Entrepreneurs Assess Their M&A Options

Research among business leaders reveals excitement about future transactions and positive outlook for near-term M&A.
Creating value through M&A is top of mind for many business leaders as they look to grow their companies. To understand the drivers of M&A for growing companies, hopes and fears about selling or acquiring a business, and the opportunities for investors and buyers to bring their expertise to bear, Harris Williams & Co. partnered with Inc. to survey nearly 700 leaders of privately held, high-growth companies from the Inc. 5000 lists. The survey asked owners, partners, and top senior executives at middle market companies across a wide range of industries about their near-term plans for M&A. The results reveal a great deal of excitement about future transactions, and demonstrate the opportunity for CEOs to maximize the value they have built by exploring a broader range of transaction options.

Click here to review the demographics of survey respondents.

Current State of Exit Planning and M&A Activity Among Privately Held Companies

One of the most compelling facts that arose from our research is that 80.8 percent of business leaders indicated they are interested in some form of M&A over the next three years. With the current M&A market at its strongest since 2007, the supply of high-quality companies coming to market continues to show great promise. While some business leaders intend to buy or merge with another company to drive further growth, 51.8 percent indicated that they anticipated selling their business.

Most respondents had positive emotions about selling their business and say they feel “enthusiastic” about the idea, and for some, the sale offers a sense of “relief.” Because selling a business presents such a significant milestone for a company and its owners, it is somewhat surprising that only 29 percent indicated that they are “nervous” about it. According to Hiter Harris, managing director and co-founder of Harris Williams & Co. “M&A presents an incredible opportunity for businesses to realize the value they have built. Business owners have learned from the success stories of their peers and the growth of the M&A market, and that breeds confidence.”

While most business leaders expect to experience an M&A event in the near future and are generally optimistic about it, only 25.1 percent of respondents indicated that they had a detailed exit strategy in place. Most – 43.4 percent – say their strategy is “still evolving,” while more than 30 percent say they haven’t begun to formulate one.
There are plenty of reasons that exit planning falls off the agenda. The main reason for neglecting it, cited by 44.1 percent of respondents, is being “totally focused on growth.” Several commented that they were simply “too busy” given the more pressing demands that operations, customers, and employees presented. However, preparing for a future sale or capital infusion can be done without making any commitments or investing an inordinate amount of time. “You don’t need a formal plan to be successful,” says Harris, “but understanding the opportunities to grow strategically is important, and building key relationships early on will prove helpful when it’s time to make a change.”

What Matters Most and Key Concerns

When we asked survey respondents what mattered most to them, valuation and stability for employees were the two highest-ranking criteria. Interestingly, valuation represents more than just a price tag for many; it is about financial security, recognition for their hard work, and getting what seems fair in return for the business they have built. The comments do show a clear tension between getting the best price and creating the best situation for employees. Among those who cited valuation as the key goal and added further comment, more than 25 percent mentioned employees and/or customers as a main concern about a sale. The desire for cash competes heavily with the goal of “taking care of the employees who got us where we are today,” in the words of one executive, and “keeping the culture intact,” from another. The personal connection was loud and clear as respondents voiced the importance of the welfare, job security, and even happiness of their employees, customers, and vendors.

“SoftWriters was about a year into our second round of private equity when a strategic buyer was brought to the table by Harris Williams & Co. This was not your typical sales process, but we were presented with a great situation and we took advantage of it. For us, retention of the management team in their current role was almost as important as purchase price.”

– Tim Hutchison, President and CEO of SoftWriters, Inc.

SoftWriters, Inc. was recognized on the Inc.5000 list.
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“We have found valuation, while important, is only one of many key considerations for management teams considering the sale of a business,” said Harris. “In some cases, maintaining the company’s reputation or place in the community may be most important. For others, it may be being able to realize partial liquidity for the value of the business while continuing to grow the business in partnership with an investor, and for others it may be the well-being and service to clients or employees. Valuation isn’t typically the end of the story.”

Finding a buyer where business leaders could continue to be heavily involved in the business ranked least important in the research. While in many cases it may be important for business leaders to continue running the company, it ranked far below valuation, stability for employees, maintaining the culture of the organization, and the business’ growth.

A public or private corporation that would be considered a strategic buyer ranked as the most preferred buyer type. Respondents were almost equally split on their second choice, between either selling the company to a private equity firm or to employees, although both ranked as notably less preferable than a strategic buyer. Selling to family members was a distant fourth choice. Understanding the perception behind these preferences is important. Most business leaders who indicated a preference for a strategic buyer based this on “familiarity with the business area,” “synergies,” and the opportunity for a “better price.” Business leaders that were more in favor of private equity cited that their preference was based on the ability to “maintain the integrity of the company,” “elevate the business,” and provide an “infusion of capital,” while maintaining the potential to continue owning a portion of the business.

“A sales process should allow you to weigh both options—strategic buyer and private equity buyer—and choose the one that is best for your firm at the time,” notes Harris. “Corporate buyers can often bring a higher valuation to the table, given the operational synergies they stand to gain...”

“Finding the right partner was the most important thing for me. We turned down more money at the end of the day because I was looking for a partner who bought into my vision and still saw me as part of the deal; I wanted to stay really involved in the company and continue to run it.”

— Raegan Moya-Jones, CEO & Co-Founder of aden+anais

aden + anais was recognized on the Inc.5000 list
from an acquisition. They might, however, bring change to a company’s structure and culture as the businesses are integrated."

“Private equity groups tend to allow sellers to retain more independence in running the organization and incent high-performing management teams to stay with the firm by offering them equity grants that can lead to substantial future wealth. The nature of private equity groups can make them particularly well-suited for businesses in need of a capital injection or those seeking additional or unique operational expertise,” Harris adds.

