30 Second M&A Newsletter - Escaping M&A "Deal Killers"

Most Sellers Must Finance

In In the lower middle market, most sellers still find they must finance a portion of the sale of their business. Expect to provide anywhere from 5% to 15% seller financing. This helps close a funding gap and demonstrates that you believe in the business as a going operation.

Sellers who are confident in the buyer's future success can look at seller financing as an investment and a tax saving strategy. You are essentially loaning the buyer money that will be paid back, with interest. Because your debt will sit in second position to senior debt, you should expect a higher return. You receive a high fixed return on a loan that will be paid back as long as the business is solvent.

Don't go in the basement: Escaping M&A "Deal Killers"

Cue up the scary Halloween music. When selling your business, you can expect to hit a few snags before the deal is complete. But proper planning can help you avoid the most common "deal killers" like these:

Deal killer 1: Time
We have a saying in the M&A industry: "Time kills all deals." The longer it takes to complete negotiations and due diligence, the more likely a deal is to fail. Deal fatigue is real, and small issues that weren't a problem at the start of negotiations can become sticking points as a transaction drags on.

Avoid deal fatigue through preparation and focus. Organize financials and other business information before you go to market, and work with advisors who will give your deal the attention it requires.

Deal killer 2: Inexperienced advisors
When it's time to sell your business you need specialized M&A advisors. This is not the time to use your regular corporate attorney who has no M&A experience, for example.

Inexperienced advisors are learning on the job, which slows down the process. They can get ultra conservative or pick the wrong fights because they simply don't know what they don't know.

Deal killer 3: Surprises in due diligence
We have another saying in our industry: "Go ugly early." When selling your business, be up front about any issue areas right from the beginning.

Later on, when the excitement has worn off and everyone is dealing with tedious details, that's when problems can become ... problems. Buyers who uncover issues later in due diligence are more likely to respond with price adjustments and greater scrutiny. They may even back out of the deal.

Deal killer 4: Unassignable contracts
To the best of your ability, ensure contracts (e.g., leases, employee non-compete agreements, customer agreements), are assignable in a sale. Third-party contract negotiations can destroy confidentiality and create an opportunity for someone to hijack your deal - demanding unreasonable terms or conditions because they know your sale hinges on their agreement.

Deal killer 5: Fear of the unknown
It's an investment banker's worst nightmare: a client who gets cold feet and cancels the deal at the last minute. Letting go of a business is hard, and some sellers aren't emotionally ready for the transition. As final negotiations are underway, they might start dragging their feet or asking for unrealistic terms.

When it's time to sell, you don't want to be walking away from your business. You want to be moving ***toward*** something meaningful.

Don't allow the sale of your business to turn into a horror show! Avoid these "deal killers" and you won't just survive a transition, you'll come out the hero.

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