

# THE SELLER EXPERIENCE

*PREPARING THE OWNER FOR TRANSITION*



**M&A**  
Advisory

RESULTS *with*  
INTEGRITY™

# INTRODUCTION

As a business owner, the decision to transition ownership of your private company is probably the most important decision of your career. It represents harvesting the fruits of years, decades or even generations of inspiration and perspiration. Your family wealth, your business and personal reputation and your integrity are riding on its success.

"Expect emotions to be dominant."

*EdgePoint Survey Respondent*

The transition/sale process is a singularly daunting, time-intensive and complex trek. And, for most sellers it is a once-in-a-lifetime event.

Wouldn't it be helpful to know what others have done during this singular journey – and in hindsight, what they wish they had done – to create the most successful outcome? That's the purpose of *The Seller Experience* whitepaper series – guidance from EdgePoint.

## 4 C's of Ownership Transition Planning

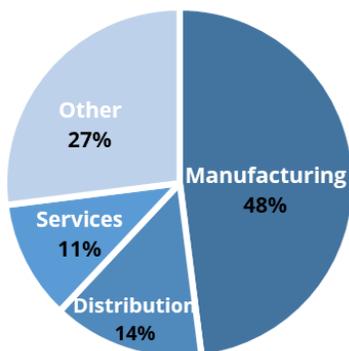
- 1 CLARITY
- 2 CONFIDENTIALITY
- 3 COMMUNICATIONS
- 4 CERTAINTY OF CLOSE

### The EdgePoint Seller Transition Survey



Scant practical information is available about dealing with the personal and stakeholder issues of selling a lower middle-market business (revenues of less than \$100 million). To gain valuable insight, we commissioned the [EdgePoint Seller Transition Survey](#) conducted in February of 2020. We surveyed more than **150 business owners** asking them to share their insights and experience. Importantly, the survey shared their perspective at the point of sale and their vantage point today, plus covered the 4 C's of Transition Planning.

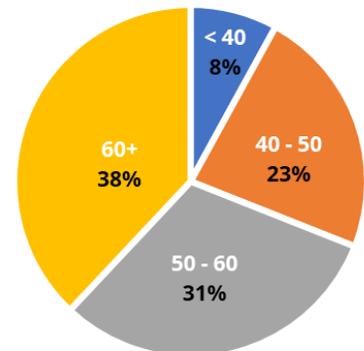
### Seller Transition Survey Participant Demographics



INDUSTRY



REVENUE SIZE



OWNER AGE

# ① CLARITY

## The Key to Planning for a Successful Transaction

Success, like beauty, is in the eye of the beholder; it's simply what you want to achieve in your transition from the business.

During a sale process, one of the most common questions we receive from buyers is **WHY** are the owners selling.

Survey respondents indicated the following as the top reasons why they sold:

- **"Market Pricing was Frothy"**  
Opportunity to take advantage of a favorable M&A market
- **"Not as Much Fun"**  
Tired/not having as much fun anymore and wish to retire
- **"Pursue Other Interests"**  
Passionate about doing something else (business, civic or charitable)
- **"Offer Opened my Eyes"**  
Received a preemptive offer which opened my eyes to life after ownership
- **"Time to Find a Partner"**  
Business growing and additional perspectives needed to reach next level. Share equity and "take chips off the table"
- **"Family Issues are Too Much"**  
Family or management issues became too much and decided to sell
- **"Health Issue Drove the Sale"**  
A health scare revealed the risk to the business associated with my passing or incapacity

Based on the answer to **WHY** they are selling, business owners can then set their objectives.

The survey found the most common objectives of their ownership transition to be:

- Obtaining the **best price and terms**
- **Protecting their employees**
- **Legacy** in the community or industry



### OBJECTIVES AT CLOSE



### OBJECTIVES AFTER SALE

The results indicated that getting the best price and terms were not as important as they originally thought. In hindsight, emphasis on their employees and protecting their legacy were more important.

"Make sure that you have your objectives clearly in mind, from most important to least important and stick to it. This will make the process easier and optimize the results."

EdgePoint Survey  
Respondent

# ① CLARITY

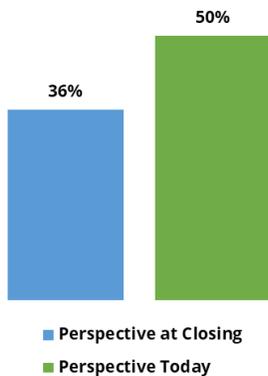
## Successful Owners Have Defined Post-Sale Objectives

Over our decades of experience in helping owner's sell their business, we have noticed that business owners are either *"running away from or running towards something"*.

The more successful sellers have developed a clear post-sale objective while others are focused on running from the underlying problems.

Owners in the survey underestimated the importance of having clarity about their personal lives after the sale. At close, only 36% thought it was important to be clear on what they personally would do after they sold. However, from today's perspective almost 50% thought it was very important to have clarity for their lives after the sale.

### Importance of Clarity on Owner's Post-Business Life



The range of planned post-closing activities included family and hobbies, attention to health issues, an on-going leadership role in their business, a new business venture and philanthropic activities. Of those who expected a leadership role in the business after close, only 34% achieved it as they envisioned.

