

## M&A War Stories

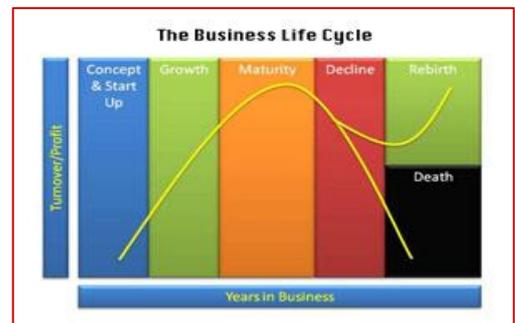
### Why You Will Never Sell Your Business

*A case study in “Deal Prostitution”*

It’s very frustrating to witness the needless destruction of value - value which was created over a whole lifetime of hard work. This is a sad, but true story. Unfortunately, it is also typical of most business owners.

The specific business is active in a specialized niche of the IT sector, has international clientele and is doing reasonably well. However, it has reached a plateau, barely maintaining turnover and profitability, with no prospects for real growth. The owners had four main **Strategic Options**:

1. Continue “**milking the cow**”. This is a case where the business simply dies off after the founders/owners retire, maybe much earlier.....
2. **Transfer the business** to new Management, who may be able to rejuvenate it. Could have worked, but only with proper **succession planning**.
3. They could (after considerable research and deliberation) prepare a **turnaround or growth plan** and then sell this to Investors.
4. They could try to **sell the business**.



*Finally, the owners decided to sell the business, thinking that this is the easiest solution. But, at the same time, they left the window open for a growth capital investment, or even a business transfer.*

- **Mistake 1:** You cannot execute a strategy with an open agenda. Each of the Options 2, 3 & 4 above, requires a lot of preparation and different execution – in other words, **you can’t have your cake and eat it.**

*They asked a qualified professional to perform a valuation. They then took this valuation and multiplied it X2 times. When I asked how they justify the Asking Price, they said that they have a lot of assets and that it’s not just a matter of cash flows or earnings.*

- **Mistake 2:** Valuation has to be fair and reasonable - if you want to sell a stagnant business, **you have to bite the bullet.** Also, you cannot mix and match different Valuation methods at will such as, in this case, an Asset approach and an Income approach.



*They then told their close associates and professional advisors that they are thinking of selling their business - and to let them know, in case they come across a potential investor or “hear something”!*

- **Mistake 3:** You have to **manage the process** of sourcing & engaging potential investors. You cannot conduct a campaign simply by word-of-mouth, or referrals. Nobody will make a serious effort on your behalf, if **you** are not serious. Worst of all, you cannot **shop around** and expect that there will be no **breach of confidentiality & misrepresentation.**

**The Resume:** The business will never be sold because at least 100 people (including key employees, clients and suppliers) have heard that the business “has problems” and the owners are “desperate to sell”. Finally, the owners are left with **only Option 1** above – which is the worst case scenario.

This fiasco could have been easily avoided – this is what we are here for!

Our previous M&A War Story about the “Buffet or a la Carte Approach” to Investing, is available for [download here](#)