What is a Merger & Acquisition Advisor And Why Do I Need One?

M&A advisors assist owners of privately held companies when buying or selling a business (typically through the purchase or sale of its assets). Like other professionals, M&A advisors come in different size firms and capabilities. While a larger firm may have multiple industry and product coverage groups, boutique (typically smaller) firms tend to specialize in one or a few industries or geographies.

The selection of an M&A advisor is critical to achieving your long term financial goals and objectives. Companies must be well prepared to complete a transaction. Company functional areas including finance, HR, legal, sales, marketing and operations must have documented policies and processes. Furthermore, the quality of company earnings and growth prospects should be solid. Concentration of sales to only a few large customers, or concentration in one or two products that are nearing the end of their life cycle will have a negative effect on the company's market value. Given enough time to prepare, some of these issues can be mitigated.

If the owner is indispensable to the future success of the company, and has not developed a strong team of managers who can effectively run the business in his or her absence, the market value of the business will suffer. In extreme cases, the business may be unsalable. Given enough time to prepare, a stronger management team can often be developed so the owner can comfortably delegate responsibilities. This shift from owner dependence, in turn, increases the company's market value.

Most companies have key employees who are critical to maintaining and growing sales, product development, manufacturing or engineering. Those key employees must be properly compensated and retained with an appropriate employment contract and non-compete agreement. The lack of this documentation will also negatively impact a company's market value.

All the foundational elements described above, as well as others, need to be present for the current value of the company to have the best chance of meeting the owner's financial goals and objectives. Hiring an M&A advisor that is skilled in working with business owners to grow the value of the company, prior to taking the company to market or having a discussion with internal buyers, will increase the probability of a successful transaction. Focusing on lowering the risk profile of the company, which will lead to increased value, is critical whether your intention is to sell your company internally to existing partners, management, family or employees, or externally to a strategic or financial buyer. If you are selling internally, it is likely you will be financing a large part of the transaction, in which case minimizing seller note collection risk is critical. If you are selling to a strategic or financial buyer, not addressing the areas of the business outlined above will result in a lower valuation or a larger percentage to the purchase price being shifted to earn outs and other contingency payments which may negatively impact your long-term financial goals.

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