

How to Respond to a Bid to Acquire Your Company

Owners often ask us, “Why should I hire an investment banker if I already have a buyer for my company?”

Contrary to what most owners believe, finding a buyer to buy your company is not the most important reason to hire an investment banker. With today’s ubiquitous information, databases, and the like, identifying potential buyers is really the easy part of the investment banker’s role.

Getting a deal to close at the highest price with terms most favorable to you is the reason to hire an investment banker. Hiring a banker sends a clear message to your suitor that you are serious about doing a deal, drives urgency to get a deal closed, and almost always increases valuation. And, just like anything else, competition or the threat of it, makes it more likely that a deal will close on the terms you want and that leverage stays with you.

The fact is that every deal runs into problems and roadblocks. At Carl Marks Securities, we are particularly adept at finding solutions when problems arise and bringing the transaction to a successful close.

When a buyer comes knocking, companies typically provide them with off-the-shelf historical financial information. We as bankers are really selling the future of your company, and history is relevant insofar as it supports the owner’s vision of what the company will be down the road. In addition, historical numbers need to be vetted and adjusted to present how the company would likely perform in the hands of the buyer. Often this involves building a financial model of the future and then using that as a basis for discussing appropriate valuation.

Our job is to look at the company through the eyes of the potential buyer, get ahead of any issues and identify how buying your company will help them. This could include:

- Elimination of a competitor
- Pricing power
- Geographical expansion
- Key customer and/or supplier relationships
- Leveraging staff and operational expenses to maximize resource utilization
- Facilities

In addition, there are also numerous facets of a sale **other than the headline price** that have a material impact on value and can be worth hundreds of thousands or even millions of dollars:

Maximize Value On Your Real Estate

- Hold and lease; Sell as part of Transaction; Sale/Leasebacks
- Real estate is often worth more than how it would be valued as part of the sale of the operating company

Reps / Warranties / Indemnities

- Insurance Tools to minimize risk and maximize cash paid at close
- Collars, caps, buckets, hold backs



Working Capital Calculation

- What is included/what isn't
- Relevant Period for Calculating Working Capital
- Collars and Caps

Extra Value Through Earn-Outs

- Buyers are often willing to pay more if you deliver more after closing
- Variety of ways to structure to ensure maximum payment

And, since our fees are largely success based, they are only paid when the deal closes and money is in your bank account. Our interests are completely aligned with yours and we pay for ourselves many times over.

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