

## Sell-Side Process

**In an M&A context, the term sell-side process describes the steps required to divest a business.**

A company may put itself up for sale if owners intend to cash out, there is no obvious succession for the business, for strategic reasons or because the company may be distressed. With the decision made, the seller (together with its sell-side advisor) can organise the deal process along several ways:

The format of a broad auction is designed to maximize the probability of a bid at the highest possible purchase price. Next to fully satisfying fiduciary responsibility to shareholders, this strategy optimizes a seller's negotiating leverage by controlling the bidding timeline, soliciting many bids, tilting the information asymmetry in his direction and allowing him driving negotiations. Foremost suitable for mid-size, privately held companies, broad auctions make it difficult, however, to maintain confidentiality (potentially causing disturbance among staff, customers and suppliers), on top they are time consuming and disruptive.

Limited auctions mitigate disruptions as well as leaks and seem more suitable when the universe of potential buyers is smaller (and selling companies larger). - If potential buyers are just a few (perhaps even hand-picked), then the format of a targeted auction may be appropriate in soliciting enough buyers to meet the seller's fiduciary responsibility to shareholders. – Exclusive negotiations on the other hand maintain confidentiality, are usually speedy, thereby minimizing business disruption. However, seller's negotiating leverage is lower and value for shareholders perhaps not optimized.

As firms can also be approached unsolicited, and at any time, management should always be prepared, having financials, projections, ideally also a valuation framework ready. These preparatorial

steps should definitely be concluded prior to initiating a pro-active sell-side process. In a next step, the company (usually supported by its financial advisor) will prepare marketing materials, such as a teaser (highlighting the firm's unique selling proposition, without yet disclosing its identity) as well as an information memorandum. This contains details such as an industry overview, company profile, financial statements, revenue profile, employee profile, products and service offerings, office locations, management structure, key customers, competitive strength, or investment rationale. This document will only be handed over once a non-disclosure (i.e. confidentiality) agreement has been signed by a potentially interested party.

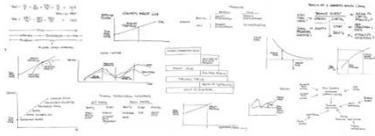
After initial bids (non-binding indications of interest) have been submitted, the list of potential buyer candidates can be narrowed down. In a next step, these short-listed potentially interested acquirers are invited to perform due diligence on the seller: This will include - among others – an in-depth review of information assembled in the data room, visits of the firm's facilities as well as meetings with management. Subsequently, final bids (letters of intent) will be collected, the details of which the seller will negotiate with potential buyers, such as terms, valuation or purchase price. Meanwhile a draft of the definitive agreement (sale and purchase agreement) is circulated.

Next, the seller will enter exclusive negotiations with one bidder who will undertake another round of in-depth due diligence. Upon this, the finalized deal terms (as well as a fairness opinion) is presented to the seller's board with a request for approval. Once that board agrees, the final agreement can be signed and – if required – further approval sought (e.g. monopolies and merger commission, shareholder meeting). In an ultimate step the transaction is closed: Shares of the selling shareholders are handed over for cash or shares of the acquirer.

<u>ORGANISATION</u>	<u>MARKETING</u>	<u>INITIAL INDICATIONS</u>	<u>DUE DILIGENCE</u>	<u>DETAILED BIDS</u>	<u>FINAL NEGOTIATION</u>
STRATEGY & TIMING	CONTACT BUYERS / INVESTORS	SOLICIT INITIAL INDICATIONS	MANAGEMENT PRESENTATIONS	EVALUATE APPETITE / INTEREST	FINAL DUE DILIGENCE
ADVISOR DUE DILIGENCE	SEND TEASER	DISCUSSION ROUNDS	ACCESS TO DATA ROOM	DECIDE OPTIMAL NEXT STEPS	FINAL CONTRACT NEGOTIATIONS
TEASER & MEMORANDUM	NDA	Q&A	ADDITIONAL DUE DILIGENCE	DRAFT PURCHASE AGREEMENT	CLOSING
FINANCIAL MODEL	SEND MEMORANDUM		- BUSINESS		
BUYER / INVESTOR LIST	PREPARE MANAGEMENT PRESENTATION		- FINANCIAL	EXCLUSIVITY	
			- LEGAL		
			- TAX		
			- ACCOUNTING		

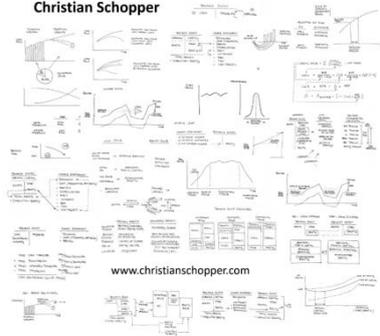
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