



Why Use an Investment Banker to Sell Your Company?

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Executives embarking on a major transaction, such as selling their company, buying other companies, raising capital or going public, usually give some thought to hiring an investment banker. Within the biomedical market, M&A transactions are increasing in number and value while IPO transactions are decreasing. So this article will focus on the prevalent trend in liquidity events – selling your company.

SELLING YOUR COMPANY

You're ready for a liquidity event and the timing's right. You're probably thinking, "No one can present my company better than I can. Why pay a fee when I can probably do a better job myself?" But then, you also know colleagues that have chosen to use investment bankers, so there must be something to it.

This dilemma – to use an investment banker or to manage the sale process yourself – is one that successful companies must face at some point. The right decision for some companies may be the wrong decision for others. But, there are a number of considerations each company should evaluate before selecting a course. Some of the more important ones follow.

1. ***Am I and my staff willing and able to dedicate the time necessary to conduct a professionally organized sale process?*** The process of selling your company is incredibly time consuming and disruptive, involving myriad details, and, typically, consuming at least six months of dedicated effort.

A partial list of typical activities in the sale process is shown below. Depending on the company and situation, this could expand dramatically. You will need to dedicate your most critical people to work on the sale of the company at the exact time when demonstrating the value and effectiveness of your business is most important. In addition, extra management time will need to be allocated to maintain your customer and supplier relationships during this critical time.

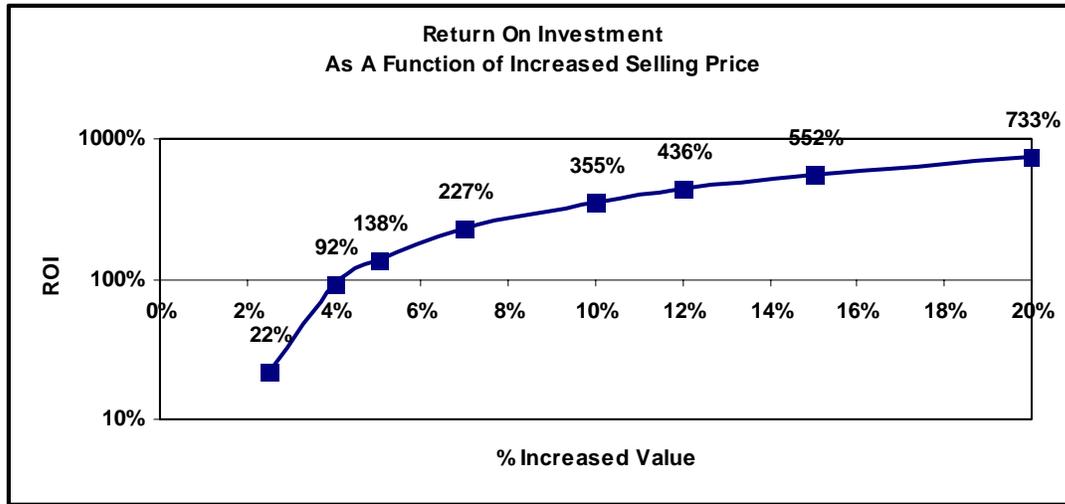


Selected Sale Activities

- Develop the sale strategy
- Identify qualified potential buyers
- Prepare the Summary, Sales Memorandum and Presentation
- Prepare financial models
- Contact buyers and negotiate NDAs
- Distribute sales memorandums
- Receive Indication of Interest Letters
- Develop due diligence binders
- Present to interested parties
- Solicit proposals and review submissions
- Select most attractive candidates
- Complete due diligence
- Negotiate legal documents
- Close transaction

2. *How do I maximize my company's sales proceeds net of the investment banking fee?* At the end of the day, maximizing the liquidity event is probably the single, most important reason you're selling your company; and the single, most important element in determining a company's value is *recent* success. Buyers don't give much value for plans, projections and expectations – they pay for performance. If management is fully engaged by the sale process, they run the risk of letting the business suffer or missing a critical milestone, possibly jeopardizing the sale.

