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WHITE PAPER

5 Lessons From the Trenches to Sell Your Company on Your Terms

By Janet Tyler, Roy Page, Mary McKinney Flaherty, and Chuck Gottschalk

Most entrepreneurs are used to stepping into unknown terrain and climbing learning curves to hit their goals. However, selling a company is often a once-in-a-lifetime event, so your go-to-market journey should include a team who has been there and done that. That team should guide your transaction like an on-target GPS, helping you to navigate potential pitfalls and plan for reasonable expectations.

TobinLeff has worked with over 250 clients on M&A transactions and exit planning solutions. Here are 5 heads-up lessons we often share with our clients to achieve a smooth closing.

Lesson #1: Be Open to Different Buyer Types

As you prepare to sell your company, you may have an image of your ideal buyer. You may envision a larger company or a private equity firm with more resources and a deeper bench of expertise. However, your best-fit reality could end up looking very different.

Janet Tyler, TobinLeff Partner, has seen this before: As offers come in, some sellers have to adjust what they see as a best offer. “This situation reminds me of the professional services firm that we recently transacted. It started off as a sale to an outside party. The planning team was sure that we would find either a strategic buyer or private equity. We just didn't know,” says Tyler, a former tech marketing agency owner who successfully exited in 2014. “And it ended up as a management buyout. I think it's really just about being flexible.”

Most Common Types of Buyers and Transactions for Professional Services Firms

- **Strategic** - A larger Marcomm agency, MarTech company, or consulting firm acquires your company for strategic reasons.
- **Financial Sponsor as a Platform** - A private equity group or family office invests for your company to be the platform with the goals of growth and a second liquidity event in the future.

- **Financial Sponsor as an Add-On** - An existing platform or operating company backed by a private equity group or family office acquires your company to be part of their platform in order to realize two "bites at the apple."
- **Management Buyout (MBO)** - You sell to an employee or employees funded by a bank loan and/or seller financing.
- **Entrepreneur** - An individual secures the needed financing from a bank backed by the SBA to buy your shares and become the owner and operator.
- **Employee Stock Ownership Plan (ESOP)** - An ESOP is established for you to sell all or part of your interests to the ESOP trust. You achieve liquidity from a bank loan and/or seller financing while your employees realize added financial benefit.

An experienced M&A advisory firm has experience with multiple exit pathways. They can bring various offers to the table and help you explore additional options to ensure that you get the maximum value when selling your business. The goal is to keep an open mind. "Just be receptive and be open to having conversations with all of them," adds Roy Page, TobinLeff Partner, who successfully exited his own firm in 2018. "They're each going to feel a little bit differently, and that's okay."

Lesson #2: Trust Your Gut—Even if an Offer Looks Good on Paper

Your decision to sell your company impacts you, your team, your family, and your legacy. That's why getting to closing with the right fit is mission critical. As eager as you might be to get to closing, take a pause to do a gut check: Is this really the best fit?

Everything may look good on paper, but if your gut is telling you that something's off—then go with it. Continue meeting with other prospects until you have both a solid offer and peace of mind.

That means have a Plan B, instead of getting prematurely attached to a certain buyer, a certain timeframe, or a certain financial payout. "Having a Plan B helps you during the process to negotiate from a position of strength. You won't feel backed into a corner," advises Mary McKinney Flaherty, former attorney and TobinLeff Partner. "You always have that alternative. Sometimes that alternative becomes necessary, or it can develop into being the best option because circumstances change in the macro environment or within the business."

Another reason for having alternatives is for long-term protection. If your acquisition involves an earnout period, that means you'll be connected to your buyer until that earnout period ends—which usually takes a few years. Picking the wrong buyer could make those years a tough ride.

"You're not selling a car. You're not handing the keys over and walking away," says Chuck Gottschalk, TobinLeff Partner. Chuck is a CPA, a 20-year CFO and M&A advisor veteran, and a former senior manager of a Big Four national tax practice. "You'll be driving around with that buyer for years to come in some shape or form. Even though it's more subjective, you have to ask, 'Is this who I really want to spend the next couple of years with?'"

