

# GETTING TO THE TOP!

## Climbing the M&A Mountain is a Five-Step Process

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## Getting to the top

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**H**ARD WORK, focus, energy and perseverance are qualities of every family business leader who has made it to the top, the summit of accomplishment in business. Where is that peak? For some, it's market share leadership. For many others, it means successfully selling a business (or a portion thereof in a leveraged recapitalization) after investing many years building a thriving enterprise.

I have been there myself. I was a second-generation owner of Southland Motors Corp. in West Covina, Calif. In 1996, we sold our family business to Penske Automotive. For the last

of Mount Aconcagua in the Andes, you'd better be in great shape. That means strenuous conditioning, including strength training and aerobic endurance.

Getting your business in shape before hitting the trail to the closing table is just as critical. What's the condition of your financial statements? Are they audited? Do they need to be? Have you conducted an aging evaluation of your receivables? What's the true value of your inventory? How strong is your management team, and what role will working family members play under new ownership? Have you discussed

guide will also be able to plan how long it will take to reach the summit, including contingency days for bad weather, and ensure the climbing team has enough food and supplies.

Similarly, an experienced M&A guide can plan the best route to a successful closing by assessing the current market and industry climate as well as the strength and condition of the client's company. Each situation is unique, so you must research prospective buyers and plan how and when you will approach them. Often the most obvious suitors, such as competing firms, are not the best buyers. The M&A process is always dynamic, so an integral part of every good marketing plan involves preparing for contingencies should things not go exactly as planned. Being prepared to make quick and correct decisions at these junctures can determine whether or not you make it to the top.

**Staying focused is key, but fixating on reaching the summit is a fool's game.**

nine years I have been an investment banker, helping other family business owners sell or achieve a generational transfer of their companies. I also know about getting to the top of big mountains. I have trained for and successfully climbed three of the "Seven Summits," the highest mountain on each continent.

Climbing the world's highest peaks and selling your company—the biggest sale of your life—require the same degree of preparation. Here's how you get there.

### **Step 1: Preparing for the journey**

Before undertaking a 15-day expedition to reach the 22,841-foot summit

a potential sale with your children? What key functions do you perform that could be successfully transitioned to others within your organization? Whatever it takes, preparation is the key to getting to the top.

### **Step 2: Planning the route**

Now that we're in good shape, we need to figure out how we're going to tackle this mountain. There are seven different routes up the slopes of Mount Kilimanjaro, each with advantages and disadvantages. This is where an experienced guide can be invaluable. Your guide can factor in weather patterns, the risk of avalanche or rock slides, and the condition of the various routes. A skilled

### **Step 3: Starting to climb**

The true test of how well steps 1 and 2 were completed begins once the boots hit the trailhead. Certain members of the group may get winded early; crampons may not fit properly; gear may be missing or inadequate. All of these things are preventable, but every time one of them will stop certain climbers from reaching the top. Don't let this happen to you!

Whether you're climbing a formidable mountain or undergoing lengthy sale negotiations, it's important to overcome the psychological challenges. Staying focused is key, but fixating on reaching the summit

or the big closing day is a fool's game. In situations like this, the human mind is much better equipped to focus on reaching the next camp or simply moving another ten feet.

There are many steps involved in selling a business—from deciding to sell to finalizing a letter of intent, navigating through the due diligence process, negotiating purchase documents, until the biggest wire transfer of your life hits your bank account. You must be patient. Just as it is necessary to acclimatize at various altitudes along the mountaineering route, critical steps in the sale of a business can't be rushed or skipped.

#### Step 4: Watching for obstacles

Avalanches, tumbling boulders, crevasses and fast-moving storms won't just prevent you from reaching the top; they'll kill you if you're not careful. Similarly, when you're selling your business, a dangerous obstacle in your path can kill your deal. Here are just a few to watch out for:

- A loss of focus on the business during the sale process.
- Competitors who reveal to your customers that your company is for sale.
- Resignations of key employees who know your company is on the market.
- Midstream renegotiation by the buyer.
- Prospective buyers who are not a good fit for your company.

A skilled mountain guide will check for precarious snow conditions and use safety lines. There are similar safety measures a business owner can take to guard against potentially fatal deal obstacles.

#### Step 5: Reaching the summit

In high-altitude mountaineering, speed is essential to safety. This is particularly true on summit day. On this day, the climbers pack only the essentials to reduce weight during the climb, which begins around 3 or 4 a.m. and progresses quickly. A good mountain guide will establish a firm turnaround time to get the team


up and back down safely before the afternoon storms and the plummeting temperatures of nightfall. Most deaths on big mountains occur on the return from the summit and are the result of not establishing or ignoring a prescribed turnaround time.

In conquering the M&A mountain, you must remember the old adage that "time kills all deals." At a certain stage in the game the more time that passes, the greater the opportunity for deal killers to emerge. Some come out of left field, like a regulatory change or a new technology that affects your business. In other cases, the buyer or seller might become embroiled in litigation, or the buyer may get scared away after the seller loses a key customer or employee.

Because time is the enemy, somebody must be watching the clock, setting intermediate deadlines and pushing everybody along toward closing. If key points can't be negotiated after a reasonable amount of

time and effort has been invested, important decisions must be made. If your financial security is in jeopardy, it's better to walk away than to go through with a bad deal.

Remember: If you walk away, at least you will be able to climb another mountain or go back to the same one again if you choose. The mountain (or the buyer) will still be there.

As an entrepreneur, you've worked tirelessly to get where you are now. What's next? To reach the summit of accomplishment in the biggest sale of your life, prepare for the journey, plan the route, start climbing while watching for obstacles and move fast on the final push. Best of luck in your quest for the top! 

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