An investment banking success fee can amount to a lot of money, and should be analyzed as any investment would: Will hiring an experienced investment banker provide sufficient return for the risk? Success fees and their structures vary, ranging from 1% to 5%, depending on the size of the transaction. Say the investment banking fee is 2% and you're confident you can sell your company for \$50 million, without any help. If your company sells for only 2% more (or \$51 million), the fee is \$1.02 million and you've lost \$20 thousand. But if your company sells for 5%, or \$2.5 million more, then your return on investment is 138%. So if a banker can add more than 2% in value, the ROI is very high. (See the chart below.)



3. **Does my company possess the specialized knowledge necessary to successfully sell the business?** All successful businesses have a trusted lawyer, CPA and strong management team. But, ask yourself, “Does my team...”

- *Know which buyers would likely be interested in buying my company?*
- *Have the ability and experience to conduct a competitive selling process and generate multiple purchase offers?*
- *Have the ability and experience to fairly and objectively value my company versus industry “comps” and to determine the right “comps” to use?*
- *Have an up-to-date understanding of capital markets and the current financial structures used by acquiring companies in the biomedical industry?*
- *Have experience in dealing with acquirer objections and issues?*
- *Have the requisite, prior experience negotiating sale transactions?*
- *Have the ability to represent my company with the objectivity and fairness necessary to command the respect of the acquiring companies?*

If you can't answer the majority of these questions with a resounding “Yes,” then your company's ability to conduct a successful sale without the help of an investment banker is likely to be at risk.



4. ***If I have all of these skills and abilities should I run the sale process myself?*** Even if you have the ability to run a sale process, a third party is still in a position to do a better job of it. Often times, the key to maximizing the value of a company is to run a process whereby all of the potential buyers make proposals and walk through the process concurrently. In the real world, getting multiple buyers to step through a process together is not easy. The banker is in the best position to manage the process while maintaining the confidence of the buyers that the process is being conducted in a fair and reasonable manner.
5. ***Who are the potential buyers for my company and how do I reach them?*** Most selling companies consider only strategic buyers (companies operating in the same or similar market as the seller) or the larger players. But, as the biomedical market has enjoyed increasing prosperity, new classes of buyers have surfaced and should be contacted as part of the selling process – private equity firms, foreign buyers, or smaller firms with strong backing. If your company doesn't possess the broad network of contacts in each of these classes of buyers then you should consider hiring an investment banker.
6. ***Can I produce compelling marketing materials and conduct persuasive management presentations?*** Producing professional marketing materials is an important part of the sale process. It begins with an Executive Summary that's short but tells your company's story and captures the reader's interest. It progresses to the Sale Memorandum, a detailed book about your firm that may run to 100 pages. Management presentations come next and must address buyer expectations that can vary by the type of buyer: strategic, financial or foreign.
7. ***Can I optimize the transaction structure?*** Just as every company is unique, every transaction is unique, and each deal must be structured to meet the specific objectives set by both the buyer and the seller. Transaction structures also change due to many factors including deal pricing, terms and conditions, valuation, earn-outs, fluctuations in market conditions, liability concerns and employment contracts, to name a few. Often, an objective third party is necessary for management to properly sort through these myriad, complex issues.
8. ***When should I not use an investment banker?***
 - *Is the expected deal size large enough to afford a reasonable banking fee?* Generally, an investment bank can't afford to work on a transaction producing less than a \$300 to \$500 thousand fee. So, unless the transaction is well north of \$5 million, it generally doesn't work.
 - *Is there an existing shareholder, board member or insider who will buy your company?* If you have direct access to a buyer who will pay a fair price, then it may not make sense to hire a banker and conduct an organized sale. On the other hand,



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how do you know it's a fair price? We've already shown in the ROI graph that a small (2 %+) increase in selling price, can generate a very large ROI.

IN SUMMARY

Selling your company requires a broad range of abilities including specialized knowledge, a very large time commitment, extensive contacts and industry knowledge, and a proven track record of negotiating successfully and getting deals done. Although a banker's success fee can be large, it can generate a very high return on investment by successfully concluding your sale at the highest price and allowing you and your management team to focus on what you do best – successfully running your company.

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