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Selling your baby

Here's what to expect when you sell your company, and how to ensure that your feelings don't leave you with a bad deal — or none at all.

By Jim McElgunn

After months of hard bargaining over a deal to sell his Internet company, Calvin MacNeil finally lost it. Punch-drunk with fatigue at 11 o'clock on a Saturday night, MacNeil was mired in an interminable negotiating session in a 40th-floor boardroom in Toronto's TD Centre. Worse, he was starving—the buyer's team, playing hardball, had kept the meeting going without a dinner break in hopes of driving the talks to completion.

The team's probing for weak spots in the entrepreneur's business and the confusing discussions of legal clauses were really getting on MacNeil's nerves. He just wanted this ordeal to be over. Then, recalls Mark Groulx—who was advising the buyer, although these days he mostly works for sellers—someone at the table commented on the entrepreneur's dealings with an ex-shareholder that MacNeil (not his real name) interpreted as an accusation of unethical behaviour.

MacNeil flew into a rage, jumping up on one of the boardroom chairs near a window and shouting, "How dare he say that!" For Groulx, president of Toronto-based A.I.M. Group Canada Ltd., it was a reminder of a horrifying incident in the same building, in which a Bay Street lawyer fell 24 storeys to his death after charging into his office window to prove to colleagues that it was unbreakable. "Oh my God, man!" Groulx recalls thinking. "Don't bounce backward off that chair and fall through the window!"

Few business owners let the stress of selling their company get to them as badly as MacNeil did. Yet, once you put your own firm up for sale, as most entrepreneurs eventually do, you'll discover it's far from just another transaction. For starters, there's the tension of managing what likely will be the biggest deal of your life. And it can be gut-wrenching to sell your baby, surrendering control of the business you've nurtured for so long. You'll feel acute pressure to reach an agreement that treats your family, staff and clients well. You'll also feel that you're being judged. The sale price and other key terms will render a verdict on the quality of your entrepreneurial acumen and on your efforts to create

wealth for your investors, your family and yourself—including the funds for your retirement or next venture. "Your pride is on the line," says Groulx. "It's the ultimate measure of what you did with your company."

The sources of stress don't end there. The relentless demands of the negotiating process will further crank up the intensity. Your patience will be sorely tested by the buyer's water-torture drip of questions about every aspect of your operations and by demands for written assurances that may strike you as unreasonable. And the talks will almost certainly drag on much longer than you had hoped, stretching you to the limit as you juggle the negotiations and the continuing need to manage your business.

Even successful deals can leave wounds that are slow to heal. Just ask Dallas Howe, who in 2002 sold BDM Information Systems Ltd., a Saskatoon-based health-care software developer he had built over a 30-year period. Getting to a satisfactory conclusion proved to be more punishing than he ever expected, and he has since spoken to many other entrepreneurs who've shared his experience. "As much as you prepare for it, you probably won't be prepared for the impact," says Howe. "It can take five years to get over it."

All of which is not to say that you should hold onto your business forever—even if you could afford to. Even MacNeil turned out to be happy with his eventual deal, which put $10 million in his jeans. The key lesson from sellers of companies and the people who advise them is this: anticipating the powerful feelings you'll experience and considering how you'll manage them will not only safeguard your body and mind, but will also help you get the deal done on your terms. Lose your head in the heat of the moment, however, and the fiscal and mental fallout could linger for the rest of your life.

Business owners who've been through the ordeal offer important advice to first-timers. A 2008 survey of more than 100 Canadian entrepreneurs who'd sold their firms reveals many of them would have handled things differently if they'd known what they were in for. The poll for Newport Partners, a Toronto-based financial advisory firm for entrepreneurs, found an overwhelming 78% of respondents agreed it was "an emotionally draining experience." One respondent said, "I thought I was doing okay, but my wife said I was a basket case."

The survey offers one measure of the high-stress time crunch during negotiations. Among the respondents, 51% concurred that "the sales process was so time-consuming, my ability to run the business was compromised." That makes sense, given that most sellers handled the chore on their own. Just 40% hired an adviser with experience in selling a business, a step that 71% would now urge other sellers to take. "I wished I had some people to speak with who had my emotional profile and had been through the sale of a business," said one respondent. And only 33% obtained a professional valuation of their firm, although 74% would now recommend that move to others.

