

Is it a Good Offer?

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Many of us have been in the situation where our client, a business owner, has gotten an offer for her business, and we are asked to evaluate the offer and help determine if it crosses the threshold of acceptability. Although price is a major determinant in this test, just as important are the many other variables that go into deciding whether to sell a business to a particular person or entity.

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December 2005
Published in GABB Magazine

When preparing a business for sale, the owner typically establishes criteria by which she will sell. These sale criteria usually become the bases of the business broker's qualification of prospective buyers: do they have sufficient financial resources to close and the assets to collateralize the goodwill; how long before they can close; how does this opportunity fit in the buyer's strategic vision? However, many times during the processes of evaluating offers it becomes apparent that the initial sale criteria established by the seller are not the only dimensions the seller is using to judge the offer. The emergence of additional criteria is often seen with the owner's evaluation of the first offer received.

Generally, the criteria used by sellers in evaluating an offer can be grouped into several categories:

1. **Price:** Is the consideration offered fair and near what the seller is expecting? There may be different expectations of sales price for different types of prospective buyers. For instance, an individual, or owner/operator, will generally pay the least, with private equity groups often willing to pay more, and strategic buyers often offering to pay the most.
2. **Terms and structure:** What are the financial terms of the deal? How much seller financing is required and at what interest rate over what time period? Is any of the consideration structured as an earnout? How likely is it that the earnout will be realized? Is the buyer demanding a highly restrictive non-compete or non-solicit covenant?
3. **After-tax proceeds:** Does this offer (consideration and structure) provide the seller with the after tax proceeds she is expecting? Too many deals fall apart at or near the closing table because no one had taken the time to properly analyze this aspect of the offer.
4. **Transition period and requirements:** Some buyers may put "golden handcuffs" on a seller – when the seller is ready to go to Florida and play golf. If the Company is being marketed to private equity groups or strategic buyers, count on a long transition period!
5. **Buyer profile:** Is this the best type of buyer that can be attracted to the business? Will this buyer bring needed resources, or contacts, or expertise to the business that will allow the business to grow? Will this buyer most likely continue the business as envisioned by the seller (legacies are very important to many sellers)? Will this buyer treat the employees of the business in an acceptable manner?
6. **Chemistry and trust:** Many deals fall apart not because of price and terms, but due to lack of chemistry or trust. If the seller gets the feeling that the buyers are "bad apples" or "bottom dwellers", the chances of closing the deal get remote.



7. **Likelihood of closing:** One of the key calls needed in the evaluation of an offer is the likelihood of the buyer actually buying the business. While this call requires judgment on the parts of the seller and the seller's broker, there are certain clues which can be assessed. For instance, what are the size of and conditions around the deposit or earnest money; how much analysis went into the buyer's decision to buy the company; what are the quality, depth and breadth of the advisory team fielded by the buyer; and, how responsive are the buyer and the buyer's advisors to the seller's team?

Evaluating an offer is often a difficult task. But evaluating multiple offers is exponentially harder. Not only must the overall offer be evaluated, the relative weights on the various elements of the offers must be addressed. Offer One is for a much higher price, but there is more earnout and a much longer transition period. Offer Two is a lower price from a person who has a very strong reputation in the community. Offer Three is a stock offer, and the business is organized as a C-corporation. Offer Four:

A key value of a business broker in a transaction is in the evaluation of an offer. By thinking with the seller about the "perfect" offer early on in the process, the broker can help establish the seller's knowledge base and set the seller's expectations. Proper attention in this area will allow the broker to appropriately screen prospective buyers, making the process more efficient for all parties. And, thoroughly understanding the owner's mindset early on will lead to fewer disruptive surprises during the process, in turn leading to higher success in closing the transactions.

About Dave Chambless and Abraxas Business Services

The author is a principal of Abraxas Business Services, a hybrid of an investment banking firm and a business brokerage firm that serves the unique requirements of the lower middle market. One of the key focus areas of the firm is to help business owners prepare their business exit strategy to maximize the value of their business and attract the best class of acquirers for their business. In addition, Abraxas works with individuals or companies that wish to acquire a business.

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