

Business Sale Series

Minimizing the Inevitable Risks  
in an M&A Sale Process

# Minimizing Inevitable Risks in an M&A Sale Process

*In every sale transaction there is a window of vulnerability for the seller. Three key risks present themselves during this window:*

1. *Completion Risk*
2. *Valuation Risk*
3. *Damage to Your Business by Potential Bidders*

**Takeaway:** To ensure that the window of vulnerability is as short as possible, it's critical to thoroughly prepare for a structured, competitive transaction process.

## Minimizing Your Window of Vulnerability

From the moment you make initial contact with any potential bidder to the time you close a sale transaction, there is a window of vulnerability where you and your business are exposed to three inevitable risks:

1. Completion Risk
2. Valuation Risk
3. Damage to Your Business by Potential Bidders

A key objective of any effective sale process is to shorten this window of vulnerability as much as possible. The following outlines effective strategies to mitigate all three of these risks and execute an M&A process that exposes your business to potential bidders for the shortest length of time possible.

## Ensure your business is prepared for due diligence

Whether your business will be considered by multiple bidders simultaneously or a single bidder, it's critical that you prepare comprehensive due diligence information in way that can be easily reviewed by bidders' due diligence teams. If the information provided is incomplete, incoherent or internally inconsistent, you will quickly find yourself and your team overwhelmed with additional information requests to provide clarification. As a result, the flow of information can become disorganized and reactive. Although you can't predict everything that a bidder may request, take care to prepare and compile comprehensive due diligence documentation. Host it with a reputable VDR provider to ensure secure and efficient dissemination of information to bidders. Attending to this in detail before the sale process is launched will accelerate due diligence and effectively minimize your window of vulnerability.

It's also important to ensure your team is equipped with the necessary bench strength for efficient turnaround of requested information. In spite of your best efforts, a potential acquirer will inevitably ask for information that wasn't compiled previously, so make sure your company's point of contact can provide these deliverables.

### **Create competitive tension**

Competitive tension among multiple bidders gives you leverage in the form of strategic choice, while diversifying buyer-specific completion risk. Value, after all, is in the eye of the beholder, and there are often one or two outliers in a competitive process who see more value in a business than others. A controlled, competitive process surfaces the best potential acquirers and instills a sense of urgency for them to move quickly and win the auction over a competitor. The benefit is twofold: you reap a greater value for your business and enjoy an accelerated transaction process that is propelled by competitive pressure.

### **Set deadlines and provide clear instructions to bidders**

While it is not advisable to provide bidders with a timeline that maps the process from start to close, to maintain the pace of the process and minimize wasted time due to miscommunications, it is critical to set our clear next steps for bidders a few weeks out. This includes setting realistic deadlines and enforcing them. It also means making the process requirements clear, particularly the communications protocols, and providing a comprehensive process letter that clearly states what each bid must contain to be considered.

### **Cull the herd**

A well-designed process has multiple hurdles for bidders to clear, staging the flow of information so that only the most serious parties receive your most sensitive information. This culling process also has positive effects on the speed of the most labor-intensive aspects of the due diligence process. The slowest, and potentially problematic, parties will struggle with deadlines and be eliminated from the process as a result.

*A controlled, competitive process surfaces the best potential acquirers and instills a sense of urgency for them to move quickly and win the auction over a competitor.*

## About the Author

Paris Aden is a Partner and co-founder of Valitas Capital Partners. He has broad industry experience, with a focus on the energy, materials, industrial and consumer industries. Since 1994, he has been involved with more than 100 M&A transactions with an aggregate value in excess of \$80 billion. He has advised clients at Morgan Stanley, Credit Suisse and RBC Capital Markets, acted as a private equity investor at Clairvest Group where he served on portfolio company boards and was co-founder of Alluence Capital Advisors, a mid-market M&A advisory boutique that focuses on cross-border transactions.

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## Find somebody who has done it before

Having access to someone who is experienced in the sale process, particularly in private equity transactions, will prove invaluable. Whether this is a trusted friend, a colleague or a professional advisor, access to somebody who has “seen this movie before” will minimize transaction risk from the start. They can lend important insights about how to reach the right potential buyers while minimizing execution risks and potential information leaks. A trusted expert can also facilitate an efficient transaction process by identifying potential deal issues ahead of time and developing mitigation strategies for each.

## For more information, visit us at [www.valitascapital.com](http://www.valitascapital.com)

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The most successful transactions are those that surface the Outlier, that one acquirer or investor who sees more value in a business than does any other. Our team has been identifying and accessing these Outliers since the mid-1990s. We have learned from the best professionals at leading global investment banks, having completed greater than 200 M&A transactions and financings worth in excess of \$125 billion. This formidable institutional training is balanced with our personal entrepreneurial and private equity experiences. Our team appreciates the discipline required in building successful businesses and investments.



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