Respondents told us the most difficult aspects of deciding to sell were:

- Forgoing the upside potential of the business
- The daunting sale process
- Letting go of control
- Giving up the business as part of owner's identity

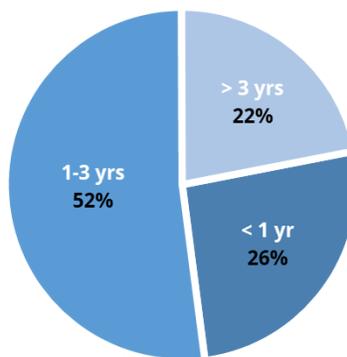
*"The intensity and owner time required by the sale process from planning through due diligence to close and beyond was more than I thought. An experienced deal support team was necessary and worth the cost."*

*EdgePoint Survey Respondent*

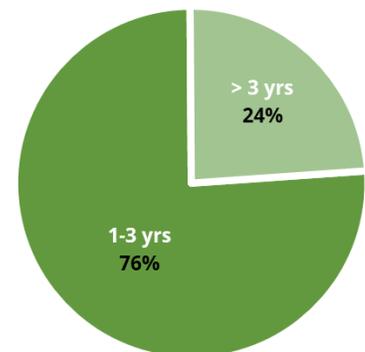
### Key Takeaway

76% of survey respondents said, looking back, they needed one to three years to prepare effectively for the sale. Before beginning the process, 26% thought less than a year was all they needed. In retrospect, no one thought that was enough time! Several respondents said, *'I should have started planning a year sooner.'*

### Time necessary to prepare effectively for the sale



AT CLOSE



AFTER SALE

## ② CONFIDENTIALITY

### Considerations for a Successful Transition

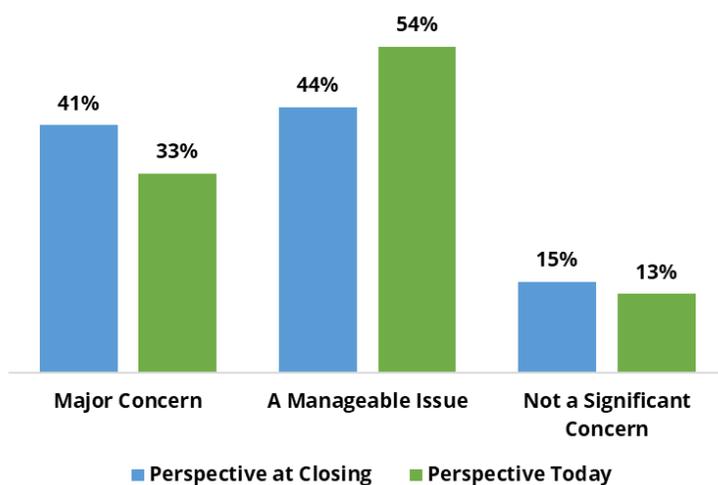
Maintaining confidentiality that a sale is pending is a universal issue among sellers because untimely disclosure could damage the company and owner by loss of value or derailing the transaction.

Survey respondents' concerns about managing confidentiality eased measurably with the passage of time after closing. Post-closing 67% considered it a manageable issue or not a significant concern.

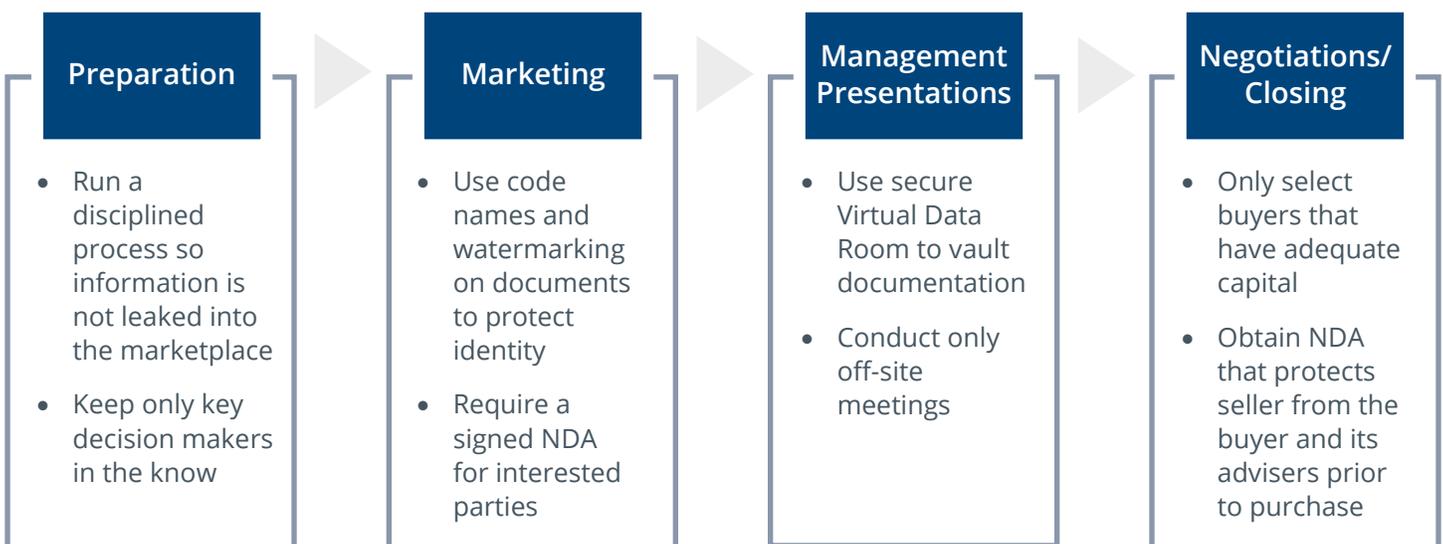
We asked respondents to rank the actions they took to alleviate their fear of a breach of confidentiality during the sale process. Here, in order of effectiveness, is what they told us:

