

Why Hire an Investment Bank?

THIS WHITEPAPER EXPLORES:

We'll discuss how investment banks help business owners navigate the complexities of selling their company, from valuation and marketing to negotiations and buyer selection. We'll also explore the key differences between business brokers and investment banks, highlighting why larger companies benefit from a proactive, tailored M&A approach.



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For owners looking to sell their business, it can be a daunting and confusing task. Not only the process itself, but hiring the right team can be difficult, especially when one isn't well versed in the mergers and acquisitions (M&A) industry. There are two main types of firms who sell businesses – business brokers and M&A firms (also known as investment banks). Although the term business broker may seem to better represent “selling and marketing a business,” it is rarely the preferred approach for owners of larger companies. Business brokers typically sell businesses the way a real estate agent might: list and wait for the buyers to come to them. Investment banks, on the other hand, take an active approach to marketing the for-sale business.

Investment banks follow a tailored deal process on every transaction, advising the seller on all aspects of the transition including timing, identifying financial stumbling blocks and opportunities, management preparation, identifying potential buyers, and making sure to properly convey and highlight the true potential value of the company.

When hiring an investment bank, the first step will be a rigorous preparation phase that involves reviewing the operations and financial performance of the business, identifying key people and intellectual property, assessing growth potential, and investigating trends and opportunities in the industry – both operationally and in the acquisition markets. As a part of this process, the potential value of the company on the open market is estimated using financial pro formas, discounted cash flow analyses, and transaction analyses.

Next, a good investment bank will actively market the company, putting it in its best light and creating a controlled auction that tends to draw out the highest possible offer, or that creates favorable terms for the seller.

On the next page there is a quick overview of the benefits of hiring a qualified investment bank:



Benefits Overview

- **Simplicity** – Selling a business is a very detailed process in which the complexity is often underestimated by sellers. Unlike stocks or a bond traded on the public markets, you need to create the market for a privately-held business. In short, you cannot simply click “sell” on a trading platform. You need to meticulously prepare the asset for market and plan for any objections or questions that may arise in the marketing and due diligence phase of the process.
- **Optimal Pricing and Terms** – The ultimate objective of a well-designed process is to help the owner receive the best valuation and terms. This is no easy task and requires careful planning and thoughtful execution. Everything from the materials you prepare, the buyers you approach, and the relationship you build with buyers can help increase value and minimize unfavorable terms in a transaction.
- **Managing Objectives** – In addition to valuation and terms there can be several other objectives an owner hopes to achieve in the sale of their business. A few common examples would be employee retention, the business’s legacy, maintaining community involvement, or managing family dynamics. Recognizing and balancing these objectives is important when preparing the prospective buyer list and understanding their intentions with the acquisition. It is not uncommon for a lower offer to be taken if the buyer shares common values with the seller.
- **Time** – Successfully preparing, marketing, and completing a sale of a business can take anywhere between 6 to 9 months from our experience. During this process it is important to keep revenue and profits on track to maintain buyer confidence. A qualified investment bank can help an owner and their management team stay focused on running their business instead of obsessing over the minutiae that comes with selling a business.

- **Broad Advice** – There are many factors and decisions that must be considered when selling your business. Having a team who can help the owner(s) navigate challenges beyond just closing the transaction (e.g., such as acquiring proper legal, tax or wealth management advice) is critical to a successful outcome. Often in these cases, only a limited number of people within the company are aware of the potential transaction, so having a partner outside the company and/or family to help navigate critical decisions can be priceless.

Conclusion

Selling a company is a once-in-a-lifetime event for most business owners. Having built a company over the course of decades or generations, the owner hopes to generate the greatest value for all the stakeholders involved. We provide a full range of sell-side advisory services catered to each client’s needs. Below is a list of the driving principles we bring to each engagement.

Driving Principles

- Provide insight into what increases value to assess proper sale timing and maximize value.
- Design a process which maximizes value and minimizes risk for the client.
- Make sure confidentiality and negotiating leverage are managed throughout every engagement.
- Educate clients on the common pitfalls that can occur during the sale process.
- Listen to clients, bring perspective, and manage expectations from start to finish.
- Provide insight into how each critical decision will affect their personal financial security.
- Be humble, and integrate partners as needed to ensure the best outcome for each client and their family.

How We Help

The decision to transition ownership and/or management of your business may significantly impact lifestyle, family members, and employees. We specialize in helping owners and founders of privately-held companies identify, build, and implement business transition strategies. Since our founding, we have transitioned over 800 private companies nationwide.

Contact Us

To learn more about how Coldstream Capital Partners can help you and your business, contact us at:

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