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## **Selling Your Business – Prepare for the Buyer Visit**

*By Dave Kauppi, President MidMarket Capital*

In our mergers and acquisitions practice a very important event prior to receiving letters of intent is the buyer visit. Don't be fooled into thinking that this is a simple headquarters tour. Experienced buyers know just the right questions to ask to uncover risks and to discover opportunities. We try to coach our sellers on how to present and how to answer these carefully scripted questions.

Unfortunately, a man or a woman that has called their own shots for the last 25 years is not always receptive to coaching. If we get a feeling that our advice is falling on deaf ears, we schedule the first visit with a buyer that is not the top candidate. Once our seller has made a few tactical errors in this dry run, they are then open to some coaching.

This is what we tell them. Acquiring another company is very risky. Mistakes can damage the buying company. Therefore, a buyer is looking to identify and mitigate risks. Their questioning will focus on what they can expect once they are the owner of your business. Are you bailing on a business that is on a downward spiral? When you leave, will major customers leave with you? Will your key employees stay? Will our company have your strong support in transitioning your knowledge and intellectual capital to our staff?

The number one question is, why are you selling your business? The unacceptable answer is, so I can get away as quickly as possible and sip umbrella drinks on an island. The correct positioning of your exit is, we have built this business and are nearing retirement. In order to realize the future potential we will have to invest back into it at a time when we should be diversifying our assets. A strategic larger company could leverage our assets to achieve much greater market penetration than we could.

Another important theme is that you are in control. You understand your costs and your margins. You can identify the opportunities for growth that a better capitalized company could capture. You can articulate your strengths. You know your weaknesses and they are simply that you do not have enough resources, capital, or distribution to capitalize on all this potential you have created. You understand your market and your competition.

Buyers like to believe they are buying a business at a discount. You should try to present your weaknesses in such a way that the buyer will think, we can easily correct that. For example, an eight week order backlog could be considered a negative. A smart buyer will think, that is a high class problem. I wonder how many orders they lose because of the order delay? We could hire three more people, open two more work bays and cut that backlog down to ten days, immediately capturing 10% greater sales.

Another example is that the selling company is technology focused and really lacks sales and marketing expertise. The savvy buyer with a fully developed sales and marketing engine pictures a 20% increase in sales immediately. If the selling company already had these weaknesses corrected, the buyer would certainly have to reflect that in the purchase price. Because the weaknesses exist and the buyer has already identified how his company will correct them, he views it as buying potential at a discount.



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A corporate visit should be a good two-way exchange of information. The seller should ask such things as: How long have you been in business? How many locations do you have? How many employees work for your company? This question is a good way to back into company revenues by applying industry metrics of revenue per employee. Sometimes private companies are hesitant to reveal sales figures. The seller wants to determine whether the buyer is big enough to make the acquisition.

What are your biggest challenges? Who are your biggest competitors? How do you see the market? Where are your best opportunities? Have you made any prior acquisitions? How do you feel about them? What are you really good at? What areas would you like to improve? How would you see integrating our company with yours?

There is some very important information that you are seeking from this line of questioning. First, their answers give you some hooks on which to hang the assets of your company in order to drive up your perceived value to the buyer. Find their opportunities and show how your company combined with theirs can help capture them. Show how your assets will give them an advantage over their competitors. Show how your combined assets can eliminate some of their problems or weaknesses.

You want to determine if there is a cultural and a philosophical fit. Is there trust? Do you feel comfortable? Do they "get it" in terms of recognizing your company's strategic value or are they just trying to buy your company at some rule of thumb financial multiple?

Often a company acquisition is comprised of cash at close and some form of deferred transaction value like an earn out. If your deal was structured like this, do you have confidence that you would reach your maximum in future payments? Have they been able to articulate their growth plan after they acquire you?

As you can see, the buyer visit should not be looked at as simply a show and tell corporate visit. It should be viewed as an opportunity for the seller to gather valuable information that will help him answer three questions: 1. Is it a fit? 2. How can my company help them grow and better compete? 3. Are they willing and able to pay me for that?

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