

Valitas Insights: Hiring an M&A Adviser: What's the Value? Part 2

You've spent years, decades even, building your business. And along the way, you've figured things out, learned from your mistakes, and realized success. Now you're ready to consider an exit strategy; maybe you're thinking about selling imminently, or in the next five years. You have friends and colleagues who have gone through this. Some have hired M&A advisers, while others opted to do it themselves, as they've always done, avoiding the advisory success fee in the process.

What should you do? Does an M&A adviser create tangible value in a sale of business, or given the associated fees, and the knowledge you have of your industry, does it make more sense to do it yourself?

Last month, we considered whether business owners who hired M&A advisers to manage their sale process received a higher sale price than those that did it themselves. We reported on an [independent study](#) of sale prices received by more than 3000 private sellers, which concluded that private sellers retaining advisers receive an acquisition premium of 6-25 % over those that do not. But why do adviser-assisted sellers get that acquisition premium? And what is the net effect after advisory fees are factored in? We try and answer those questions this week.

Why do adviser-assisted private sellers receive an acquisition premium?

The resources and infrastructure of a reputable M&A firm provide benefits that a private seller is unlikely to access on his or her own, including¹:

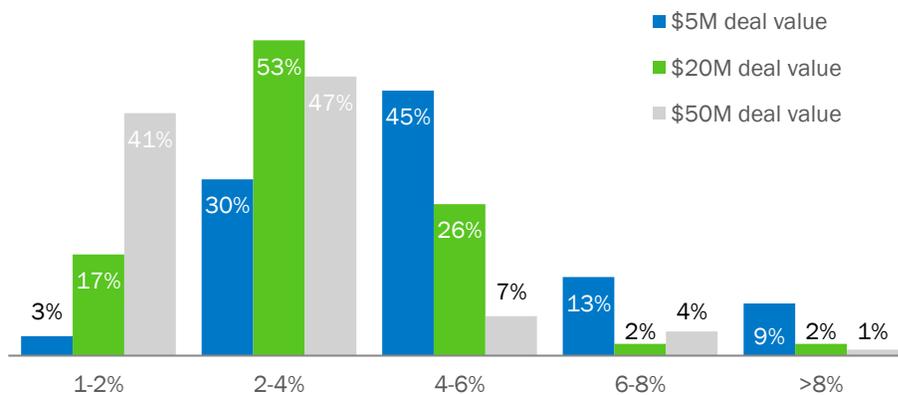
1. **Increasing the seller's bargaining power** – M&A advisers often use proprietary information resources and business relationships to identify prospective financial and strategic buyers that are unknown to the business owner. An interested pool of buyers can generate competing bids and healthy competitive tension, which strengthen the seller's negotiating position;
2. **Providing valuation expertise** – By providing comprehensive valuation analysis, the adviser helps to establish the value of the business and assess the reasonableness of any bids;
3. **Bridging the information gap** – Private sellers often sell at valuation discounts to their public peers, a discount related to the lack of publicly available information associated with private companies. An M&A adviser can facilitate confidential access to information for a interested prospective buyer, thus potentially reducing the valuation discount.
4. **Managing the process** – An adviser has the expertise and infrastructure that allow for efficient management of the sales process, from creating competitive tension, to ensuring confidentiality, managing an auction process with multiple bidders, and negotiating terms of the sale price. A private seller, while expert in his or her own business, is likely lacking in this type of knowledge and resources.

¹ [Does Hiring M&A Advisers Matter for Private Sellers?](#)

While the evidence suggests that using an M&A adviser yields a higher sale price, how do advisory fees factor into the mix? Specifically, how does that acquisition premium look after fees are netted out?

To answer this critical question, we reviewed a [recent survey](#) of mid-market transaction fee structures within North America². Respondents, the majority of whom identified as “investment banker/M&A adviser”, provided data on their success fee percentage. Advisory fees varied by deal value, with the distribution set out below.

Advisory Fee Distribution by Deal Size



The majority of respondents reported that they would charge fees of 2-6% on a \$5 million deal, 2-4% on a \$20 million deal, and 1-4% on a \$50 million deal. Given the finding that adviser-assisted private sellers receive an acquisition premium of 6-25% relative to their unassisted peers, it is reasonable to conclude that, net of fees, M&A advisers do add tangible value to a private sale process.

² This survey warrants an article of its own (coming soon), for its discussion of fee structure, and how some structures align better with seller interests.