

July 8, 2010

Broker or Banker

Who should you hire to help sell your company?

By Guy Downing and David Martinez

When it's time to sell a company, owners often find confusion over understanding the differences between a traditional business broker's services and those provided by investment bankers. What type of professional advisory services are appropriate for a particular company or transaction? Here are some of the major distinctions that can guide business owners to decide which approach makes the most sense for their company:

BUSINESS BROKERS:

A business broker is usually the most viable alternative for a small, family-owned business, a single-entity restaurant, a drycleaner, small fabrication shop, or similar type of business. In sum, a business broker is often the best option for a business with less than \$5 million in sales, and/or a valuation of less than \$5 million.

INVESTMENT BANKERS:

An investment bank is generally a good choice for large or sophisticated businesses, especially those with scalability, complex diligence issues or dynamic competitive concerns. Typically, the business will have more than \$10 million in sales and at least \$2 million in recurring EBITDA (earnings before interest, taxes, depreciation and amortization).

SHORT ANSWER

SALES APPROACH

The sales process a business broker uses is relatively simple and is similar to selling a house. Usually, an asking price is established between the broker and the client/seller. The broker will then advertise the opportunity on various sales trade networks.

Upon receiving inbound inquires, they will execute a Non-disclosure Agreement (NDA) on the client's behalf and will forward basic information to the prospective purchaser. If interested, the prospective purchaser will submit a

The sales process in an investment bank is sophisticated and proactive, and is typically termed a "controlled auction process." It is designed to create a competitive sales process that maximizes valuation and obtains optimal deal terms. A well-designed and executed controlled auction process can often result in 20 to 40 percent higher valuation levels compared to one-off negotiations.

The process begins with a four- to eight-week due diligence period within

purchase offer; buyer and seller will negotiate, and if successful, agree on terms of the deal.

which the investment bank gathers data. A comprehensive and compelling offering memorandum is then prepared, which articulates the opportunity and highlights the key investment considerations and components of value for prospective purchasers.

Once an appropriate non-disclosure agreement is in place, this package of information is proactively marketed to the targeted buyer list, which typically consists of 50 to 100 qualified purchasers. The investment banker will see the deal through to the finish.

COST

Typically, business brokers charge 5 to 10 percent of the sales price upon close of a transaction, and typically have little to no upfront costs.

The majority of an investment bank's compensation is also paid upon successful close of a transaction; however, you can expect that high-quality investment banks will also charge a monthly work retainer to compensate for the significant investment of time and effort to run a thorough and effective controlled auction process.

**EXPERIENCE
AND EXPERTISE**

A good business broker should have a basic working knowledge of business valuation and business due diligence, and a successful track record of selling similar-sized businesses. Unfortunately, there are individuals or groups out there who don't, so check references thoroughly.

Carefully compare the bios and deal experience of the firm and, most importantly, the specific individuals that will execute the company's transaction. Significant middle market deals of \$10 million to \$100 million require a sophisticated team that has experience in negotiating and structuring complex transactions that typically include earn outs, stock vs. asset sale considerations, tax implications, control or governance issues, financing complications, as well as other material factors.

Guy Downing and David Martinez are Managing Directors at Columbia West Capital, LLC