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Business Owners' Frequently Asked Questions on M&A

As M&A advisors, we have assisted hundreds of business owners with successfully selling their businesses. This depth of experience has provided us with unique insights into the most frequent questions and concerns raised by entrepreneurs about the M&A sale process as well as some of their common misconceptions. This piece will address some of those M&A FAQs.

"I don't need an investment banker. I have an offer on the table."

We see this situation all the time. An entrepreneur receives an unsolicited approach from an interested party (in some cases a high quality buyer). But are they just kicking the tires? Without the benefit of a competitive process, the negotiations can drag on and often stall or fall apart.

An investment banker-led process provides vendors with the comfort that the market was properly tested with the most logical buyers and that fair market value was surfaced. The process can also help generate competitive tension from multiple parties which is a key ingredient in achieving superior terms, valuation and timing for the vendor. In addition, having an investment banker involved allows the client to focus on running their business and avoid getting too deeply involved in the day-to-day complexities of the sale process. A good advisor will pay for itself many times over.

Having said all that, Crosbie has been involved in numerous situations where we have assisted a vendor in a negotiation with a single buyer that was already at the table. Through various strategies, we have had great success in obtaining both a higher valuation and realizing significantly improved terms compared to the offer that was initially tabled.

"My customers and employees will find out that the company is for sale"

In our experience, leaks about the sale process are quite rare. More often than not, leaks are no more than standard industry rumours that circulate whether or not a company is actually for sale. In most deals, employees and customers only learn about the transaction when it has closed.

In a professionally run sale process, bankers only engage in discussions with pre-qualified buyers on a highly confidential basis. Those discussions typically take place within the C-suite of the buyers' management team. Confidential information is only shared under a strict non-disclosure agreement where the target's name is often not disclosed until after the NDA is signed.

"Will I get paid a multiple of EBITDA for the business plus the value of my working capital?"

The approach to valuation is unique for every transaction and is heavily influenced by the competitive dynamics generated with buyers as part of a well-managed sale process. In general, buyers expect the business to be delivered on a 'cash-free, debt-free' basis with enough working capital to support the on-going operations. We advocate on behalf of our clients in determining an appropriate level of working capital and for any excess working capital delivered to be reflected in a positive purchase price adjustment.

"How long will I need to stay on with the business post-closing?"

The short answer is "It depends". Transition periods are a function of many factors and are often a key deal point in the negotiations. Considerations impacting transition periods include:

Consideration	Shorter Transition	Longer Transition
Current role of vendor	• Not active in the business	• Active day to day • Holds key strategic relationships (customers, etc.) or technical knowledge
Management Team	• Proven senior management team (excluding the vendor)	• Junior managers
Deal Structure	• 100% sale	• Partial sale • Earnout
Buyer	• Strategic buyer • Often can implement their own management	• Private Equity buyer • Typically rely on existing management

Although a small minority of transactions do not require the vendor to stay with the business at all, most situations include at least some transition period which typically ranges from a 6 month consulting contract to 2+ year employment agreement.

"My investment banker needs to know the buyers"

Having existing relationships with the potential buyers is a "nice to have" but not a "must have" for a sell-side M&A advisor. In our experience, getting through the door is typically straightforward. The important part is targeting the right buyers. Company's CEOs and internal M&A teams always like to know what is going on in the market. Doors open easily.

Getting to these people is rarely an issue when contacting buyers in North America or Europe. With so many companies looking to grow through acquisition, buyers are often eager to have transparent discussions with investment bankers about their M&A strategies and acquisition criteria. However, for buyers in some international jurisdictions, it is helpful to have partners on the ground with local market knowledge. Local partners can help overcome time zone and language issues and can accelerate the process of reaching the decision makers.

Crosbie is a member of Global M&A Partners, a partnership of over 30 leading independent investment banking firms with a presence in over 35 countries.

"Confidential company information will end up in the hands of my competitors"

Protecting a client's confidential information is one of the primary roles of an investment banker. In consultation with our clients, we initially provide only enough information to prospective buyers so they can make an informed assessment of the business and put forward a meaningful offer. We minimize the risk of overexposure in a number of ways:

- Pre-qualify the list of buyers and develop a plan for dealing with direct competitors and other sensitive parties with our client ahead of time
- 'Drip feed' disclosure through a staged due diligence process, holding back competitively sensitive information (i.e. customer lists, margins, employee info, IP) until the later stages of confirmatory due diligence
- Use virtual data room technology to securely manage disclosure including limiting the ability of buyers to download, print or otherwise share certain information
- Establish 'clean teams' to review certain sensitive information

"I don't need an investment banker. I can run the process with the help of my lawyer and accountant."

Lawyers and accountants have specialized expertise and play an integral role on the M&A advisory team. However, they will often be the first to admit that investment bankers play a critical and complementary role. This is supported by multiple studies that have demonstrated that transactions with sell-side investment bankers realized value premiums compared with transactions without M&A advisors.

