TobinLeff
M&A Advisors
WHITE PAPER

M&A Is About the People, Not Just the Multiple

By Mary McKinney Flaherty, Janet Tyler, Roy Page, & David Tobin

For M&A transactions, focus and energy are often on multiples and terms. From our experience, if the focus is on the people, favorable terms will follow. In a recent podcast video, four TobinLeff partners, Janet Tyler, Mary McKinney, Roy Page, and David Tobin discussed the topic and covered different points and perspectives including:

- How to establish a genuine rapport and mutual trust between buyers and sellers.
- How sellers and buyers should communicate before and during the due diligence process.
- Getting your leadership and management teams involved in the M&A process.
- Building team and cultural continuity internally when emotional stakes are high.
- How and when to communicate with clients.
- Selecting and working with a cohesive advisory team.

Managing relationships is one of the most important factors in successfully selling your business. This includes your company's key team members, your long-time trusted advisors, plus the prospective buyers and your M&A advisors. Think of these groups as an orchestra. Your deal is the song, and you are the conductor. A successful acquisition depends on your ability to make sure everyone plays their part.

Which People Are Most Important to Successfully Sell Your Business?

Mary McKinney Flaherty
TobinLeff Partner; 20 years career experience in law, corporate governance, and investment analysis:

I practiced law for almost 20 years, and lawyers can be a huge piece of this deal. When we meet our clients, they often have key trusted advisors that they're working with already—long time legal counsel, financial advisors, or accountants. It's important to meet them and bring them into the M&A process. If you have confidence that your current advisors have the needed M&A experience then it's important to bring the team (lawyer, CPA, tax advisor, financial advisor, and M&A advisor/investment banker) together on the outset of the process to communicate your goals, desires, and intentions.

If you are unsure a current advisor has the needed M&A experience, then we encourage you to take the time needed to meet and interview multiple candidates. We like to analogize this almost to working with a doctor. You're often meeting the general practitioner, your family doctor. But sometimes, you need to bring in specific experts, like the surgeon or therapists. For example, transactional attorneys who really know what it takes to get a transaction across the finish line.

Janet Tyler
TobinLeff Partner; former tech marketing agency owner, successfully exited in 2014:

And I would add on that — the internal leadership and management teams – bring them into the process early. I'm working on a deal where the client is saying that this deal isn't going to work if my team doesn't come with it. So, let's not forget about the employees and the team that's going to come with the deal.

We tell sellers to bring their team into the equation as soon as possible, as soon as it makes sense (as each case is different). This is certainly an area where it is all about the people, for sure! So, if that's 18 months before the sale, for example, that's terrific. Get them to start thinking about who you want to sell to: Why are we selling? Do we want to add more services and maybe merge or be acquired by another agency? Or are we really looking for an exit? And it also depends on if there are multiple partners and equity holders. But in general the sooner, the better.

If that can't happen, then as close to the Letter of Intent (LOI) as possible. I know a lot of agency owners might say, '*Oh my gosh, what if my people freak out? What if they leave?*' And I would say, if you wait too long and then they freak out and leave, that's not good either. Buyers typically want your team motivated and incentivized to stay. So, prepping them is key. We can help you expertly navigate and manage that, because it is often a deal breaker. So, we want to avoid deal killers at all costs.

Roy Page
TobinLeff Partner; author, coach, 30-year sales and communications veteran, and former ad agency owner, successfully exited in 2018:

Almost every buyer asks every seller, "*Does your management team know? When can we meet your management team?*" They're the ones who really are going to be integrating. So, there's a tremendous responsibility on them also. It's important for the buyer and seller to get together early, but then they have to start working to figure out how they're going to include the rest of the team.

There are individual relationships, and then there's the group dynamic relationship. There's the individual emotions and relationships with the individual leaders, then there's the leadership team that has its own relationship.

Action items:
- ☑ Map out how each team will be affected by the acquisition. Will some people be promoted, making lateral moves, offered equity?
- ☑ To avoid rumors and anxiety among your team, work with your M&A advisor on a proactive and timely communications plan, outlining when you will disclose what details of the sale and to whom.

How Can Incentives Motivate Team Members and Buyers?

Mary McKinney Flaherty:

When buyers acquire a professional services business, they are investing in the team and in the future of that team, who are going to be the successors, so they typically do what they can to help assure the team members are well compensated and incentivized to help grow the business. Incentives we often see from the buyer include bonuses, stock option plans, and/or equity participation plans that reward on the appreciated value of the enterprise. When assessing offers, our clients' criteria frequently include culture, values that align, career paths for employees, and financial incentives for employees.

