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## DO YOU NEED AN M&A ADVISOR, ARE THEY WORTH THEIR FEES?

Potential clients often ask the question: What is the value added of hiring an M&A advisor?

The answer to this question may vary, depending on who's asking. If the person asking the question is the owner of a family business who's considering the sale of the business to a third party, the response is clear: Would you consider leaving the top management of your business to someone who has never run a company before? Most likely, the answer is no. The sale of their firm is probably one of the most significant decisions a family can make. Why consider leaving the execution of one of "the biggest decisions of your life" to someone who is not an expert in this field? Or, even worse, try to execute the transaction on your own?

An acquisition may be a different matter, as family-owned companies or family offices often have more experience with buying companies than divesting. With few exceptions (significant acquisitions that require substantial leveraging), the future of a company and family does not depend only on the successful execution of the acquisition process. That said, robust due diligence and good contractual covenants will lessen the number of surprises in acquiring a business, and this alone is reason enough to hire an independent advisor.

The key aspects of both responses are process and experience. The sale or acquisition of a company is a process, which may or may not run smoothly and largely depends on the experience, time, and attention of the person or organisation running the process. In particular, as the process varies from case to case, it is vital that the person running it has years of experience with the way the process may develop. A well-run sale or acquisition process by an experienced professional will save you uncountable hours in the form of delays, unnecessary meetings with potential buyers or potential targets, and reputational embarrassments.



Jennifer Maag  
Capital Concepts International

So, is the advice worth the fees?

M&A advisors and investment bankers typically charge between 1% of the Transaction Value (or even less for substantial transactions) and 5% (in Europe) to advise on M&A transactions. The question is whether the savings in acquisition price or additional sales price, as well as a reduction in post-transaction issues through expertly negotiated contract structures and reps and warranties, are higher than the fees charged. In my almost thirty years of M&A Advisory, I can say that in 90% of the transactions, the benefits for the clients in the advisory were higher than the fees charged.

Let's illustrate this last point with two examples:

(i) A client approached us with an acquisition opportunity for which they had already submitted a non-binding offer for \$30 million. They only wanted advice on the execution of the transaction, as the management team did not have much acquisition experience. We quickly recognised that the client had overestimated the value of the target and there were not many other buyers around. We, therefore,

assisted the client in due diligence, followed by a renegotiation of the purchase price and, together with a lawyer, the sale and purchase agreement. The purchase price for the acquisition was, in the end, less than \$10 million with a very buyer-friendly sales and purchase agreement.

(ii) On the sell side, the process is just as necessary. A client came to us and wanted to sell the business he had built up over 30 years. The decision to sell had been triggered by an approach from a competitor, who had offered what he considered to be a fair price. Following our advice, the owner opened the discussions discreetly to a few (2-3) interested parties.

This competitive process ensured that the final offer was: a) above the initial offer from the interested party; and b) tested on the market, therefore avoiding discussions amongst the family members/shareholders about whether or not they might have achieved a higher sales price.

Too often, family-owned companies trade on what they see as discretion against maximising the results of a sales process. Depending on whom you choose as an advisor, both discretion and maximum results should be possible. In particular, smaller M&A boutiques are known for their discretion and attention to the needs of the family/owner when executing an M&A transaction.

About the author

Jennifer Maag founded Capital Concepts International ([www.capitalconcepts.ch](http://www.capitalconcepts.ch)) 20 years ago. Based in Switzerland, Capital Concepts advises family-owned and entrepreneur-influenced organisations (including publicly traded companies) solely on Mergers, Acquisitions, and Divestitures ranging from \$10-\$500 million.

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