FOCUS Capital Partners

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RUNNING A SALES PROCESS VS BILATERAL APPROACH

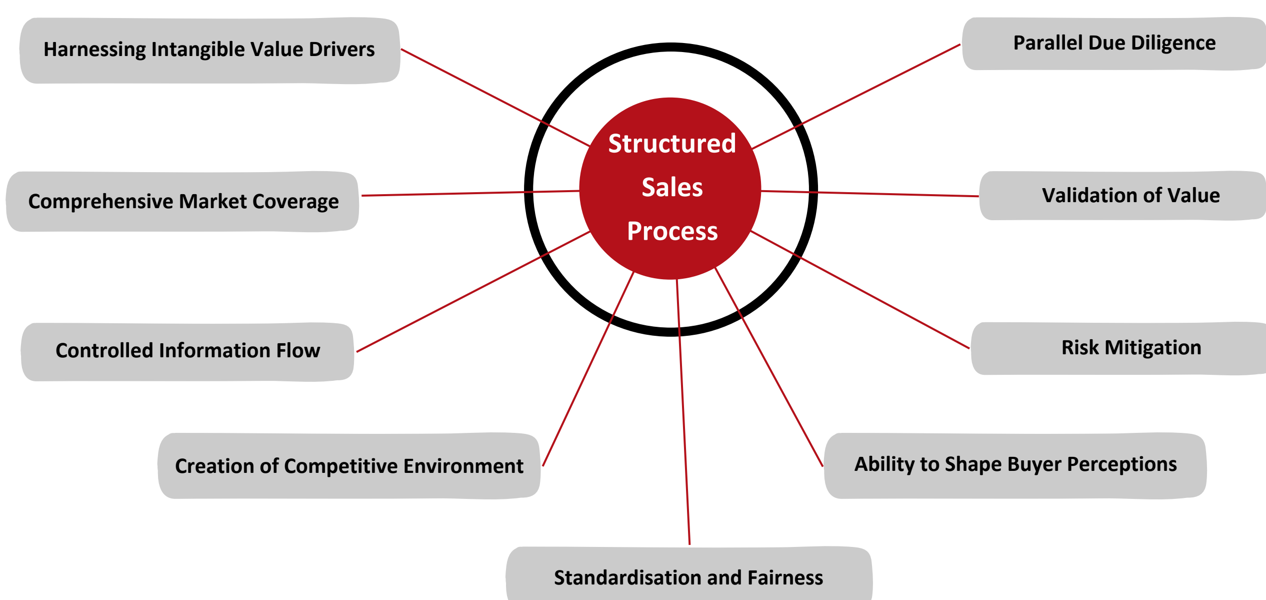
Comparative Benefits in M&A Negotiations by Alan Kelly

When it comes to the sale of a business, a crucial decision lies in the choice of approach: the structured sales process or the bilateral approach. This decision, often nuanced and context-dependent, can profoundly shape the transaction's success, affecting value realisation, deal dynamics, and post-transaction outcomes. A comprehensive understanding of the unique benefits and challenges of these methodologies is vital to maximise transaction value for a seller.

A sales process is a structured approach that involves presenting the company for sale to a broad pool of potential buyers. In this method, multiple interested parties are invited to participate in a competitive bidding process. The process is often divided into stages, including the identification of potentially interested parties, the circulation of a confidential information memorandum, a buyer qualification process, and the facilitation of an auction. The primary objective of the sales process is to create a competitive environment that maximizes the selling price and deal terms in favour of the seller.

On the other hand, a bilateral approach involves a more direct negotiation process with a single prospective buyer. A bilateral approach is typically chosen when there is a clear buyer in mind, such as a competitor, a strategic partner, or a financial investor with a known interest in the company or sector. The bilateral approach allows for more focused negotiations and can often lead to quicker transactions. However, it lacks the competitive tension of the sales process, which could potentially limit the price upside.

Advantages of Structured Sales Process



Harnessing Intangible Value Drivers:

While a bilateral negotiation often zeroes in on traditional financial metrics as the basis for valuation, a comprehensive sales process allows for a more holistic approach, using an Information Memorandum to spotlight intangible assets, such as company culture, IP, talent, and strategic relationships. By highlighting these non-financial facets, a company can offer a more comprehensive portrayal of its business, which may significantly enhance its perceived value.

Comprehensive Market Coverage:

A well-designed sales process can ensure comprehensive market coverage, reaching out to a broad range of potential buyers, including those who may not have been initially apparent. Extensive, targeted outreach can increase the likelihood of identifying the most value-accretive buyers.

Controlled Information Flow:

The structured nature of the process enables better control over information dissemination. A carefully managed data room, staggered management presentations, and well-timed release of sensitive information can help maintain deal momentum while ensuring that critical data is protected.