A good adviser can save the deal by acting as a buffer between you and the buyer. Groulx says many sellers, even those not normally prone to anger, lose their temper during negotiations—much in the same way as a mild-mannered person can explode in anger after missing a close putt. Your flare-up might be over nothing—perhaps a carelessly phrased comment that the buyer didn't mean as an insult, or opaque financial terminology that you misinterpret as a sign that you're being shafted. Groulx says one of his services is to translate a seller's expletive-laden comments, such as "You tell that blankety-blank to stick it…," into language suitable for the bargaining table: "The vendor has some concerns about…"

A seasoned adviser can also help you brace for one of the hardest slaps in the face of the entrepreneurial experience: the initial offer for your company. Michael Lamm, an associate with Kaulkin Ginsberg, a Rockville, Md.-based mergers and acquisitions consultancy for mid-market firms, says some owners

take this news terribly: “They think their company is terrific, has all these bells and whistles, and is worth an enormous amount of money. When we tell them, ‘Here’s the reality,’ some owners are able to accept that. But others say, ‘I’m not going to sell my company—ever!’ They’ll take it to the grave.” Lamm recommends completing a business valuation up front so you can recover from the shock of learning the true value of your firm before sale talks start—or opt to delay the sale until you’ve grown your business enough to secure your target price.

Gillian Lansdowne knows how derogatory an initial offer can be. After nurturing her business for 14 years, she sold her Toronto-based executive-search firm to industry leader Ray & Berndtson in March 2008. But negotiations got off to a rocky start when the buyer made an offer that Landsdowne says “was completely not acceptable. We were very far apart on price.”

She might have broken off talks then and there if the seven fellow CEOs in her peer-advisory group at Entrepreneurs’ Organization hadn’t explained to her how the game is played. Lansdowne heeded their advice and refused to let herself get rattled by the opening bid: “It was an insulting offer, but I chose not to be insulted.” She coolly countered with her own price expectation, and eventually landed a figure that both parties could live with.

But it wasn’t easy. “Selling your business consumes a lot of your emotional energy, both during work hours and in the rest of your life,” says Lansdowne. “You’re thinking about it constantly.” It didn’t make it any easier when a friend told her about spending almost a year in talks to sell his firm, only to see the deal fall apart during due diligence.

Tax filings. Supplier contracts. Insurance policies. That sort of minutiae smacks onto your plate once you’re in talks with a buyer. Sure, you know the acquirer needs assurances about this stuff. But it’s easy to become peeved at facing so many intrusive questions about seemingly immaterial details.

Jerald Alexander, a veteran adviser on the sale side, says many business owners resent the loss of privacy when a buyer pries into previously confidential aspects of their operations. “Sometimes the buyer is asking perfectly legitimate questions,” says Alexander, principal at Corporate Finance Associates Toronto. “But the vendor will ask, ‘Why do you want to know that?’ I always tell the vendor to take a chill pill and just provide the information.”

In some cases, the seller’s response to a buyer’s interrogation masks deeper emotions. Alexander had one client who walked out of negotiations five or six times, dragging out the talks for a full year after the acquirer was almost ready to close. When the buyer’s banker came in for a meeting, the CEO fumed that the banker was asking “silly questions I’ve already answered” and stormed out. Alexander realized his client was acting out his fear that life would be empty without his business, which he’d worked on around the clock for 35 years. By discussing this fear with the CEO, Alexander convinced him there’d be plenty to do after the sale. The client loved the final deal and is now so busy he barely has time to meet Alexander for coffee.

Fortunately for a few sellers, they’re the polar opposite of Alexander’s agitated entrepreneur. Groulx says he is now advising one exceptionally level-headed client who has been rock-solid throughout the process, thanks in large part to being impeccably organized. This business owner spent well over a year on preparations, meticulously compiling information for the buyer and taking detailed notes about what to expect by interviewing Groulx and his former clients.

It’s easier to stay calm if you come to the table with all of your homework done. But that won’t spare you from the tension you’ll feel while trying to get the best deal for other key stakeholders in your firm.

That was true for Glenn Kosick. When he sold MinnovEX Technologies Inc., a global pacesetter in advanced services for mining companies, he came armed with an exhaustive, five-year business plan. The buyer—SGS Group, an inspection and verification giant based in Switzerland—was wowed by Kosick's detailed forecasts for all 30 of his Toronto-based firm's products and services: "The guy in acquisitions in Geneva said he had never seen a company of our size that was so well prepared."

Yet Kosick still felt the burden of his duty, as the controlling shareholder, to obtain full value for the five partners whose interests he was representing in the eight-figure deal. The pressure over the nine months of talks came largely from inside his own head. "If we got 5% or 10% less, it might not be as big of an impact on my life as it would be for them," he says. "I was trying to do right by them."

Divisions among the owners added to Kosick's stress. One partner was hesitant about the sale, one was uncertain and Kosick himself had mixed feelings. He wanted to cash in while he was still young (50 at the time), but he was reluctant to give up a talent-rich and pioneering firm that had been "fantastically profitable" over its 18 years. In the end, his partners trusted Kosick to get a good deal, and all of them agreed to it.

Yet now, more than three years later, Kosick is unsure that he did the right thing by saving the expense of hiring an investment banker as an adviser. "You're always questioning yourself," he says. "Was I right or wrong? I could argue it both ways, to tell you the truth." Kosick says he thinks he got as good a price as he could have at the time, and he and his partners were happy with it. But he also says that having an adviser might have bolstered his confidence in his bargaining leverage enough for him to risk walking away temporarily from the table to squeeze out an extra 5% or 10%.