Based on the survey results, many business leaders may benefit from a more in-depth understanding of buyer types and the benefits they can offer a company in a sales process.

Level of Preparedness of Business Leaders

So what exactly does it mean to prepare for a company sale? The research suggests many business owners think they would be prepared to sell their firms immediately if need be, but that many underestimate what is required to achieve their objectives through a sale.

More than two thirds, 67.6 percent, of business leaders indicated they are very or somewhat confident that they would know all the steps involved in a transaction to secure the best outcome. Yet only 39.5 percent of leaders were confident that they have a handle on the value of the company, know the most likely buyers, and could have a useful discussion if the time was right.

“One of the basic misconceptions business leaders have is that they are inadvertently putting themselves up for sale if they call an investment banker for advice,” says Harris. “Nothing could be further from the truth. We don’t reach out to prospective buyers unless we have a well-thought-out plan in place with the seller. Connecting with experienced and respected advisors early not only ensures you have a trusted advisor when you need one, it is also likely to accelerate your education process. It is not unusual for us to have regular discussions with business owners for years before they decide the time is right to explore a sale of the company. We see thousands of companies, so we can offer a broad perspective that owners of a single business just can’t get on their own,” says Harris. “15 minutes with someone who’s been handling transactions for 25 years can save a business owner or CEO a lot of frustration.”

Preparing a business for sale requires thoughtful examination of the business’ strengths and weaknesses and determination of the long-term goals for the business. A Harris Williams & Co. article, “The road map to selling,” provides an overview of the preparation process and breaks that process into three parts:

- Refining business operations,
- Creating clean and accurate financial and tax statements,
- Resolving any outstanding legal issues or liabilities.
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M&A is top of mind for high-growth companies and new, high-quality assets will continue to come to market as these companies explore their options for the next phase of the business. The research shows that 80.8 percent of business leaders are interested in some form of M&A in the near future, and 51.8 percent feel positively about M&A. Of the survey respondents, only 29 percent said they felt nervous about the idea of M&A, and feeling overwhelmed or disappointed with the idea of selling a business were the two least cited emotions. While realizing maximum value and stability for employees rank as the two most important factors in a transaction, business leaders express concerns that span from maintaining the company culture and security for the company’s employees to finding the right buyer that is a good fit for all involved in the process.

Many respondents commented that an important initial step is finding the right experts—people they know and trust—to guide them through the sales process. The reality is that there are no hard-and-fast rules about how you choose to transition your business from one owner to another. The right decision is the one that’s right for your business, assuming you’ve objectively examined all your options. Examining those options early while building advisory relationships to assist your education can put you in a strong position when it’s time to sell – and eliminate a host of worries along the way.

Harris Williams & Co. (www.harriswilliams.com), trusted advisor to Inc. 5000 companies, has been advising business owners, management teams, and investors on M&A transactions for nearly 25 years. The firm has deep industry knowledge, global transaction expertise, and an unwavering commitment to excellence. Visit harriswilliams.com/inc to learn more.

“During our latest sales process, we wanted to ensure we had engaged the right firm to advise us on the sales process. We had expectations as to the value we would receive, timing to complete the transaction, and the need to maintain confidentiality with competitors, and we wanted to make sure we were working with a firm that would deliver excellent service by focusing on us. As steps were taken to cull the potential buyers, we became comfortable that we were getting a great price for the business.”

– Bobby Jenkins, CFO and COO of Silverchair

Silverchair was recognized on the Inc.5000 list.

Hear more from industry leaders about their experiences at harriswilliams.com/inc.
What Matters Most When Selling Your Business?

Understanding what's important in exiting your business is as critical as the steps you've taken to build it. Harris Williams & Co. and Inc. surveyed hundreds of CEOs and business leaders about what matters most to them and their hopes and fears as it relates to M&A. This infographic tells the story.

There is a surge of M&A activity on the horizon. 80.8% of business leaders are interested in M&A over the next 3 years.

Most leaders feel optimistic about selling their companies.

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<th>Percentage</th>
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<tr>
<td>51.8%</td>
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<td>29%</td>
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For top executives, selling price is not the only consideration. Nearly half (48.4%) of all respondents named something other than price when asked what they cared about “most” when selling their company.

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<td>51.6%</td>
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<td>15.6%</td>
<td>Employee Security</td>
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<td>13.9%</td>
<td>Maintaining Company Culture</td>
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<td>11.6%</td>
<td>Continuing Growth</td>
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<td>7.3%</td>
<td>Ability to Remain Heavily Involved</td>
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When it comes to selling, CEOs voiced a range of concerns. Aside from price or valuation concerns, respondents expressed a wide range of emotions about selling. The most frequently cited revolved around:

- **Employee Welfare**
  - Stability for our current staff.
  - Taking care of the employees who got us to where we are today.
  - A smooth transition for our employees and executive management being able to remain in their position.
  - Finding a good fit for everyone.

- **The Company’s Future**
  - Maintaining the model for sustainable growth of the company.
  - Fear of losing control of your quality of service and diminished relationships with past, present, and future customers.
  - Carrying on the company’s vision and expanding its opportunities.
  - Strategic leadership for the future.

- **Company Culture**
  - Ensuring the culture and vitality of the company remains intact.
  - Keeping the consistency of our culture—it’s the reason our employees and clients have stayed with us for 15+ years.
  - Maintaining the integrity and culture of the company and honoring all strategic partnering agreements.
  - Wanting the heart and soul of the business to stay the same, to be the place where everyone knows your name.

Business leaders have help when considering M&A.

Harris Williams & Co. is a preeminent middle market investment bank focused on the M&A advisory needs of clients worldwide. Visit harriswilliams.com to learn more.

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