

By David M. Shanberg

## **Selling a Company During Tough Times**

Proactively selling a company during this difficult economic environment is a delicate operation. How does one pursue the sale of a company without appearing desperate?

There are still potential acquirers out there. However, the field is much smaller, with many buyers conserving cash, unwilling to issue “undervalued” stock as consideration, or simply focused on business execution. Therefore, the likelihood of generating interest from multiple parties is much lower.

### **The Search**

This section covers a few tips on what to do differently in locating and engaging with potential acquirers.

#### **1. Be visible.**

Of course, it’s much better for a company to be approached by a potential acquirer than to market itself for sale. It’s particularly important to be more visible to competitors and others in the marketplace. Ideally, this means more than just PR, but tangible activity related to the product or service that is noticed by competitors, partners, and others in the industry.

#### **2. Do your homework.**

Spend extra time researching and thinking about which companies are logical buyers and why. It’s very difficult to convince a buyer to make an acquisition they wouldn’t otherwise, but even the best acquirers sometimes need help to fully develop the strategic rationale, especially now. The more sense the deal makes for the potential acquirer, the more proactive they’ll be about pursuing the deal.

#### **3. Think beyond the obvious.**

Because there are fewer buyers, it’s important to think beyond the most obvious ones. Without going too far astray, part of the research and thinking should be dedicated to identifying adjacent or related sectors where there might be a buyer that is a good fit.

#### **4. Pay attention to which companies are healthiest.**

There’s no point in wasting time with potential acquirers that are clearly not in the market. Time is better spent taking the most thoughtful approach to finding feasible buyers and understanding the strategic rationale for each.

### **5. Be careful about bluffing.**

There are more reasons than ever why a buyer may not be able to engage at a given time. There's very little point in trying to create a false threat/deadline in order to force a buyer's hand. The good news is that the dynamic environment means they could become more interested in a short period of time. My recommendation is to keep on their radar and be ready for that time.

Most of the tips above still apply during a growth economy, but they are especially relevant now.

## **The Deal**

This section touches on how to handle the deal execution phase differently during tough times.

### **1. My opinion on valuations.**

At the moment, I believe there is a large disconnect on price expectations between buyers and sellers. In my view, each side is only partly right. With the publicly-traded stocks down approximately 40% from just 6 months ago, combined with the lack of other potential acquirers, buyers should expect lower prices, but not necessarily the "fire sale" levels they are seeking. On the other hand, sellers that have alternatives and a bright future have a valid case for using previous valuation methods, but they would be hard-pressed to justify that their valuation is immune to the huge downswing in the public markets.

### **2. Focus on the terms that are most important.**

Most likely, one of those will be deal certainty (in addition to price). More than ever, it is key to avoid letting a signed deal fall through. To the extent possible, minimize the period of time between signing and closing, closing conditions, and any other easy exits that favor the buyer.

### **3. Be flexible during the negotiation.**

Like always, seek to understand the other side and what they need, not just what they want. Use that knowledge to find ways to break logjams during the negotiations. Likewise, be flexible on those terms that are not on the critical list.

### **4. Consider alternate deal structures.**

For example, maybe a strategic investment or other structure short of an outright acquisition meets the goals of both parties.

### **5. Maintain the highest level of integrity during the deal process.**

Of course, this is always important. However, the consequences of a lapse in judgment are particularly high now. It's likely there are few alternative acquirers, so don't take any chances of alienating one.

This time of economic difficulty and uncertainty presents a challenge for both buyers and sellers, but transactions that make long-term strategic sense can still get done.

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