1. Hired an investment bank to run the process/used project code name
2. Obtained non-disclosure agreement before revealing name
3. Swore managers-in-the-know to secrecy (including financial incentives)
4. Conducted meetings with buyers off-site or after

#### Managing Confidentiality



The managed sale process has four phases, each with confidentiality implications.



# ③ COMMUNICATIONS

## Managing Stakeholder Relationships

Understanding and addressing the perspective of each stakeholder group is essential for a successful ownership transition. Leveraging your existing relationships and advisors is critically important.

Here are some key considerations in managing these vital relationships.

**“To effectively communicate, we must realize that we are all different in the way we perceive the world and use this understanding as a guide to our communication with others.”**

*Anthony Robbins*



# ③ COMMUNICATIONS

## Timing of Disclosure

The owner must control the message and the timing of communications with stakeholders throughout the sale process.

The timing of when to disclose ownership's desire to sell is complex. Deal makers often refer to the notification process as **"bringing them under the tent"**. In general, notifying employees on a need to know basis reduces deal risk. Survey respondents said they notified the President, Controller/ CFO and Operations Managers first given their awareness of the business and need to have an active role with potential buyers.

The following is a brief summary of the disclosure considerations and typical time frame for notification.



### Means of Communication

The choice of media and timing should be as personal and respectful as practicable, tailored to each group's circumstances and needs.

The survey respondents noted a **strong preference for notification in a face-to-face manner**. In absence of the ability to connect with each stakeholder personally, they suggested notifications by branch or division. They also indicated that they followed up their verbal notification with a clear and concise letter reiterating the key points.

Owners should prepare the messaging to their key stakeholders with great thought, gratitude for their past contributions and enthusiasm for the future. Involve your advisory deal team, legal counsel and human resources to avoid any missteps.

- Communicate message in person when possible
- You should allocate significant time to prepare for the variety of sensitive questions you may receive
- Most owners used the signing of a letter of intent as a milestone point to notify a larger number of managers

## ④ CERTAINTY OF CLOSE

### Key Advisors

The decision to transition ownership of your company is vitally important. It's likely a once-in-a-lifetime event. It is critical that sellers leverage their time and attention with key transactional advisors.

The survey respondents indicated that **strong investment bankers and transactional deal attorneys** were the two most critical advisors to ensure a higher certainty of close. Incorporating a strong team of diverse advisors will enable the owner to properly navigate the complexities of a deal.

"There are so many things you don't know that can trip you up. Do not underestimate the value of good representation during a sale"

*EdgePoint Survey Respondent*

#### Fairfield University Survey



In 2016, 24 middle market M&A investment banks including EdgePoint participated in a study by Michael B. McDonald, Assistant Professor of Finance at Fairfield University, titled The Value of Middle Market Investment Bankers, by offering participation with clients who sold in 2011-2016 for \$10-250 million as prospective participants.

Owners ranked the value and relative benefit of these investment banking services (In order as follows):

1. Managing the M&A strategy and process
2. Negotiating the transaction for best price and terms
3. Structuring the transaction
4. Adding credibility to the seller
5. Enabling management to focus on running the company
6. Educating and coaching the owner
7. Preparing the company for sale
8. Identifying the best buyer

"The survey results also illustrate the success that middle market investment bankers appear to have in selling the company, with 86% of respondents citing the final sale price as being equal or higher than the initial sale price estimate provided by the investment banker."

*Professor Michael B. McDonald*

#### About EdgePoint

Founded in 2000, EdgePoint is a leading independent national Merger & Acquisition advisory firm, specializing in middle market sale and ownership transitions, buy-side advice and innovative financing advisory services for business owners in the Industrials, Business Services, Consumer and Healthcare industries. EdgePoint is a FINRA registered broker dealer, a member of SIPC and a member firm of the Alliance of International Corporate Advisors.

Our unique combination of large corporate finance expertise and deep middle-market knowledge gained through years of experience as entrepreneurs and seasoned advisors to midsize businesses provides our clients in 43 states a high certainty of close. Our results have brought national recognition through industry awards. Meet our team and learn more at [www.edgepoint.com](http://www.edgepoint.com)



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