What are you looking for in a sale transaction (other than price)?

When business owners engage in a dialogue related to a sale of their company, prospective buyers will almost always ask a simple but critical question. What are you looking for in a transaction? The question isn't related to purchase price and the answer shouldn't be either. At the heart of the inquiry is a desire to understand individual seller motivations and sensitivities that might impact the sale process, buyer preferences or transaction structure. Some sellers are quick to address viewpoints regarding strategic vs. private equity buyers but this often only scratches the surface in addressing the variables at play and the range of potential transaction outcomes that might exist.

Experienced advisers have typically witnessed a full spectrum of M&A transactions, strategies and outcomes and can help their clients consider the variables that may define transaction success beyond purchase price. Understanding the different types of buyers and sellers in an M&A context will help guide sale process planning and decision making.

Strategic buyers have a variety of strategies

It is not uncommon to hear prospective sellers express a preference for strategic buyers due to assumptions related to synergies, representing a long-term home for the business or an ability to pay the highest price. There are several types of both strategic and financial buyers, however, and the discussion deserves a greater level of exploration.

The "laissez-faire" strategic buyer:

In M&A terms, the "hands-off" strategic buyer typically operates with a very lean corporate overhead and resembles a holding company of individual businesses that are generally left to operate independently. The acquired businesses typically retain their name, location and management team. Integration is typically limited to back-office functions such as treasury management, financial reporting and possibly HR/employee benefits. With respect to revenue synergies, the buyer may be able to help open doors with new customers or distribution channels, but this is less likely to be a central tenet of the deal thesis. They want to buy good businesses with good management teams and let their entrepreneurial spirits flourish. Returns on capital are typically redeployed into making more acquisitions and the entity continues to grow. This type of strategic buyer may appeal to the seller who values autonomy post-close but may offer less in the way of immediate synergies.

The "full integration" strategic buyer:

In contrast, a more "hands-on" strategic buyer will look to more fulsomely absorb a target into its operations and ways of doing business. This almost always extends to the name of the company and depending on circumstances, could apply to any aspect of operations, including consolidation of locations, go-to-market strategy, customer pricing, additions or removals of management team members, etc. Removing cost from the business will typically be part of the strategic focus. These changes aren't always adversarial in nature and could unlock value in the business. Customers and employees may see the changes as opportunities. This type of strategic buyer may appeal to the seller who desires additional support and infrastructure in running their business but several years down the road, the identity of the business will very much be that of the acquirer.

The "transformational" strategic buyer:

The transformational strategic buyer can fundamentally alter the trajectory of the target. One example is a vertical integration or direct use scenario, where the buyer commits to sourcing or utilizing the target's goods or services in a dramatically different way post-close. A customer may choose to bring a supplier in-house while also consolidating volume from other suppliers. Another example is a target with a unique product line and a buyer with distinct distribution advantages. Imagine a start-up medical device company which is acquired by a large industry player with a sales force touching every hospital system in the country. The transformational buyer is obviously a dream scenario, but this only represents a small fraction of deals which are completed and may not be a realistic outcome available to all sellers.

Private equity investors also have a variety of strategies

Many sellers view private equity as a secondary alternative to a strategic buyer. However, the PE universe is vast and represents a significant part of the overall M&A market, with a playbook that is as varied as that of the strategic buyer. PE firms already own thousands of middle-market businesses, representing a quasi-strategic buyer in many instances. The primary goal of all PE buyers is value creation and investing further into growth is typically the number one lever. That could include additional capital for acquisitions, facility expansion, building out a broader management team or any other investment with a compelling return profile. Some PE buyers are focused only on specific industries with access to highly experienced executives who can help guide strategy or operational improvements. Others are more industry agnostic and may not wish to make substantial changes to the business, preferring simply to acquire businesses with highly stable and predictable cash flows. The source of PE capital itself is highly varied and can range from a traditional general partner/limited partner fund structure with defined investment horizons to family offices which may be seeking longerterm capital deployment. While most PE buyers desire partial seller roll-over to create a sense of partnership, there are varying degrees of flexibility in this area as well. PE buyers can also provide equity incentive plans beyond ownership which can represent a compelling opportunity for key members of management.

Seller motivations are highly varied and often nuanced

Returning to the original question - what is the seller looking for in a transaction (beyond price)? The number of potential scenarios is virtually unlimited. In addition to preferences toward the above buyer strategies, examples of possible objectives include the following (not mutually exclusive).

- A significant growth opportunity is available, but a capital partner or other support is needed
- A liquidity event is desired for some or all shareholders due to age/retirement
- Management has taken the business as far as they can on their own - it is time to be part of a larger entity with additional scale and resources
- A next generation of family members are in the business but may or may not be viewed as future leaders
- There is a willingness/unwillingness to sell to some or any direct competitors
- The mindset of sellers who are also key executives might range from i) *interested* in continuing their role for at least 3-5 years to, ii) *open* to continuing for 12-18 months but would like to transition as soon as possible, to iii) *willing* to play a part-time consultative role as needed but desiring an immediate exit from day to day operations.

Key takeaways

Of course, the objectives of a seller and the strategies of different buyers will have varying degrees of coalescence which may impact the nature of the sale process as well as purchase price. It is incumbent on the seller (and their advisors) to explore the underlying motivations and sensitivities prior to navigating sale conversations. At the same time, it is not at all uncommon for seller perspectives to evolve during a sale process and deviate from the original vision. The seller who initially desires a full exit from the business might be compelled by a buyer's proposed strategy and wish to take part in the upside. The opposite might also occur. The role of an investment banker is to both customize a sale process as well as deliver multiple options from which a seller can choose. Sellers are wise to be both clear and consistent in providing buyers with a perspective on their objectives, while also keeping an open mind to what might be possible.

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