

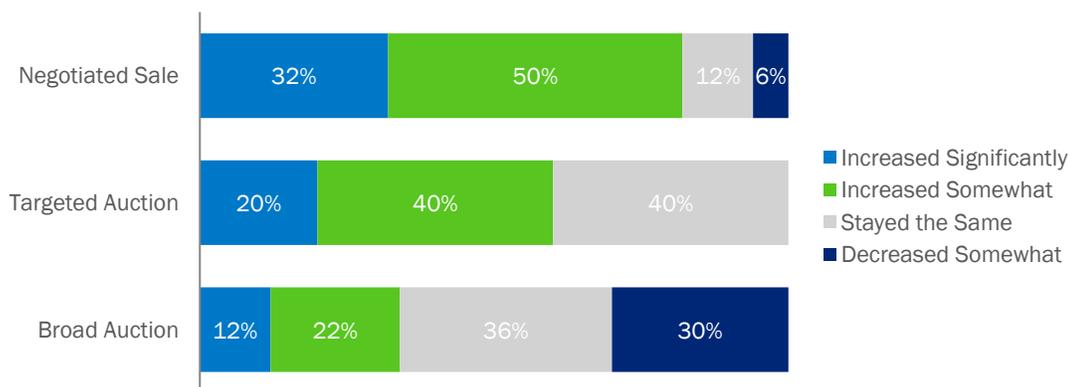
**Valitas Insights: What do Sellers Want?**

It’s a competitive market out there for buyers. We’ve talked often about the high levels of capital available for a shrinking pool of quality targets. And of course, there are those sky-high valuations. In this challenging market, it becomes more important than ever to understand seller preferences and experiences. A recent [Mergermarkets survey](#) provides insight into sell-side strategies and views, and we thought it worthwhile to share some of their findings.

**Sales Process**

Sellers are moving away from broad auctions, preferring negotiated sales and targeted auctions, with 82% of respondents reporting that their use of negotiated sales processes has increased, and 60% reporting an increase in use of targeted auctions.

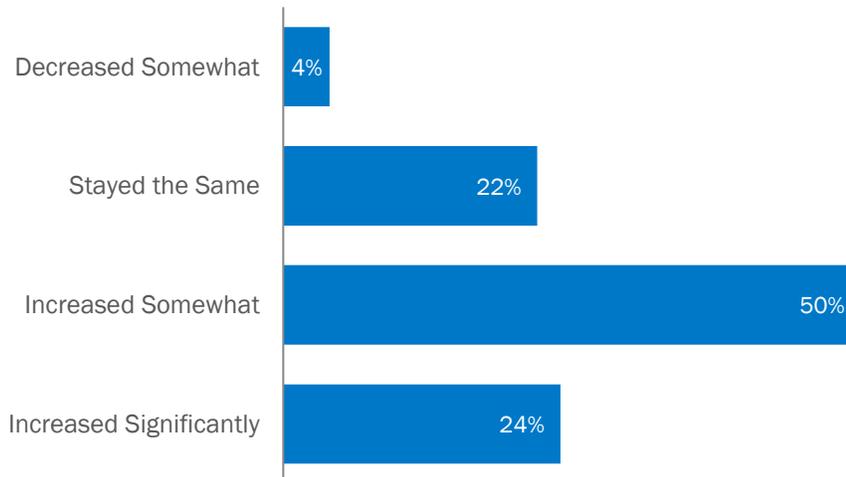
Change in Sale Process over Past 5 Years



One benefit of a negotiated sale, of course, is the mitigation of risk associated with information leaks. This is offset by the lack of competitive tension that is part and parcel with having a single buyer at the table.

The increase in negotiated sales processes correlates with an increase in unsolicited bids, with 74% of respondents reporting an increase in incidence of these bids. This does not come as a surprise to us here at Valitas; we are often engaged to identify proprietary acquisition opportunities for buyers that prefer to make unsolicited bids and avoid auction scenarios.

## Change in Unsolicited Bids over Past 5 Years



Curious about how sellers select their sales process? Respondents identified two primary factors: guidance by M&A advisors (32%) and the specific nature of the business (32%).

### **Finding a Buyer**

Despite the proliferation of digital deal sourcing platforms, respondents continue to use traditional methods to source buyers. Almost two-thirds reported that their primary method was to contact company executives directly. This was followed by networking at conferences and events (16%) and sourcing through investment bankers (10%). Only 6% of respondents reported using deal-sourcing platforms as a primary method.

### **So what about that technology?**

While sellers might not be using digital tools as a primary method of deal sourcing, two-thirds of respondents believe those tools are positively impacting deal execution, with more than half reporting that they reduced the need for in-person meetings. Interestingly, 40% took a different perspective, and reported more frequent in-person meetings were possible as digital tools save time on the paperwork.

### **Seller Challenges**

The two most significant challenges cited by respondents were:

1. Avoiding regulatory issues: and
2. Finding a buyer with a clear vision on how to further grow the company.

The regulatory challenge reflects regulator scrutiny of deals for anti-trust issues, in light of the trend to ongoing industry consolidation. An additional factor at play here is the increasing number of cross-border transactions. More than 90% of respondents had



international bidder participation in their sales processes over the last three years, and 72% rejected an international bid due to concerns about closing and regulatory issues.

The second challenge relates, of course, to the valuation that the seller will receive. In order to maximize valuation, the seller needs to find a buyer with a clear growth strategy for the seller's business, and the expertise to execute that strategy.

The current M&A environment offers up different challenges for buyers and sellers. As buyers face steep competition for quality targets, it isn't surprising that unsolicited bids and negotiated sales are on the rise. And we will continue to observe how protectionist rumblings south of the border and a more open Canada-EU relationship through CETA impact both buyers and sellers in cross-border transactions. Stay tuned...