Creation of a Competitive Environment:

By maintaining engagement with multiple parties simultaneously, a structured process can create a sense of competition among potential buyers. Such an atmosphere can stimulate buyers to submit their best offers early, reducing the need for protracted negotiations.

Standardisation and Fairness:

A structured sales process provides a standardized framework that treats all potential buyers equally. This uniformity can be advantageous in situations involving multiple stakeholders (e.g., regulatory bodies, unions, etc.) who may scrutinize the process.

Ability to Shape Buyer Perceptions:

The sales process offers sellers the opportunity to shape the narrative around the company being sold. A well-orchestrated process can highlight the company's strengths, address potential concerns proactively, and position the business attractively in the eyes of potential buyers.

Risk Mitigation:

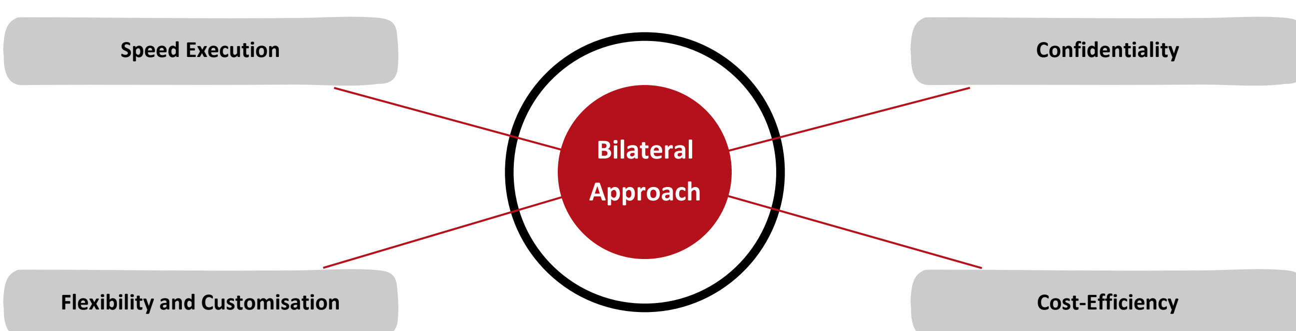
By spreading engagement across multiple potential buyers, a structured sales process can mitigate the risk of deal failure. Even if negotiations with one party falter, having other interested parties can help keep the process on track.

Validation of Value:
By allowing multiple parties to submit bids, a structured process can validate the company’s value in the marketplace. This aspect can be particularly beneficial in situations where the company’s value is uncertain or subject to dispute.

Parallel Due Diligence:
In a structured process, due diligence can be conducted in parallel with multiple parties, reducing the time to transaction closure once a preferred buyer is selected.

While the structured sales process offers numerous advantages, its success hinges significantly on the seller's ability to effectively manage the process. This involves maintaining a competitive environment, managing information flow, and navigating negotiations, which can be complex and demanding. This is where the right M&A advisory partnership can make a pivotal difference. FOCUS Capital Partners, leveraging its deep industry knowledge, relationship with financial buyers and proven track record, can guide sellers through this intricate process. By managing the complexities, FOCUS allows sellers to reap the full benefits of a structured sales process, from market coverage to risk mitigation and value validation, ensuring an optimal transaction outcome for the sellers.

Advantages of Bilateral Approach



Speed of Execution:

Bilateral negotiations, being inherently less bureaucratic, can expedite the transaction process. The rapid speed of execution is advantageous in scenarios where time is of the essence – for instance, in rapidly evolving markets, or in situations where the seller's financial or strategic imperatives demand swift action.

Flexibility and Customisation:

Bilateral negotiations allow for a greater degree of customisation in deal terms. This flexibility can be instrumental in aligning the interests of the buyer and seller, particularly in complex transactions involving unique assets or intricate financial structures. The ability to negotiate bespoke terms can also facilitate the resolution of potentially contentious issues, smoothing the path to eventual deal closure.

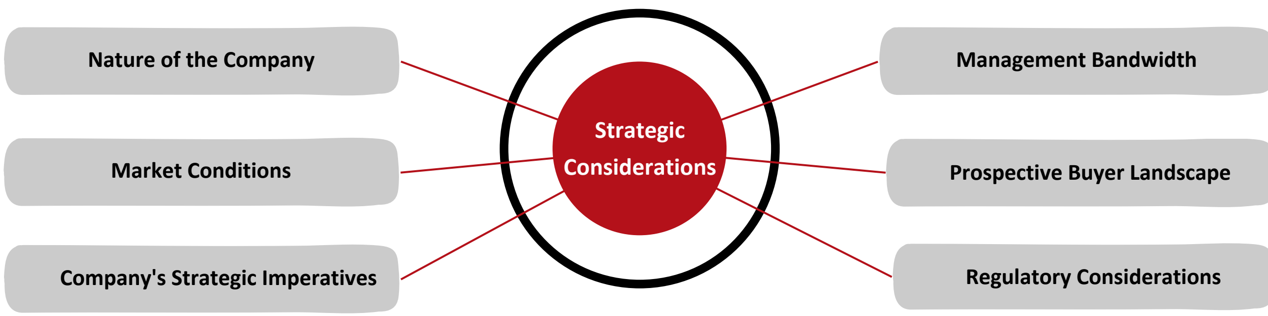
Confidentiality:

