# Selling a business to an investor – strategies for privately held companies

by

Ján Bocko,
Manager of M&A and Project Advisory Department,
VGD SLOVAKIA s. r. o.

**Privately held companies are only sold by the founders once! Most of the time these founders have strong personal bonds to their companies and lack an unbiased view, which can lead to the refusal of reasonable offers from investors. As with all projects, proper pre-sale planning and a structured transaction process can help to mitigate possible deal-breakers.**

A decision to sell a privately held business is one of the toughest decisions entrepreneurs have to make. This is especially true for Slovak owners who started their business after the Velvet Revolution and spent the majority of their working lives building and developing their companies.

There are many reasons for such a decision, e.g. a lack of succession, health problems, family problems, a need for greater liquidity, or the retirement of a key owner. Whatever the reason might be (except sudden life-changing events), proper advance planning of such a step-down is crucial if the owner wants to achieve a favorable sales / exit value and leave the company without significant warranties or risks being taken over during the exit.

In order to achieve the owner's goals, the steps ahead must be absolutely clear. Value seeking owners should appoint an advisor to help them achieve such goals (e.g. maximum sales price), or hire a specialist to lead the project.

No matter who is in charge of the project, the question is - where to begin? Below, we address the key areas to focus on during the pre-sale phase and the transaction.

### Pre-sale phase

Defining the value of the business may or may not be easy. This is especially true for owners with a strong personal bond to the company, as the company has become an integral part of their life. Here, an independent valuation will be very useful to bring a new and unbiased view of the value drivers, revenue streams, cost challenges, signings and backlog of the enterprise. A value interval from such a valuation is a good starting point for reaching agreement and setting reasonable goals by the owner for the project leader.

The owners may opt for vendor due diligence – an independent review of financial and / or tax and legal matters. The report from such a due diligence may reveal weak points in the company files and accounting records. Such a vendor due diligence can be combined with the preparation of the data sets and documents that can be uploaded in the virtual data-room in the later stage of the sales process and shown to potential investors upon request. Such advance preparation normally sheds good light on the owner and company during the transaction.

In connection with the vendor due diligence, the owner may also need support with the disposal of assets considered as personal – e.g. vehicles, land and property, and various claims and liabilities to related parties. The key goal of such a "clean-up" is to have the company records free of assets and liabilities that the investor won't need or might request to have taken off the books after the transaction is concluded.

Last but not the least - how to structure the future deal? What will be offered to the investor and in what form – direct stake / shares, shares of a special purpose vehicle, assets? These are all relevant questions - especially when considering personal income tax on the proceeds from the sale of the business. Tax advisory is vital in such a case for proper tax planning. The more time the owner has for proper tax planning, the lower will be the associated risks.

> **Defining the value of the business may or may not be easy. This is especially true for owners with a strong personal bond to the company, as the company has become an integral part of their life.**

The final issue before initiating a transaction is selecting the right type of transaction – should the owner opt for a private and limited transaction, or approach a wider range of possible investors? This depends on how confidential the owner wants to keep the transaction and whether only a limited number of investors will be interested due to the company focus. Usually more competing investors means a higher sales price for the owner.

### Transaction

Keep in mind that the transaction might take six to nine months to conclude. The length of this period depends on how structured the process is and how many investors perform due diligence and / or who is granted an exclusivity period.

In the initial phase of the transaction, count with the preparation of marketing – especially a short teaser and a more in-depth information package - the information memorandum.

The selection of potential investors is a very sensitive step, especially when the owner does not initially want its direct competitors to know about the sale. After first responses from potential investors, proper non-disclosure agreements must be concluded to cover any damage from misuse of sensitive company information during due diligence.

After the selection of the initial responses, carefully select investors that represent the best match for you and your company. Open the data-room for the selected candidates to review the financial, tax, legal and operational / technology aspects of your business and give them sufficient time to make a decision.

Finally, select the best offer and close the deal with the chosen investor. Ensure market standard representation and warranties from the seller when the company is taken over. If the pre-sale phase was conducted properly, there should be no significant risk areas or leftovers, as the seller will be accountable for these in the future.