Selling Your Company in 10 Steps:

What You Need to Know About Investment Banks

Our experience at Key Private Bank is that approximately 50% of business owners will choose to sell their business to a third party. And just as most homeowners use an expert (a real-estate agent) to sell their house, many transitioning business owners will hire an expert in the form of an investment bank to sell their companies.

There are several important reasons to consider working with an investment bank in the sale of your business:

Selling your business is a full-time job.

Transitioning your business by selling it to a third party involves lots of moving parts, including valuation analysis, marketing, identifying and contacting qualified buyers, negotiating the sale, and helping coordinate due diligence, etc. It's a full-time job, and an owner's time is usually better spent running the business and optimizing its value.

An advisor helps preserve confidentiality.

Understandably, you may worry about the impact that knowledge of a prospective sale of your company will have on employees, suppliers, and competitors. An investment bank can provide valuable cover and keep your identity and intentions out of the public domain. Investment bankers also know when this information should be shared during the selling process in order to protect the seller.

You have the opportunity to get greater value.

Due to their expertise in mergers and acquisitions (M&A), an investment bank generally will get a higher price for the business than you could if you go it alone. Of course, the investment bank will also charge a commission for managing the sale. The value an investment bank can generate in terms of a higher purchase price and better deal structure often outweighs the commission compared with the value the business owner can produce from talking with one buyer.

The 10 steps of selling your business

If you decide to work with an investment bank to help sell your business, it's a good idea to understand how the process works. Each investment bank—and there are many very good ones—will focus on getting the best possible value for a company being sold.

There will be differences in how each investment bank approaches a transaction (some are much more robust than others). However, they all follow the same (similar) 10 basic steps:

Stage	Steps Involved
1. Establish range of values The first stage involves analyzing the company's financials and determining normalized EBITDA (earnings before interest, taxes, depreciation, and amortization). This provides the critical underpinning for establishing a range of values for the business and gaining concurrence between the business owner and the investment bank.	• Obtain financial statements and tax returns for last five years (business owner). • Obtain year-to-date (YTD) internal financial statements (business owner). • Discuss normalizing adjustments for financial data (business owner/investment bank). • Perform valuation analysis (investment bank).
2. Create teaser marketing materials A short document (typically one page), the teaser is the initial marketing piece that will be put in front of prospective buyers. The identity of the business is not revealed in the teaser. Common data included in the teaser are a brief description of the business, 5 years of revenue and EBITDA, overview of competitive advantage, description of products and services, and growth plans.	• Provide investment bank with company background and marketing materials for preparation of teaser (business owner) • Prepare rough draft of teaser (investment bank) • Work jointly to complete teaser (business owner/ investment bank)
3. Identify prospective buyers The investment bank produces a list of strong prospects—qualified buyers with the financial wherewithal and anticipated interest in buying the business. The seller will be asked to provide any names of who they think would be interested in buying their business.	• Prepare preliminary buyer list (investment bank) • Approve preliminary buyer list (business owner)
4. Send teaser and non-disclosure agreement (NDA) to approved buyers This step enables the investment bank and business owner to identify buyers who have an interest in learning more about the business. Those parties must sign an NDA before obtaining additional information.	• Distribute teaser to potentially interested parties along with NDA (investment bank) • Follow up with phone calls as appropriate (investment bank)
5. Organize data room More background on the business owner and business is provided to prospective buyers via an electronic data room. The data room could have 30–100 documents, with information that may include financial statements, customer profiles (without names), accounts receivable, accounts payable, fixed assets, inventory, 5-year plan, legal documents, environmental studies, operational documents, intellectual property, etc.	• Build electronic data room (investment bank) • Upon receipt of NDA from interested parties, allow them access to electronic data room (investment bank) • Field questions from interested parties (investment bank and business owner)

Stage	Steps Involved
6. Obtain indication(s) of interest (IOI) The focus at this stage is on narrowing down the list of possible buyers. Each IOI indicates a possible purchase price along with details such as expected time to close the deal and financing. The business owner and investment bank may whittle the list of candidates down, excluding prospects that submit IOIs with a purchase price and/or deal structure/terms below market or target value.	• Request and obtain IOI (investment bank) • Review and compare IOIs (business owner/investment bank)
7. Conduct site tours and meetings More questions of prospective buyers are answered during tours of the facilities and meetings. A lot of tours are performed after hours in order to keep the process confidential from employees.	• Schedule facility tour for interested parties (business owner/investment bank) • Meet at investment bank office with interested parties (business owner/investment bank)
8. Obtain letter(s) of intent (LOI) The LOI defines the purchase price and other basic terms agreed upon between the buyer and the business owner, subject to due diligence. Ideally, there will be multiple LOIs received to create a secondary market for the private business in order to drive the value as high as possible.	• Request and obtain LOI from each interested party (investment bank) • Evaluate and negotiate LOI (business owner/investment bank)
9. Select buyer and complete due diligence The business owner chooses a buyer, and confirmatory due diligence begins. Internal and external M&A advisors from the buyer's team will provide the owner with large requests for lists of information they need to complete their diligence. The seller's advisory team will become more involved as well.	• Select final buyer (business owner) • Review and sign LOI (business owner/investment bank/attorney) • Allow exclusive 60–90-day due diligence period (business owner)
10. Sign purchase agreement The purchase agreement defines the terms of the sale and all the details of the transaction. The starting point will be the deal terms agreed to in the LOI.	• Negotiate stock/asset purchase agreement (Attorney, business owner, and investment bank)

Making the decision

An investment bank can demystify the sales process and add real value when you undertake the process of selling your business. As mentioned, the investment bank will also charge a commission for managing the sale. It's important that you weigh the benefits and costs to determine if using an investment bank is the right decision for you. Remember, selling your business via an investment bank is only one transition option available to you. To increase your odds of maximizing the value of your business, you need to educate yourself on all of the different transition options available.

For more information about preparing to sell your business,
contact your Key Family Wealth Advisor or visit key.com/familywealth.