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Michael Crawford, Managing Principal and Founder of The Merger Expert, Inc. with over 35 years intermediary experience says,

"Recently, I came across the article "Surprises CEOs Face When Selling Their Company" by Peter Lehrman. With my experience in the industry, I feel he makes many valid points, and his insights are valuable in every respect. This is an informative article I wish to share."

Surprises CEOs Face When Selling Their Company

Posted by Peter Lehrman

Introduction
Most middle market company CEOs are aware of the process of selling a company, but some CEOs are woefully naïve in dealing with the sale of their company. For example, my experience is that the decision to sell is mostly event driven. An event such as sudden burn-out, partner dispute, family death, severe competitive pressures, lack of capital, etc. Seldom do CEO owners plan three to five years in advance when they reach a personal milestone such as 65 years of age or seldom do they sell at the top of the market when business is booming. So often, the situation arises when one or several negative events take place and in a response, these CEO/owners will often enter into serious discussions with the most recent potential buyer and/or intermediary who just happened to be at "the right place at the right time." To enter into negotiations with just one buyer seldom produces the highest bid. There is an expression in the M&A trade that "one buyer is no buyer."

In this article, we are assuming that the CEO is savvy enough to hire an intermediary to orchestrate the sale of the company. Additionally, we assume that the intermediary has not told his client everything to be aware of in the M&A process... hence the title of this article, Surprises CEOs Face When Selling Their Company.

Surprise #1: Substantial Time Commitment
In the real estate business, once the owner engages the broker there is very little for the owner to do until the broker presents the various offers from the potential buyers. In the M&A business, there is a substantial time commitment required of the CEO in order to complete the sale properly, professionally, and thoroughly.

The following examples are worth noting:

• Offering Memorandum: This 30+ page document is the cornerstone of the selling process because most intermediaries expect the potential buyers to submit their initial price range based on the information presented in this memorandum. The intermediary will heavily depend on the CEO to

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supply him with all the necessary facts.

•Suggestions of Potential Buyers: Chances are that no one other than the sales manager knows the best companies to contact and those not to contact (competitors) than the CEO. Arguably, this information should be mostly supplied by the intermediary, but as a thorough team effort, the CEO should play a major role in this endeavor.

• Management Presentations: Assuming the intermediary conducts the normal process of boiling down the bidders to 4 or 5 potential buyers, and then it is customary to have management presentations before the final bids are submitted. IN order to help extract the best offers, it is advisable that the CEO show the benefits of combining the buyer and seller and/or the future upside of the selling company.

Surprise #2: Enjoin Other Employees in the Process

A number of CEOs selling their company are paranoid about a confidentiality leak regarding the sale of their company. In fact, some CEOs prefer that no one else in the organization is aware of the pending sale of the company. At a bare minimum, the CFO and Sales Manager should be informed. The CFO will be asked to pull all the financials together, to supply projections, to articulate reconstructed earnings (add-backs) and to supply monthly statement...all of which is a tip-off that the company is being sold. The Sales Manager will be asked to supply the names of synergistic companies in or around the particular industry. And, perhaps the CEO's secretary will be asked to set up a "war room" where all legal and contractual information is assembled for the buyer's due diligence team. In order to protect the company from confidentiality leaks and retention of key employees, the CEO should implement "stay
agreements" for them.

Surprise #3: Accelerate Sales

The tendency for some CEOs is to become so distracted with the M&A process that he takes his "eye off the ball" in running the business on a daily basis. Potential buyers will be watching the monthly sales reports like a hawk to see if there is a downturn in business. Buyers become very apprehensive when they see a recent downward turn in the company they are about to acquire and may, as a result, want to negotiate a lower price. A few years ago when I was in the process of selling Data Industrial Corporation, post 9/11 sales and the backlog were off from our projections. While the slowdown in business was understandable, the CEO would not make any price adjustments. As their intermediary, I advised the CEO to immediately send his internal sales department out on the road to build up the backlog.