Dealing with Inexperience Can Ruin the Deal

The 65-year old owner of a multi-location retail operation decided to retire. He interviewed a highly recommended intermediary and was impressed. However, he had a nephew who had just received his MBA and who told his uncle that he could handle the sale and save him some money. He would do it for half of what the intermediary said his fee would be – so the uncle decided to use his nephew. Now, his nephew was a nice young man, educated at one of the top business schools, but he had never been involved in a middle market deal. He had read a lot of case studies and was confident that he could "do the deal."

Inexperience # 1 – The owner and the nephew agreed not to bring the CFO into the picture, nor execute a "stay" agreement. The nephew felt he could handle the financial details. Neither one of them realized that a potential purchaser would expect to meet with the CFO when it came to the finances of the business, and certainly would expect the CFO to be involved in the due diligence process.

Inexperience # 2 – It never occurred to the owner or his nephew that revealing just the name of the company to prospective buyers would send competitors and only mildly interested prospects to the various locations. There was no mention of Confidentiality Agreements. Since the owner was not in a big hurry, there were no time limits set for offers or even term sheets. It would only be a matter of time before the word that the business was on the market would be out.

Inexperience # 3 – The owner wanted to spend some time with each prospective purchaser. Confidentiality didn't seem to be an issue. There was no screening process, no iterview by the nephew.

Inexperience # 4 – The nephew prepared what was supposed to be an Offering Memorandum. He threw some financials together that had not been audited, which included a substantial amount that the owner took and forgot to inform his nephew about. This obviously impacted the numbers. There were no projections, no ratios, etc. This lack of information would most likely result in lower offers or bids or just plain lack of buyer interest. In addition, the mention of a pending lawsuit that could influence the sale was hidden in the Memorandum.

Inexperience # 5 – The owner and nephew both decided that their company attorney could handle the details of a sale if it ever got that far. Unfortunately, although competent, the attorney had never been involved in a business sale transaction.

<u>Results</u> — The seller was placing almost his entire net worth in the hands of his nephew and an attorney who had no experience in putting transactions together. The owner decided to call most of the shots without any advice from an experienced deal-maker. Any one of these "inexperiences" could not only "blow" a sale, but also create the possibility of a leak. The discovery that the company was for sale could be catastrophic, whether discovered by the competition, an employee, a major customer or a supplier. The facts in the above story are true!

The moral of the story – Nephews are wonderful, but inexperience is fraught with danger. When considering the sale of a major asset, it is foolhardy not to employ experienced, knowledgeable professionals. A professional intermediary is a necessity, as is an experienced transaction attorney.