Coming from the seller, we typically see plans that reward select employees for their contributions and motivate them to stay with the acquiring company. The incentives can include equity, participation in a Phantom Stock Plan, or participation in a Change of Control Plan. In almost every agreement, the participating employees are paid as the owners are paid to provide "golden handcuff" provisions to get them to stay through an earnout period and to help create future value. Please appreciate if you desire to provide employees with real equity as opposed to phantom type shares, you should not wait until the M&A process begins because granting real equity will be taxable events for the employees so fielding offers from prospective buyers will establish a valuation for the company. If you grant equity in advance of the process, you may be able to justify a lower valuation and less taxes for your employees.

Roy Page:

Mary and I had a transaction recently where both the buyer and the seller participated in the incentive plan, which was really great because that seeded the partnership from day one.

Aligning Values & Vision: How Can Sellers Build Relationships with Prospective Buyers?

Roy Page:

By getting together the seller and prospective buyers frequently, breaking bread, having in-person meetings as much as possible is from our experience one of the keys to closing transactions. Everyone depends on Zoom, and we've all adapted to that, but there's something to be said about being in the presence of someone else where you can have this kind of exchange.

All of that starts early because there are a lot of moving parts, and it consumes a lot of the owner's time. The more time that buyers and sellers are coming together to really embrace the end game and start early in that process just adds to the success of the transition.

Mary McKinney Flaherty:

It can get challenging during due diligence. The buyers and sellers need to trust each other, and all parties need to trust the M&A advisors. The due diligence period starts after you accept a Letter of Intent (LOI) to buy your business. There's a process of really digging in deeply into the financials of the organization, looking at all of the insurance and benefits, looking at the team, looking at all of the client relationships, etc. And it can feel really invasive. I mean, it's a tough process for sellers. Buyers are asking lots of deep questions. We work with our clients so they're prepared for it.

It's so important to be proactive with buyers if bad news comes up, get in front of it immediately to really share that. Explain, "*Hey, this is something that happened.*" Sometimes you have a bad quarter. Sometimes you lose a client. There are things that happen naturally in business and being able to be open and transparent and honest builds that trust. That goes beyond getting the deal across the finish line. It's about creating a deal that's built to last, that's going to be profitable for everyone involved.

Action items:

- ☑ Carve out time to engage in the sale process, especially for meetings with prospective buyers. That means reducing your team's dependence on you, so you can block your schedule.
- ☑ Continue running your business. Move forward with your plans as if you were not selling, whether that means redesigning the website, launching that campaign, reworking your company's story.

How to Communicate with Clients About a Sale

Janet Tyler:

During the due diligence process, buyers will most likely request meetings or discussions with select clients. This almost always causes the seller stress to tell clients before the transaction is closed. From our experience, if the meetings are well planned, the outcomes are positive. The meetings are typically to share the additional resources the buyer will bring and to ensure the client that the existing team is staying in-place. Hopefully, you can do the client meetings it face to face. And ideally, you even have the person who's running that account with you, if you're not actually running the account and hold the relationship. Be ready for the client to ask, "*What's in it for me?*"

Action items:

- ☑ Review all active client contracts for an assignment clause. This clause means you may be required to notify clients prior to closing that their services are being transferred to another entity.
- ☑ Be ready to explain to clients how the acquisition will bring them more value.

What Will the Relationship Be Like with My M&A Advisor?

Roy Page:

We often communicate with clients a few times per week. We have transactional partners who handle the numbers and the working capital calculations. They focus on the financial aspects of the process. Then, on every transaction we also have what we call a relationship partner who is focused more on the cultural aspects, the relationship building aspects, looking at more of the qualitative issues. We talk a lot about the stress and the time it takes, but if I look at most of our deals, we've been able to get through those stressful periods. At the end of the day, it really was a good experience for our clients and for us.

Mary McKinney Flaherty:

It's a real privilege to do what we do. We've all had the opportunity to work with founders, second generation business owners who have built and grown something and care deeply about it. Then we bring what we do to the table to help walk alongside them every step of the way. It's such an important thing, and we keep those relationships going for a very long time. It really is a positive experience and one that can be quite financially rewarding as well particularly when you take the time to build those relationships.

David Tobin

Through our travels, which now spans 15 years, many of us together for seven or eight years now, with over 200 engagements, we have come to appreciate that M&A, getting M&A deals done, certainly it's about the numbers, the multiples and the margins. But M&A is truly about the people. From the advisory team you select, to how you communicate with your employees, to how you build relationships with prospective buyers.

About TobinLeff, LLC

TobinLeff is a leading M&A advisory and exit planning consulting firm, helping owners sell to strategic buyers and private equity groups. With 15 years of service, TobinLeff's team of senior advisors brings a wealth of Mergers & Acquisitions experience as former business owners, accountants, attorneys, and bankers dedicated to the mission of helping their clients maximize and monetize their life's work. TobinLeff is the go-to resource for business owners looking for true partners in their exit planning journey. TobinLeff.com