions traditional ending goal and add the critical goal of building trust and a viable working relationship between the seller and the buyer's team. Long-term success of the deal will be a function typically of the trust and working communication process between the seller and buyer. The M&A professional is in a unique advisory position to contribute to long-term deal success.

The Seller's Value Added Recap

In the end, the professional M&A negotiator can look him/herself in the mirror, and the seller and seller's advisors in the eye, and say, "we have reached the highest offers and now it's your turn to select the best." The big three phases to the professional M&A process have been defined as follows:

1. The seller's historic economic cash flow has been professionally presented and the "due north" growth plan has been documented and formatted so the buyer's team will fully understand the future cash flow potential from the seller's perspective.
2. The "Universe of All" qualified and motivated prospects have been confidentially and professionally contacted to educate and motivate their maximum response to the acquisition opportunity.
3. The qualified buyers have been artfully guided to submit their "highest" offers. The seller and the seller's advisors have selected the "best of the highest" offers. The closing process has concluded efficiently. As a primary outcome of the closing process, the seller and buyer's team will launch their new relationship with increased trust and ability to work together to achieve a mutually beneficial end result.

About Ken Hoganson

After fifteen years of experience as a management consultant, executive, and business owner/operator, Mr. Hoganson started the HVG mergers & acquisitions (M&A) consulting practice in 1985. In 1994, he was awarded "Fellow" status in the International Business Brokers Association. Mr. Hoganson served as 1996 Chairman of The M&A Source.

Mr. Hoganson is a leader in several international associations. He currently is the Founder/Chairman of

the Private Directors Association, the President of the Midwest Chapter of the Family Firm Institute and a leader in the Alliance of M&A Advisors. Also, he is a past president of the MBBI, and Association for Corporate Growth Chicago Chapter. For 12 years, he was a senior business planning instructor at the Keller Graduate School of Management. Mr. Hoganson received a BS & MBA from the University of Chicago. Also, he is a Certified Business Counselor.