Lesson #3: The Ride Is a Roller Coaster

The selling process from go-to-market to closing may be one of the most intense sprints of your entrepreneurial career. During the acquisition process, you still must run your company and be present for your roles outside of your business.

There will be bursts of quick-turnaround deadlines followed by lag time. There will be news that makes you celebrate and other news that makes you wonder if you're doing the right thing. The ride is rewarding, but as in business, there may be some bumps along the way.

"You will go on an emotional roller coaster when you sell your company. Generally, there will be a point in time where you think the deal is not going to get done," Gottschalk warns. "That's where your M&A advisors—and the other side's advisors—really need to step in and put the deal back together."

"We will tell you to continue to run your company as if you're not going to sell, and then you basically take on the job of both running and selling your company," he says. "Those two things may become challenging at times. You may have some frightening moments. But in the end, it will be a good day."

Meanwhile, you have one goal: Be prepared.

Be prepared to let your team step up to lead key areas of the business. One of the main factors buyers consider is how dependent your company is on you.

"If you can't go on vacation for two weeks, the business is too dependent on you. That really speaks to having the right people and developing them," Gottschalk says. "When you're selling a services company, you're selling people. And you need a team of amazing people, not just one amazing owner."

Being prepared also means anticipating the high-level scrutiny from prospective buyers. Buyers will ask questions—many questions, some unexpected. During due diligence, every crevice of your company is put on full display, and it will speak to your team and your leadership.

Lesson #4: Get Clear on the Earnouts

Ideally, your deal structure would avoid an earnout, but it's a common way that buyers protect themselves. We tend to negotiate earnouts based on top-line revenue rather than the bottom-line profits because, as the seller, you can't control the buyer's performance and expenses post-closing.

Still, earnouts can be risky.

Not only do you need to have clear language in the purchase agreement about how the earnouts will be calculated, communicated, and distributed, but you also need a strong growth plan to ensure that those earnouts materialize.

You're essentially handing over your client base for someone else to grow that revenue. "The firm needs to be transferable, sustainable, and scalable—in any order. The plan for scaling is what's going to help you complete that earnout period," explains Page. "Before selling, know your plan for scale. It's amazing how few agencies have that business development plan buttoned up when they go to market."

Lesson #5: Finally, Be Honest With Yourself

The best way to stay grounded during the ups and downs of selling your company is to be transparent.

First, be realistic with yourself about what your company is worth.
As your company's owner, high aspirations should be based on realistic valuations of your company. Professional services firms often aren't valued as high as the multiples you see with SaaS or tech companies. Get clear on your expectations and make sure the M&A group you pick can meet them, as you won't want to end up with an unreliable firm that just gives an unrealistic high number so you'll pick them.

Second, be transparent with your team.
The sooner you can tell your leadership team, the better, but that timing depends on your internal relationships. If you can tell your team even before you decide to formally sell, that gives you a longer runway to engage them as part of the process. "They're going on this journey with you. That would be optimal," says Tyler. At the very latest, engage your team as soon as you get a promising Letter of Intent from a prospect that your gut is telling you is a fit. Your M&A advisory team can help you with this.

You'll be leaning on your team more as you dive into the due diligence process. They'll need open lines of communication with you for good news, bad news, and anything in between.

Plus, if you haven't done so already, consider designing and implementing a Phantom Stock Plan or Change of Control Plan that rewards and motivates your leadership team members to stay with the acquiring company or new owner. Continuity of the people involved helps to ensure a successful transition for mutually winning outcomes.

And with prospective buyers

"Put it all out there and then really get to know their vision and if the values align," Tyler says. "I think you should have dinner with them. Getting to know them shouldn't be a horrible labor. If it is, then you're probably not looking at the right fit."

If a major change happens with your team, your clients, or your revenue, be proactive and transparent. “If you try to hide anything during due diligence, then your deal may collapse,” Gottschalk says. Pick up the phone and proactively tell them about any changes. “Integrity is critical to getting a deal done.”

In the end, when you sell your company, getting to the finish line where you, your team, and the buyer are truly satisfied, there's not much that compares to that terrific feeling! So, don’t go it alone. Keep learning, gathering knowledge, and preparing. Put the right team together, and enjoy the journey!

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