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3 Red Flags That You Chose The Wrong M&A Advisor

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We've written before about the importance of choosing the right M&A firm and investment banker when preparing to sell your business or evaluate an exit strategy. Business owners who skimp in this area are being penny wise and pound foolish.

Here are three red flags that business owners and CEOs should look out for when interviewing different investment banks and M&A Advisors who are pitching to represent them. If the financial statements of your company aren't well-presented, if the M&A Advisor doesn't know how to negotiate successfully around earn-outs and valuation considerations, if the buyer outreach and engagement process is incomplete, hurried, or poorly researched, the chances of closing a deal are lowered significantly. And if the deal does close, the heavily practiced and better resourced buyer, whether they are a corporation or a private equity firm, will likely have gotten a way better deal than the seller.

The M&A firm won't give you references to CEOs they've successfully served.

Hiring an investment bank isn't different in certain ways from hiring an executive. **Do your reference checks**. If they aren't willing to provide references, then you are not working with a banker or firm that has a history of success. When a CEO or business owner has a great experience working with an investment bank who successfully helps sell their company, they are almost always willing to serve as a reference. Some M&A firms will hold off on providing references until it's clear to them that you are serious about engaging them. That's fine, but firms that resist providing references aren't worth working with. Another simple way to check their success rate is to go their website page where they list successful historical transactions. Those pages should be on every site and should look something like this.

They take on a lot of assignments each year but close hardly any of them.

WARNING: These firms are likely trying to make a living based on volume. We call them "pasta throwers" at AxialMarket because they take whatever they get their hands on, throw it out there and see what sticks. They tend not to be thorough and persistent on their client's behalf. Selling a business is complex and takes a lot of work and sustained focus to get a deal completed. You need to get a feel for whether the bank you're evaluating knows how to get a deal done and has a disciplined process that they use to maximize success for their clients.

Their pricing model charges large up front one-time fees for valuation and materials preparation

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This is an important issue to understand comprehensively as a business owner, and understanding the nuances of how advisory firms charge for their services requires some background and situational context to really understand what's fair and reasonable vs a red flag. Different investment banks and M&A Advisors have different fee structures, and this largely depends on the type of client they are serving. Some banks will conduct work on behalf of a client purely on a success fee or contingency basis. This is often how it works if the client is a repeat client and generates fees each year for the investment bank. For example, General Electric is buying and selling companies and divisions every year. Their banker(s) know that, and know that they are going to be paid handsomely for doing a good job, so they forego a cash retainer.

However, since most companies aren't General Electric and are much less frequently doing deals, bankers tend to work with these firms differently. It's altogether reasonable for a bank to charge retainer fees to their clients over the course of their engagement. Their time is valuable and they need to make sure that the client is really serious about a sale. If not, it's not worth their time. However, there's a limit to this. If the bank charges a large one-time up front lump sum to do analysis, prepare marketing materials, and conduct business valuation, that's a red flag. Their compensation should be spread out over the course of the engagement and should be enough to cover their out of pocket costs and their opportunity costs, but the windfall for them should come when the transaction is completed. If an investment bank insists on charging a retainer, that's usually a good sign. If they insist on charging a large one-time up front sum, it's likely a sign that they are trying to play the volume game, will throw the pasta at the wall once or twice, and move on.

Are there other red flags? Of course. If you can't stand the personality of the banker, that's going to be a problem as you work side by side getting the deal done. But if you cover these three topics when interviewing or choosing investment banks to help sell your company, you'll likely be in much better shape when it comes time to go to market and start negotiating and connecting with potential buyers.

About The Merger Expert

The Merger Expert is a merger & acquisition firm exclusively. Headquartered in Portland, Oregon, The Merger Expert represents owners of businesses with $3-$40 million in revenue range. Its founder, Michael Crawford has over 41,000 hours of merger & acquisition experience.

Expertise:

- Document Preparation.
- Strategic Marketing.
- Multiple Offers-Representing Owners.
- Negotiation.
- Due Diligence.
- Closing Document-Exhibit Preparation.
- Transaction Closure.

The Merger Expert partners offer a no charge confidential session to inform business leaders about the process and pitfalls of selling their business. We believe you should be making an informed decision about what is usually your largest asset, *Your* Company. Get the information and advice you need to start from an industry trusted resource.

Schedule now the first step, to discuss your MOREsm Plan by calling (503) 516-2484.

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