One of the demoralizing moments during negotiations is when you discover that the buyer doesn't really trust you. No sooner has he told you what a hot property your firm is than he starts demanding you sign a stack of representations and warranties promising that the place won't fall apart the minute you relinquish ownership.

Although some of these assurances are routine (e.g., "I warrant that I own the specified shares in my firm"), others can seem onerous (e.g., "I represent that the relationship with key supplier X will continue for the next three years"). Groulx says a seller can become irked by all the demands to "assure me of this, assure me of that—that your key clients won't go away, that your key employees won't go away. Then the seller says, 'Look, dude, you're buying my company. There's only so much I can guarantee.'"

Groulx explains to his ticked-off clients that some buyers ask for the moon as a bargaining tactic, so you shouldn't take it personally. Yet, some sellers do. Don Lenz, a longtime adviser on the selling side and a managing director with Newport, recalls one business owner (not a Newport client) who flew off the handle during the reps-and-warranties stage, demanding, "Why don't they just believe me, instead of me having to sign off on everything?" The poorly advised CEO was surprised by the nature and number of assurances the buyer wanted, which in fact were reasonable requests. The owner walked away from an offer that Lenz says was so outstanding the owner had let the other bidders drift away, leaving him with nothing.

The acquiring company is likely to be larger than yours, perhaps dramatically so. And big companies don't fool around when it comes to buyouts, following the same remorselessly thorough process regardless of the deal's size. Dallas Howe found out how overwhelming this can feel when he sold BDM to corporate behemoth General Electric. Howe says the deal he had hoped to sew up in two months took 10 months as he encountered a GE bureaucracy whose enormity and complexity he hadn't properly anticipated.

Initially, Howe was negotiating with just two people from GE's Milwaukee-based health-care division. But the total ballooned to about a dozen during due diligence—forcing GE's team members to keep a low profile so that word of the potential transaction wouldn't leak into Saskatoon's tight-knit software sector. They didn't use GE's name when checking in at their hotel, which agreed to list their negotiating sessions under a fake company name on its bulletin board. The GE team members came from all over, and "there were so many of them that a lot of them didn't even know each other," says Howe. "We had to start over at that point."

One could sympathize if BDM's three-person team, advised by Don Lenz, had felt daunted facing GE's small army across the table. But Howe refused to be intimidated. He knew GE was keen to acquire BDM's planning software for hospital pharmacies, which a respected third party had rated No. 1 worldwide in its class. That helped Howe steel himself for the push to obtain guarantees that GE would retain key staff members and let them stay in Saskatoon. This wasn't an issue GE was used to in its acquisitions, and it was a struggle to get the multiple layers of its executives involved to budge. But Howe, driven by a keen sense of obligation to his employees, toughed it out until GE conceded the point.

By now, you might be thinking that surely a sweetly reasonable person like yourself won't find selling your business as emotionally demanding as the sellers in the preceding examples did. Yet even a cool cucumber like Jonathan Latsky, who prides himself on taking a dispassionate view of his own business, says both times he has sold a company have been stressful. (In his most recent deal, concluded last July, private investors bought Student Awards Inc., a Toronto-based scholarship-search website he co-owned.) Latsky thinks of a sale as simply exchanging one asset class (shares in your firm) for another (cash). "I'm always open to a discussion if I feel there's a good ROI for my investment," he says. "That might sound crass, but that's what it is." The key is to strip out your emotional attachment to your firm so you can decide as objectively as possible what's best for you and your family.

But Latsky's unsentimental approach hasn't entirely shielded him from the emotional aspects of deal-making. "It's very upsetting when I look at all the time, effort and expense I'm putting into the negotiations, and how much that diverts me from running my company," he says. Also vexing is the typical requirement that you sign a letter of intent precluding your company from any major changes in direction during the talks. "You're frozen in time," says Latsky. "That's not a good thing if the negotiations take a long time."

Above all, there's the stress of knowing that all your hard work might be for naught. Latsky initially spent six months negotiating to sell Student Awards to a division of a large U.S. firm, and was on track to a fruitful conclusion when the buyer's head office suddenly froze all acquisitions. To Latsky's immense frustration, the deal died.

Still, he fought the impulse to let this setback poison his attitude towards the next deal. When a new suitor turned up a few months later, Latsky leapt back into the fray—this time, successfully. So much can go wrong in negotiations, he says, that the chance of closing a given deal is probably less than 50%. But you can't let that get you down: "If you've had a bad experience, you might not fully engage with the next prospective purchaser and give [the proposal] the commitment it needs to make the deal happen."

Not every CEO has the emotional makeup to rebound from the death of a sale. Yet that can make all the difference. The high rate of failed deals "is one of the more frustrating aspects of business," says Latsky. "But the ability to accept this might separate those who can succeed from those who cannot."