

## **Why Deals Fail to Close**

You hit it off with an interested Buyer, you have accepted a letter of intent, and now you are going through due diligence. Without the assistance of an experienced Intermediary you may damage the good relationship you have with your Buyer and the deal will be jeopardized. Deals fail to close for many reasons including the following:

### **WANTING TOO MUCH FOR THE BUSINESS**

Perhaps you heard someone in your industry got “X” times for his company back in 2000, or you read in the newspaper about what one billion dollar public company paid as a multiplier of revenue for a competitor.

These may be irrelevant to your transaction. Your Intermediary should be trained in appraisals and be able to give you a realistic range of value. Then, the market will determine what your company is worth today.

When the Intermediary prepares a professional appraisal you will be able to properly judge what a good offer is from a bad one. Some Buyers will agree to your high price to start the due diligence only to come back with a reduced offer after performing a proper appraisal. If both appraisals used acceptable standards (USPAP) the value should be similar.

## **GOING TO MARKET UNPREPARED**

You want to maximize value, cash in on your own terms and have a deal that does not come undone in due diligence. Then, you need to prepare your company for sale.

An Intermediary knows what needs to be done to assure this happens. The value of the business needs to be ascertained, the Buyer search needs to be conducted and the prospectus prepared. The books need to be properly prepared and cleaned-up, the management in place for the transition and all the disclosures should be discussed and analyzed.

All this takes time and if you are doing all this in due diligence with an anxious Buyer, chances are great you will not close. Don't do this yourself. You have worked too hard to build your business for your retirement. You want this sale to go through under your terms.

## **A MANAGED PROCESS**

With proper planning early on, the usual unforeseen problems can be anticipated. There can be drastic deal killing discoveries in a due diligence if the company was not properly prepared. You and your Intermediary should be well prepared and have contingency plans ready to implement to avoid the potentially harmful issues that can crop up and delay the closing.

## **DISCUSSING THE GOOD, THE BAD AND THE UGLY**

Someone has to deliver all the disclosures of the business. And the Seller usually is not the best one to do this without getting unnecessarily defensive. Issues not disclosed properly and then discovered by the Buyer in due diligence can result in serious damage or even end a good transaction. By addressing critical issues up

front and offering possible solutions for the Buyer to make corrections, the value of the company can be protected.

### **UNNECESSARY OR LENGTHY STANDSTILLS**

Sometimes Sellers are so sure that they have the best Buyer that they agree to unnecessary or lengthy standstills forcing you to close off discussions with other Buyers who might be better candidates. A standstill is normal but an Intermediary can counsel you on what is reasonable amount of time to allow a Buyer to do their due diligence and more importantly keep the deal moving forward regardless of the length of the standstill.

### **CONFIDENTIALITY**

It is harder for an Owner to keep from his management and staff that he is selling the company than it is for an outside Intermediary. It is best not to be forced into revealing too much or having to tell lies that may hurt your credibility with employees or customers.

### **PICKING THE BUYER BASED ON THE HIGHEST PRICE**

Yes it is true; the Buyer paying the highest price may not be the best deal for you. A Buyer with a lower price often has fewer contingencies, more cash in the deal, more funds available to grow the business, better employment agreements for key management, fewer hold backs, less concerns over existing weaknesses and many other factors.

Because higher priced offers often have so many conditions (environmental, contracts made with customers or vendors, pending litigation outcomes, etc) they are more likely to never reach a successful closing or worse, after investing so much time, the Seller is worn down, he is willing to accept a lower offer from the Buyer to remove the contingencies and close the deal.

An experienced Intermediaries will candidly tell you that the fewer the conditions the more likely the transaction will reach a closing.

### **FAILURE TO MIND THE STORE**

Too often during the course of the sale of the Company the Owner checks out of the business, let's day to day decisions procrastinate, expecting it to be the new Owners responsibility. Since a sale can take from five to nine months, the company needs to continue to be run as if it will never sell.

Sometimes the Owner becomes too involved in preparing the company for the Buyer that important or critical decisions are put off causing the business to suffer. A Buyer does not want to become involved with the struggles of the business before he is finished with his due diligence. Even minor problems might be conceived as insurmountable and cause the Buyer to back away from the transaction.

### **MANAGING THE STRESS**

Selling your company can be very stressful. After all you have devoted your life to building your business and Buyers come along and will criticize and point out the weaknesses as part of their negotiation strategy. Having an Intermediary deal with the Buyer instead of you directly has a soothing effect on the emotional aspects of selling your business. Emotions can cause you to make irrational decisions that can lead to a broken transaction.

### **DOING IT YOURSELF**

Besides many obvious reasons, studies have shown that a Owner handled sale results in up to 20% less in price than one handled by a experienced professional

Intermediary. Besides a greater price the chances of closing are increased because obstacles to closing will be prepared for and anticipated.

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