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## **M&A For Staffing Services: Getting the Most From an M&A Advisor**

*By Steve Sorrentino, President, MergeQuest*

If you are a Staffing Service business owner thinking about the sale of your business, you probably have many questions about the market value of your business followed by questions about the merger and acquisition process. With these questions in mind, you are also likely thinking about engaging some professional help for this endeavor in the way of an M&A advisor. As you consider hiring professional help, some fundamental and important questions prior to engaging such an advisor should be:

- a) what can an M&A advisor do for me? and
- b) how do I get the most beneficial service from using such an advisor?

### **Broker vs. Advisor**

The difference between an M&A broker and M&A advisor is fairly significant. Often times, the terms are used interchangeably but beware the differences. In simplified terms, a broker will typically “list” your business for sale and then introduce buyers to you for a transaction fee (i.e. a broker’s fee). Conversely, an M&A advisor will provide far more comprehensive services that are designed to guide you through the “M&A process” – which includes:

- a review and assessment of your company’s operating and financial history and performance;
- preparation of a market valuation for your business;
- guidance and advice to help prepare you and your business for market;
- preparation of an Offering Memorandum (a detailed, yet succinct overview of your firm’s operating & financial profile and history);
- identification of and introductions to appropriate buyers;
- facilitating, coordinating and participating in buyer meetings and discussions;
- negotiating with buyers over pricing and deal structure;
- developing beneficial, sometimes unique transaction structures; and finally,
- assisting in due diligence and all matters relating to the transaction closing.

In the end, choosing to work with an experienced M&A advisor can greatly improve the likelihood of a successful M&A outcome through preparation, guidance and professional support throughout the entire M&A process.

### **Planning**

M&A advisors who are knowledgeable about your industry can provide you with invaluable insights into current market conditions and trends, along with providing an assessment about your company’s financial performance and potential market value. Further, a reputable M&A advisor will be frank with you about whether your company is ready to go to market. If your company is not ready to go to market, most M&A advisors will assist you with specific guidance regarding necessary steps needed to prepare the company for sale at some future date.

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Perhaps the most important things an M&A advisor can do for you during the initial stages of their engagement is to help you **plan** and **prepare** for the myriad of activities surrounding the sale of your business. From the needed documents and information, to the sequence of events during each step of the process, to providing insights about how to handle the emotional ups and downs inherent in any M&A deal - an experienced M&A advisor can help you plan ahead to avoid the pitfalls and make the journey far more manageable and rewarding.

### **Presentation & Positioning**

One of the first things an advisor will do is prepare a written overview of your company's profile. Often referred to as the "Offering Memorandum", this document will serve as the first impression that any prospective buyer has of your company, so it is very important that you provide your advisor with accurate operating and financial information. Enough cannot be said about creating positive and clear first impressions with prospective buyers, as these initial perceptions tend to endure regardless of whether or not they are an accurate portrayal of the business.

An M&A advisor familiar with your industry and prospective buyers within the industry will have a unique understanding about buyer's M&A target profiles, along with what buyers are thinking and what key attributes will interest and motivate them to buy a particular company. Armed with these insights, your M&A advisor can effectively speak to a buyer's particular interests and concerns, which ultimately increases the likelihood of finding a suitable partner and optimizing the value of the deal.

Notwithstanding the positive financial attributes your firm has to offer, one of the key buyer motivations today involves the potential "fit" and "synergy's" your firm has with a potential partner. Again, a skilled M&A advisor will present your company's profile and potential synergy's in a manner that is most compelling to prospective buyers.

### **Close Encounters of the Best Kind**

Once an Offering Memorandum has been prepared and approved by you, your M&A advisor will typically prepare a list of potential buyers from their database of contacts. You are well advised to ask your M&A advisor to present you with a list of potential buyers before any contact with prospective buyers is initiated. This will give you the chance to review the list and eliminate any company that you specifically do not want contacted. In some instances, you may find that a competitor is on the list or perhaps a company, that for any number of reasons, you would prefer not to have the advisor make contact with. In short, you should make the final call on all potential buyer contacts and be given the chance to review and approve the list.

In the end, most of the buyers in the advisor's database will have specific contacts with whom the advisor is familiar. Whether it's the CEO, CFO or the buyer's M&A executive, your M&A advisor will typically have an established relationship with the contact – which will drive the buyer's receptivity to the opportunity while adding credibility to your company's profile and its potential market value.

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## Negotiations and Deal Structure

It is at this particular stage of any M&A deal that experienced M&A advisors prove their worthiness. As such, it is worth emphasizing that engaging an M&A advisor who specializes in your industry can pay enormous dividends. Through trial and error over the years, an M&A advisor who specializes in your industry has come to “know the ropes” regarding any number of industry-specific nuances and peculiarities. In short, knowing and understanding industry norms that apply to your business have an understated way of expediting the entire M&A process while contributing to the optimization of deal value. This is particularly true with Staffing Service businesses where there exists a clear set of generally accepted methods for determining business value – methods that are driven not only by financially-based quantitative factors but also by industry-relative qualitative factors that are inherent in operating business models found within the Staffing Services industry. M&A advisors that are familiar with the Staffing Services Industry will understand the relevancy of these factors along with how to apply their correlated weight to valuation models.

Over on the negotiation and deal structure end of the spectrum, you will find that the skill of an experienced M&A advisor will allow them to tackle virtually anything a prospective buyer throws their way, including tough questions and aggressive negotiating tactics. Aside from navigating through negotiation exchanges with prospective buyers, your M&A advisor will ensure that such things as transaction structure and deal terms are constructed to suit your individual needs and preferences vs. those of the buyer’s. Careful consideration should be given to transaction structure as it relates to how to liquidate the firm’s Balance Sheet values, the cash component of the deal to be paid to you at closing and finally how the balance of value for your firm will be paid to you and over what period of time it will be paid. Bear in mind that most if not all of the M&A transactions in today’s market have two sides to the equation: a cash component (paid at closing) and what is called an “earn-out” component, or value paid out over some pre-negotiated period of time – based on some pre-determined (future) financial performance objectives or targets.

Once the transaction value, structure and terms have been negotiated, your M&A advisor will skillfully guide you through the buyer’s proposals, offers and correlated legal documents, including such things as the Letter of Intent, Purchase and Sale Agreement, Non-Compete Agreements and Employment Contracts. This of course will be done in conjunction with your legal advisor.

Finally, as with any business transaction, there will be taxable consequences resulting from the sale of your business. While M&A advisors are generally not tax experts, they typically know enough about the potential tax consequences inherent in M&A transactions to assist you and your tax professional to engineer the most favorable (sale-related) taxable outcome.

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## In the End

Any M&A transaction is a complex undertaking, rife with a myriad of detailed steps within an intricate process. It pays to have an experienced advisor at your side helping to guide you through the entire process: to advise you, to negotiate for you, to manage the multitude of interactions and moving parts, to help you avoid the many potential pitfalls inherent in deals and ultimately to optimize the value that you realize from the transaction while bringing smooth and unencumbered closure to the deal. You will find in the end, that engaging an experienced M&A advisor is well worth the investment.



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