# What is the process of selling a business?

Mark Groulx / November 6, 2013

Not surprisingly, most people don't know the process people in the Mergers and Acquisitions Advisory business undertake when hired to sell a business — it's methodical and involves a great deal of work.

First, we need to assemble information about the company for sale into a Confidential Information Memorandum (CIM), which no prospective buyer receives without having signed a confidentiality agreement. The memorandum contains company details required by buyers before they decide if they want to pursue a transaction. CIMs start with an executive summary, and then describe the company's business, including products, services, customers and suppliers. There is a description of the management team and the employees, and an organization chart is provided.

We then detail the industry in which the company operates. Relevant industry statistics such as sector growth rates are included as well as a description of any empirical trends that are occurring. We will also list and describe the company's major competitors and give a description thereof.

The ownership structure is described, as well as the reason the company is being sold. We then speak to the growth opportunities — the sizzle in the deal. Geographic expansion, technology upgrades, efficiency improvements and increased sales prospects are all good growth opportunities. Hopefully, the company will have several avenues to undertake to lead to even more sales and earnings; otherwise, the price may suffer.

The final section of the document is the financial analysis. We condense five years of historical financial statements and then provide an explanation and analysis of interesting or unusual trends or features of the statements. We also provide a summary of the normalized EBITDA. The normalization aspect of the calculation includes non-recurring expenses that would not continue under new ownership. These are most often the owner's personal expenses that are put through the company, including family members on the payroll who are not active in the business.

# Finding buyers

While preparing the CIM, we work to put together a prospective buyers list, which usually consists of larger companies in the same industry that would be interested in growth through acquisition.  Depending on the size of the company, private equity funds might be interested buyers. Finally, our firm has a proprietary private buyers list of people who are looking for acquisitions consisting of some well-financed groups.

The prospective buyer list is reviewed with the business owner, but we don't contact anyone without his or her prior approval. Confidentiality is essential as the owner does not want his employees, customers or suppliers to know what is happening until after a deal is closed. It is too disruptive otherwise.

Once the vendor approves the CIM and buyer list, we're ready to contact buyers. We phone them and describe the general type and size of business then inquire whether this is something they'd be interested in looking at. If yes, we send the potential buyer a one-page anonymous description of the business along with a confidentiality agreement. Once the confidentiality agreement is signed and returned, we then email the CIM.

Hopefully numerous parties want a copy of the CIM. Once they've reviewed it, they come back with questions. Some can be answered easily, while others need further investigation. Some parties ask to meet with the owner or have a phone call. If they remain interested we ask them to submit a Letter of Intent. Although non-binding, it is a vital document in the sale process that outlines the price and other terms and conditions a buyer is prepared to undertake the purchase of the company.

Often, one letter of intent (LOI) is markedly better than the others, so the choice of buyer is relatively straightforward, and that letter is signed. Otherwise, negotiations amongst the best bidders are undertaken until a winner is chosen.  The LOI will give the prospective buyer the exclusive right to undertake due diligence while the vendor agrees not to negotiate with any other parties during this period. Usually a seller allows a two-month period during which the buyer has exclusivity regarding deal negotiations.

During this time, the buyer undertakes due diligence, a process whereby he or she verifies the facts as presented by the vendor. Legal, financial, tax, operational, customer and supplier issues are reviewed in detail. Much of the information pertaining to the deal is placed in a secure dataroom (a password-protected website a buyer can review and return to for periodic reference).

Once the buyer is reasonably confident he or she would like to continue to closing, the lawyers are instructed to draft the definitive agreements [DASH] the primary one being the Agreement of Purchase and Sale. Negotiations proceed back and forth until the parties agree on the documents. The deal is then signed, funds are transferred, and the keys are literally and metaphorically passed to the new owners.

Mark Groulx is president of AIM Group Canada Ltd., which has specialized in the sale of privately owned Canadian companies since 1990. The bulk of the firm's transactions range in size from $5 million to $50 million.
Originally published on Advisor.ca