Areas that investment bankers add value include:

- Assisting in preparing the company for sale: Getting ready to go to market is a multi-faceted process that is worth the up-front investment of time and effort in order to deliver superior results. Investment bankers spearhead the efforts in a number of areas:
    - Organize and present the financial statements in a logical and compelling fashion and provide analysis that helps to 'tell the story'
    - Assist management with developing forecasts that capture the various opportunities available to the business and will be defendable and withstand due diligence
    - Identify and highlight the key attributes of the business in a way that will hit the 'hot buttons' of the various buyer groups
    - Develop a 'go to market' strategy
    - Prepare marketing materials that position the business in the best light while highlighting the opportunities for potential buyers
    - Identify and address any potential issues on a pro-active basis which helps to minimize issues during due diligence
- Identifying and finding the buyers: Business owners often believe that they know who the buyers will be (such as direct competitors or partners). In our experience, there are often additional parties that have a strategic interest in the business including private equity groups, which have been a driving force in M&A deal activity and increased valuations. We conduct extensive market research and develop a list of high value purchasers from around the world. This list is then reviewed with the client and strategies are developed for approaching each target.
- Auction process: running a properly structured process helps to generate and maintain the competitive tension required to deliver superior outcomes.
- Structuring the transaction: Vendors are typically focused on the headline transaction price and often forget that the deal structure and key terms can often be equally or more important. The terms that we often see most hotly negotiated include the form of consideration (cash, shares, VTB), earnouts, working capital adjustments, holdbacks, employment agreements, representations and warranties, and indemnities.

- Enabling management to focus on running the business: The M&A process can be a huge distraction to a vendor and the management team at a time when performance and profitability of the business are being scrutinized by buyers.
- Adding credibility to the seller: having an investment banker involved sends a strong message to potential buyers that the vendor is serious about the sale process and that they will need to put their best foot forward to win the day.
- Herding the cats and avoiding 'deal creep': A sale process is a complicated animal with many moving parts and counterparties working at varying paces. It is the M&A advisor's responsibility to keep all the parties moving in the same direction at the same pace in order to maintain the competitive tension. By carefully managing the sale process the M&A advisor can keep the quality groups at the table as long as possible and drive the transaction towards a successful closing.

For most entrepreneurs, selling their business is a one-time event and the largest financial transaction of their lives. It makes sense to do it properly by putting together a high-quality team (investment banking, legal and accounting) that manage it proactively and give strong advice.

WHO WE ARE

- Leading independent investment banking firm focused on the middle market since 1978
- Experienced senior bankers
- Providing high quality advice to private companies and their owners
- Demonstrated international reach through *Global M&A Partners*, the world's leading partnership of investment banking firms on middle market transactions

M&A	Financing	Advisory
Company Sales	Equity	Valuations
Acquisitions & Divestitures	Mezzanine/Sub Debt	Fairness Opinions
MBOs	Specialty Debt Capital	Strategic Option Reviews
Distressed & Underperforming Situations	Acquisition Financing	Succession
Succession Transactions	Growth Capital	Shareholder Issues
Private & Public Companies	Recapitalizations	Financial Strategy

SELECT RECENT TRANSACTIONS

STRONGCO — A TSX-listed multi-line heavy equipment dealer has been acquired by NORS
SALE ADVISORY

Vintex — A leading manufacturer and B2B supplier of custom engineered coated fabrics has been acquired by The Cooley Group, with financial backing from J.H. Whitney & Co., a US private equity firm
SALE ADVISORY

Cheme — A specialty process engineering firm focused on the biotechnology, pharmaceutical, nuclear, and food & beverage sectors has been acquired by Consultys, a subsidiary of VULCAIN Engineering
SALE ADVISORY

Ontario Excavac — Leading utility services provider and portfolio company of Market Sq. Equity Partners has been sold to a North American energy infrastructure investor
SALE ADVISORY

LOTS Group (Subsidiary of Scania AB) — A global transportation company entered the North American market by acquiring the Munden Group, a provider of trucking and log harvesting services to the forestry industry
ACQUISITION SEARCH & ADVISORY

OUR PARTNERS

Colin Walker
Managing Director
Office: 416-362-7016
cwalker@crosbieco.com

Ian Macdonell
Managing Director
Office: 416-362-1953
imacdonell@crosbieco.com

Richard Betsalel
Managing Director
Office: 416-362-4882
rbetsalel@crosbieco.com

David Fidler
Managing Director
Office: 416-362-0020
dfidler@crosbieco.com

Crosbie & Company Inc.
150 King Street West
15th Floor, P.O. Box 95
Toronto, ON M5H 1J9

GLOBAL M&A PARTNERS

Please visit our website at
www.crosbieco.com
or contact us at 416.362.7726