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## ENGAGING AN INVESTMENT BANK VS. GOING IT ALONE

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For most business owners, selling their company is one of the most important transactions they'll ever face. The success of the process will determine the ability to optimize sale value while identifying a buyer who respects the legacy built over a lifetime of work. While some consider "going it alone" and handling the details of the sale themselves, the process can be much more complex and time-consuming than anticipated.

Hiring an investment bank can accelerate the timeline, while achieving a more desirable outcome, and reducing the time burden on the leadership team. As echoed by the many business owners we've worked with over the past 30+ years, there are five key gaps investment banks can close for business owners.

*A survey of 25 business owners who sold companies with the help of an investment bank within the last 15 years found that 100% had no regrets, and more than 70% said the investment bank added significant value in the process.<sup>1</sup>*

## 1. Providing M&A Expertise

There's no substitute for experience. While most business owners may sell one business in their lifetime, investment bankers live and breathe M&A. They provide key areas of expertise in executing a deal, including insight into the current state of the market in a client's specific industry, and how to assemble the best transaction team to meet your needs. This includes the close involvement of the business owner's trusted advisors, in particular your attorney and CPA.

*A survey of 85 business owners who sold businesses for \$10M to \$250M found that 84% cited the final sale price as being equal to or higher than the initial sale price estimate provided by the investment bank, and only 6% sold for less.<sup>2</sup>*

Investment bankers keep a daily pulse on the M&A market, gauging overall sentiment of buyers and sellers, and gleaning insights regarding specific deals and industries. They also possess expertise in all of the financial and process-related aspects of a transaction – running financial models, developing a robust Confidential Information Memorandum, screening buyers, analyzing transaction structures, spearheading due diligence, and ensuring all details are addressed for successful closing.

Investment bankers typically provide an expected business valuation range prior to any commitment on the business owner's part. This enables the owner to compare proposals from a number of investment banks and choose the one most closely aligned with their expectations. A strong deal outcome is mutually beneficial for the investment bank and business owner, as fees are typically based on a percentage of the total enterprise value of the business.

## 2. Crafting a Value Position

While many business owners may already have a clearly defined value proposition, investment bankers can help refine it based on their understanding of the market and the key attributes sought by potential buyers. Each value proposition is unique, and the constant interaction that investment bankers have with players in the market provides them with a clear view of the attributes that buyers seek in a company. While a good value proposition illuminates the strengths of a business, a great value proposition casts what could potentially be seen as a company's weakness in a positive light to create a positive narrative that resonates with buyers.

## 3. Enhancing Credibility

Business owners represented by an investment bank tend to have more credibility than business owners who try to fly solo. Business owners who engage an investment bank are more likely to see genuine interest and receive reliable offers from buyers. In addition, buyers are less likely to attempt a low-ball offer or an irregular deal structure, as all communication goes through the investment bank.

<sup>1</sup> Jackim Woods & Co Survey (2016)

<sup>2</sup> McDonald, M. (2016). *The Value of Middle Market Investment Bankers*. Fairfield University.

<sup>3</sup> Agrawal, A., Cooper, T., Lian, Q., & Wang, Q. (2018). *Does Hiring M&A Advisers Matter for Private Sellers?*

Moreover, anytime a strong offer comes in, an investment bank digs deep to confirm the credibility of the buyer, leveraging past experiences and industry relationships to verify their reliability. If a buyer has a history of suggesting a high initial range and then decreasing it significantly once final offers are due or has had trouble getting the necessary funding to close a deal, it is imperative that the business owner is aware so that they can take it into account when choosing the buyer.

#### 4. Unburdening the Owner

Selling a business is a full-time job. While business owners are experts in their respective industries, investment bankers are experts in M&A, and have all of the tools and resources to efficiently move towards a successful close. The presence of an investment bank allows business owners and their management teams to stay focused on company performance while the investment bank runs the process. This can be key to a transaction's success, helping to ensure that there is no decline in company performance that may require the process to be put on hold.

In addition, by serving as a buffer between the buyer and seller, the investment bank can help negotiate a higher enterprise value and more beneficial deal terms, while maintaining a positive spin. A bank's involvement is especially helpful towards the end of the process when emotions may be high and patience low. Minimizing direct interaction between the buyer and seller during this period can be key to getting a deal done, while facilitating a positive relationship between the buyer and seller as the business transitions to new ownership.

*According to a Fairfield University survey of 85 business owners who sold their businesses for \$10M to \$250M, "managing the M&A process and strategy" was identified as the most important service investment banks offer to clients.<sup>2</sup>*

#### 5. Creating Competition

Every company has a fair market value, typically determined by a professional valuation firm and used by the company for legal and tax purposes. Fair market value is defined by the National Association of Certified Valuators as "The price at which property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts."

*A University of Alabama / Louisiana Tech University study of over 4,500 privately held middle market business transactions found that depending on the industry, the facilitation of the sale of a company by an investment bank leads to a 5% to 20% increase in sale price.<sup>3</sup>*

Investment banks are able to add value to a transaction process by finding buyers who are under compulsion to buy, and are therefore willing to pay above what is considered fair market value. A buyer under compulsion is typically one that wants to take advantage of the specific opportunities and synergies that a selling company offers. This is often the case when a buyer is already operating a company in the seller's specific industry or has experience in the space. The relationships and tools that investment banks have access to provide the ability to find buyers who are under compulsion to buy in any industry.

Because of the willingness of some buyers to pay above market value, investment banks do not put initial price tags on businesses. Instead, encouraging buyers to put in their best offer possible, knowing they are bidding against other active buyers in the space. This strategy is often how investment banks add the most value for clients and why owners who utilize the services of an investment bank can typically receive higher acquisition premiums than those who do not.

#### In Summary

Business owners in the lower middle market can achieve significant benefits by engaging an M&A professional in the sale of their company. Investment bankers help business owners fill gaps in five key areas, including providing M&A expertise, crafting a value proposition, enhancing credibility, unburdening the owner, and creating competition. As a result, the business owner can experience significantly less stress than going it alone, while cultivating a strong relationship with the buyer, and recognizing increased value for the company.



## About Charter

Founded in 1989, Charter Capital Partners is a premier investment banking firm headquartered in Grand Rapids, Michigan. We offer a comprehensive range of investment banking advisory services, including buy-side and sell-side M&A, succession planning, business valuation, and capital raise.

Charter was named one of the top 100 most referred middle-market advisory firms in the US, according to a survey of 1,000 private equity firms, strategic acquirers, and family offices compiled by Axial, a network of middle market investors, advisors, and CEOs. Our mission is to deliver superior professional guidance throughout the complete business lifecycle.

## About the Author



### Mike Welch, Associate

Mike's experience includes merger and acquisition advisory, strategic consulting, and valuation execution. His role at Charter includes performing financial deal analysis using historical and projected financial information, executing financial and industry due diligence, and preparing valuation analysis and technical financial modeling. His expertise spans industries including business services, transportation and logistics, diversified industrials, light manufacturing, furniture, and staffing.

Mike graduated with honors from Calvin College with a BSA in Accounting and a concentration in Finance. His experience prior to investment banking includes both public and private accounting, which has provided him with a strong foundation in both accounting and finance.

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