How to react to an offer to sell your business: a Life Sciences LSP Case Study*

Triumph Consulting is a language services provider (LSP) that provides a variety of specialized translation services to life sciences companies. John French, the Owner and CEO, built a solid team and reputation within the life sciences industry and maintained a strong client-centric focus throughout Triumph Consulting's 25-year history, which paid off in terms of both sales growth and customer satisfaction. To say that John was proud of the thriving organization he had built would be an understatement.

Dealing with an Unexpected Flattering Offer (UFO)

Successful companies, such as Triumph, do not go unnoticed for very long. John received a UFO from a larger competitor that was looking to acquire a growing life sciences LSP practice. He hadn't put much thought into selling the company or how much Triumph could be worth. And although John hadn't put the company up for sale, he was proud that someone had recognized his success and thought the offer seemed fair.

John's thought Process:

- John felt uneasy with the prospect of letting go of the business that had taken a lifetime to build. What would he do next?
- John had never participated in an M&A process before.
- He felt like he was in over his head, and unsure about what life would look like for him and his employees under new ownership.
- The potential buyer had a corporate development team dedicated to doing deals, while he imagined that he could let the buyer drive the deal, he was concerned that he didn't know what he didn't know. Would it really 'be simple' to deal with the UFO versus embarking on a selling process?
- John wasn't sure who he could turn to for help.

After much reflection about his future plans, his employees, and the company he had built John decided he was ready to move on and let someone else take his company to the next level. But how would he deal with the complicated process and that visceral feeling 'his competitors would find out the company was on the market?

John was introduced to SEA by a trusted advisor. He decided to have a conversation with SEA to discuss his options and to help him understand how all the pieces fit together. John found out that he was not alone; many other business owners were in similar situations. . He learned that an investment banker could help guide him through the process, but was concerned that hiring an advisor would scare away the potential buyer. He found out that SEA's Three-Step Sales Process would identify other suitable buyers who could be a better fit, both in terms of price and cultural alignment, and that qualified buyers ***prefer*** to work with an investment bank on the other side.

"A qualified buyer, as in one who truly sees the value in your business and who is willing to pay you for it, wants you to hire an M&A advisor. The reason is simple: when both parties are equally invested in executing the transaction, a sell side advisor will benefit the buyer just as much as the seller." – Robert Waring, Managing Director, SEA

The Competitive Auction

John decided to engage SEA as his M&A team because he decided that he needed experienced help to take control of his exit. SEA analyzed three years of Triumph's financial performance and informed John that he could receive a substantially higher valuation with better terms based on the current M&A environment than what the UFO had offered. SEA's robust UFO Response process and expertise in the lower middle market put competitive pressure on potential buyers, rooting out bargain hunters and finding those that were willing to compensate John for the organization he had built. He rejected several prospective buyers during the process, including the buyer that had submitted the UFO, receiving multiple Letters of Intent (LOIs) from both strategic and financial buyers. After discussions with his SEA advisors, John chose the LOI based on ***his*** criteria – including purchase price, payment method, employee sensitivity, and organizational cultural fit.

After the LOI was signed, SEA took the lead in getting the deal across the finish line. Throughout the entire process including due diligence, John was able to maintain his focus on running his company, while SEA managed the details. This teamwork led to stronger company performance, and a full realization of the purchase price. SEA ultimately found a strategic buyer that was both a better fit with Triumph's corporate culture, ***and*** willing to pay twice the initial UFO. As it turns out hiring an Investment Bank to receive double the enterprise value of John's company returned a triple digit ROI.

"When I got my UFO, I felt like it would be easy and a premium value for the business I built. As I learned I was at the mercy of the buyer. SEA's auction process put me back in the driver's seat. Suddenly, it was about what I wanted as well." – John French, CEO & Founder, Triumph Consulting.

Key Takeaways

- ***Don't leave money on the table.*** Buyers look for bargains, and CEOs who choose to go the DIY route are low-hanging fruit because they do not know what their company is truly worth, or the necessary negotiating strategy. On top of that, savvy buyers will keep pushing for an adjustment to lower the purchase price for trivial items; or require too much working capital ***after*** the LOI is signed. Hiring an investment banker yields a purchase premium that is many times greater than the fee. Hiring an investment banker is an investment that offers one of the highest ROIs of any you will make in your business.

- ***Take control of your exit.*** By placing buyers on your timeline rather than theirs, you are positioning yourself in control of a competitive auction process that will keep prospective buyers on your timeline. A deliberate and organized sell side M&A process will give you the peace of mind that acquisition offers truly reflect the market value of your company.

- ***Focus on running your business.*** The journey from an initial conversation to close is emotional and can be time consuming. Buyers pay close attention to performance in the months leading up to close, because a dip in sales is an opportunity to lower the purchase price. This is not the time to take your eye off the ball.

*This case study is representative of real client engagements in the past. The client and company names have been altered to preserve confidentiality.

Strategic Exit Advisors (SEA) is a niche investment bank located in Doylestown, PA with a focus on lower middle market M&A in the healthcare, technology, and education sectors. SEA has represented multiple service and manufacturing businesses and is actively looking for quality clients on both the buy side and sell side. For more information contact one of our Managing Directors.

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