

Valitas Insights: Hiring an M&A Advisor: What's the Value? Part 1

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 advisors, 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 advisor 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?

As an M&A advisory firm, we recognize that our own views on these issues would (rightfully) be perceived as biased, so we sought out independent sources to provide answers. While we found several relevant discussions and papers, the most compelling, because of the authors' independence and the significant sample size examined, was a [research paper](#) from the University of Alabama that specifically considered whether "Hiring M&A Advisers Matter[s] for Private Sellers".

The authors gathered a sample of 3,281 acquisitions of private sellers obtained and cross-checked using three separate data bases. Forty seven percent of these sellers hired an M&A advisor, while the remaining 53% did not. Studying the valuations received by the two groups, and analyzing them by sector, the authors concluded that private sellers receive significantly higher acquisition premiums when they retain advisors, in the range of 6-25%.

University of Alabama Study: Does Hiring an M&A Advisor Matter for Private Sellers?

- *Examined 3,281 acquisitions of private sellers*
 - *47% used M&A advisor, 53% did not*
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Conclusion: Private sellers receive 6-25% higher acquisition premiums when they retain M&A advisors.

Others have reached similarly positive conclusions. A recent paper¹ from Fairfield University reports on a survey of mid-market business owners that retained M&A advisors to facilitate their sale process. Most respondents were pleased with the overall performance of the firms they hired. "Managing the M&A process and strategy" was cited as the most valuable service provided by advisors, and 84% reported that the final price was "equal to or higher than the initial sale price estimate provided by the investment banker".

¹ Dr. Michael McDonald. *The Value of Mid-Market Investment Bankers*. Fairfield University, 2016.



Circling back to our initial question, it appears that hiring an M&A advisor does create tangible value for a private seller in the form of a higher acquisition premium (a higher price). But how, specifically, do M&A advisors create that value? And if advisory fees are factored into the mix, does the seller still come out ahead? We will continue our discussion in next month's newsletter. Please stay tuned...