

8 Ways Investment Bankers Add Value for Sellers

By *Meghan Daniels* (<http://www.axial.net/author/meghan/>), Axial | December 21, 2016

Some owners looking to sell their business may balk at the prospect of paying to engage an investment banker. But owners who have been through the process unanimously believe that their bankers added value, according to a new study.

“The Value of Middle Market Investment Bankers (<http://www.cartermorse.com/whitepaper-request>)” by Fairfield University Dolan School of Business professor Dr. Michael McDonald, surveyed 85 business owners who sold their businesses with the help of investment bankers for between \$10 million and \$250 million between 2011 and 2016. One-hundred percent of respondents said that the bankers added value to the process, with 69% saying the value-add was “significant.”

(For more on these results, read **“Investment Bankers Add Value for 100% of Sellers, CEO Study Finds (<http://www.axial.net/forum/2-ways-investment-bankers-add-value-ma/>)**.)

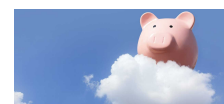
The 8 Functions of an Investment Banker

The survey also explored what aspects of the investment banker’s role were most helpful from the seller’s point of view by asking to rank the following eight functions from most to least important.

1. Finding Buyers

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Investment bankers supplement the owners' knowledge of their markets and potential partners by tapping into their professional contacts and networks, investor databases, and expertise to identify and connect with interested buyers.

2. Negotiating the deal

Investment bankers typically take the lead in negotiating the terms — not only purchase price but also the terms and conditions, timing, process and other major considerations of the transaction.

3. Managing the sales process

Investment bankers are often quarterbacks for the entire transaction process. They are the ones who are responsible for keeping the transaction process competitive, coordinating between all of the different aspects of the transaction, managing a broad team of other advisors, and keeping the transaction moving to a closing.

4. Adding credibility to the seller

Engaging a quality investment bank illustrates to all of the parties involved that there is a genuine commitment to explore the transaction and that there is professional representation, thus increasing the likelihood of a successful closing.

5. Preparing the company for sale

Sellers are rarely prepared for the intense scrutiny they will be subject to by buyers of experienced buyers and their litany of professional transaction advisors. Investment banks can help business owners with this preparation which can involve everything from preparing detailed financial models and projections to in-depth customer analyses to working with management to prepare them for an intense transaction process.

6. Educating and coaching the owner

The vast majority of business owners have never closed a transaction. Quality investment bankers have managed hundreds of transactions and can bring the benefits of that experience to the owner.

7. Structuring the transaction

Transactions can involve various forms of consideration, such as

cash, equity, seller notes, earnouts, and other forms of contingent consideration. Investment bankers can structure each transaction specifically to address the needs and desires of both sellers and buyers, thus providing creative solutions for potentially conflicting transaction objectives.

8. Enabling owners to run the business

The transaction process is an intensive process for sellers to endure, especially as they are trying to run the day-to-day operations of their company. By taking on most of the day-to-day work, investment banks enable business owners to focus on growing their business rather than managing the transaction process, which typically lasts for between six and nine months.

Where Bankers Add the Most Value

First, the survey asked respondents to rank the eight functions above on a scale of 1-5, with 5 being the most important.

Respondents ranked “Managing the M&A Process and Strategy” as the most important function. “Interestingly, ‘Identifying and Finding Buyer’ actually has the lowest importance rating of the 8 services provided by investment bankers included in the survey. This suggests that the individuals who sold their businesses saw their investment bankers as doing much more than just finding the buyer for a company,” writes McDonald.

Michael Carter, Managing Director of **Carter Morse & Mathias** (<https://network.axial.net/a/company/carter-morse-mathias/>), who conceived and organized this survey, explains, “During an initial meeting, most business owners focus on our ability to identify a buyer or our relationships with them but only spend minimal time discussing strategy, positioning, creative structuring or executing a disciplined process. These core services from investment banks are far more important to maximize value.”

Investment Banking Services Ranked 1-5





(<http://www.axial.net/wp-content/uploads/2016/12/InvestmentBankingServices1-5.png?e1e745>)

Respondents were also asked to identify the eight services in order of their importance, because an average importance ranking may be deceptive. In this case, however, the results were similar, with “Managing the M&A Process” taking the number one spot. In this ranking, “Enabling Management to Focus on Running the Company” was ranked eighth.



(<http://www.axial.net/wp-content/uploads/2016/12/MostImportantIBService2.png?e1e745>)

Carter explains, “While we were not surprised by the results, we feel that educating and coaching the owner was under-appreciated. Most business owners hire professional advisors for their once-in-a-lifetime transaction and learn something new almost every day for the length of the transaction process. The relationship between banker and business owner is built on trust, confidence, and chemistry, and usually ends in a strong personal relationship.”

One former business owner noted, “Unless you have substantial expertise, a broad buyer network, and a lot of free time, partner

with an investment bank. You *may* be able to get [the deal] done yourself, but you'll be leaving millions of dollars on the table as well as closing a higher-risk transaction (when it comes to representations, warranties, and indemnifications.)”

Read the full survey here (<http://www.cartermorse.com/whitepaper-request>).

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By Karen Sibayan | January 13, 2016 



(<http://www.axial.net/forum/what-is-ebitda-and-why-do-investors-care-about-it/>)

During negotiations in an M&A deal, buyers and sellers look closely at several factors in order to agree on a price that properly captures a company's value. One of the closely examined metrics in this process is EBITDA, which stands for earnings before interest, taxes, depreciation, and amortization. EBITDA is used as a way...

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