With fewer parties involved, bilateral negotiations typically offer a higher degree of confidentiality. This aspect can be critical in scenarios where leakage of deal-specific information could disrupt business operations, influence market perceptions, or alert competitors.

Cost-Efficiency:

The absence of a broader sales infrastructure often translates to lower transaction costs in bilateral negotiations. This cost efficiency can enhance the net value realisation for the seller. It can also be a decisive factor in smaller transactions where the costs associated with a structured process may not be justifiable.

Strategic Considerations in Methodology Selection



The choice of methodology should be informed by an analysis of several factors including:

Nature of the Company:
Companies that possess a strong market position or are in high-growth sectors may benefit from a structured sales process as multiple buyers may have a strong interest, leading to a potential bidding war. Conversely, if the company operates in a highly specialized niche with a limited number of potential buyers, a bilateral approach may be more suitable.

Market Conditions:
Current market conditions and future trends are critical factors. In a bullish market or when sector-specific trends are positive, a structured process could yield a higher price due to robust buyer sentiment. In more uncertain or challenging market conditions, a bilateral approach may offer a quicker and more certain path to deal closure.

Company's Strategic Imperatives:
The company's strategic needs and urgency can play a significant role in choosing the right approach. If time is of the essence, or if the deal involves sensitive information that requires a high degree of confidentiality, a bilateral approach may be preferable. On the other hand, if maximizing value is the primary objective, a structured sales process might be the better option.

Management Bandwidth:
A structured sales process may require significant management time and resources. If the company's management team can afford to commit to this level of resources without impacting the running of the business, a structured process may be worth the investment. If not, a bilateral approach, which usually requires less management time, could be more appropriate.

Prospective Buyer Landscape:
If the company appeals to a diverse set of buyers – both strategic acquirors and financial investors – a structured process may maximize value. In cases where there is an obvious buyer or a small set of potential acquirors, a bilateral approach might be more effective and efficient.

Regulatory Considerations:
For companies in heavily regulated industries or geographies, a structured process may provide more transparency and help smooth regulatory approval. In contrast, in less regulated environments, a bilateral approach may be sufficient. Every M&A transaction is unique, and the choice between a structured sales process and a bilateral approach should be carefully calibrated to each deal's specific circumstances. An experienced advisor, like FOCUS Capital Partners, can provide invaluable guidance in making this strategic decision.

Conclusion

In conclusion, both the structured sales process and the bilateral approach offer their own distinct advantages when executing M&A transactions. The choice between these methodologies should hinge on a strategic assessment of the company's unique characteristics, market conditions, potential buyer landscape, and the company's overarching objectives.
A structured sales process with a competitive dynamic and wide market coverage, can help maximize transaction value and validate the company's market worth. Conversely, the bilateral approach offers a more streamlined, direct negotiation process with a single buyer, potentially leading to a quicker transaction and reduced exposure to sensitive information.
Navigating these strategic decisions requires deep sector knowledge, an understanding of the M&A landscape, and sophisticated transaction execution capabilities. FOCUS Capital Partners, with its hands-on approach, works closely with business owners to tailor bespoke strategies that meet their specific objectives. As a member of M&A Worldwide, we leverage our global network to broaden potential buyer reach, thus maximizing transaction value.

If you are considering selling your business in the near future, please reach out to us for an initial conversation today.

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About FOCUS Capital Partners:

FOCUS Capital Partners offers a broad suite of corporate finance advisory and capital raising services, with a focus on Debt Funding, Equity Fundraising, Mergers & Acquisitions, Renewables & Infrastructure, and Tax. FOCUS has expanded into the United States by combining with Washington D.C.-based FOCUS Investment Banking to form FOCUS International, an international M&A services platform. The transatlantic firm provides sell-side, buy-side, and capital raising services to companies in Ireland, United Kingdom and the United States. We are a highly committed, outcome focused team of professionals who bring to each project a powerful combination of technical and financial expertise, extensive commercial experience, strong networks, and an entrepreneurial mindset. We deliver value by working in partnership with our clients and prioritising their needs. For more information, please visit our website https://focuscapitalpartners.ie/.

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