

insights

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What you should do when PE firm offers to buy your business: Part 1

If you own a successful privately held business, then it is possible you have received a call from a private equity firm telling you that they have specifically targeted you and want to buy your business. You have heard now is a good or even great time to sell. The price they offer seems reasonable or even good. They tell you that they pay cash and can get it done quietly. "It will be quick, easy and fast. No need to shop the deal or talk to your lawyer, of course. We do this all of the time." What should you do?

Over the course of three articles, we will offer nine tips on how to navigate these situations. In Part 1, we'll explain what you can do after the offer is received. Part 2 is [available here](#). Part 3 is [available here](#).

1. Stop, look and listen

First of all, don't commit to anything. Even if you have been through a sale process before, assume that the private equity firm has better information than you and perhaps is attempting to leverage that into a quick, off market deal. Gather as much information from the private equity firm as possible. Ask: How did you arrive at this purchase price? Can you provide me with market data on why it is a fair price? What other deals in the industry have you done? Why are you targeting this industry? Why my company? Do you have any references of people I can call whose business you purchased? Or with whom you tried but could not? Do you have cash resources available to fund the deal or will you need to use debt? What is the time frame you anticipate between signing a letter of intent and closing?

Then, do some research of your own. Check their web site and ask people you trust about them. Check LinkedIn to see if you have any mutual connections with their principals. Their website will have a list of their portfolio companies and you can check LinkedIn for any mutual connections with current or former employees at those companies. Do a Google search and find out if that firm or its principals have sued prior sellers. Most importantly, don't provide any information to them yet. Or at least not until they sign a bulletproof Nondisclosure Agreement.

2. Determine your goals

Your personal and professional goals should drive any process with a private equity buyer. Are you ready to walk off into the sunset and sell your entire equity stake? It could very well be time for you to spend time with your family or get started on that novel you've been thinking about. Or, perhaps you are more interested in a new challenge and taking your business to another level. In that case, you might be interested in a rollover in which you share ownership of business with the private equity firm after the sale and leverage the private equity firm's expertise and resources to capture some of the upside through a second bite at the apple. In either event, it is never too early to start having those important conversations with your family and friends.

3. Assemble your team that you can trust

The simplest way to set yourself up for success is to assemble a strong team of experienced advisors who understand your goals at an early stage in the process. Is your lawyer and his or her law firm one that regularly represents or sells companies to private equity firms? Does your lawyer understand your business and your personal goals or objectives? Does their firm have the technical expertise for tax, intellectual property, employee benefits, litigation, insurance, environmental, real estate under one roof to do whatever is necessary? Do you have a good personal estate planning lawyer and an accountant to work through structuring issues with your legal team?

Other necessary business advisers like an investment banker can help keep the buyer honest by drawing on the banker's experience in comparable deals and knowledge of "market standard" terms. The investment banker can also create leverage for you by conducting an auction or other competitive process, including by forcefully articulating the value of your company. Often clients wonder that if they have a preferred buyer, why should they



pay a percentage of their sale price to an investment banker? It is important to remember that an offer is not cash in your pocket and an experienced investment banker can create a process or the appearance of a process, which can be leveraged to close your deal.

Investment bankers can also help improve the terms and conditions of any deal by advocating to remove an escrow (where part of the consideration is placed in a third party account but subject to deductions or claims by the buyer) or a earnout (where pay of the consideration is paid once the business achieves future revenue or profitability targets or it "earns it"), which are likely any buyer's requirements.

In [Part 2](#), we'll explain how to educate yourself about the business market.

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