

How to respond to an unsolicited offer for your business

[Brad Cherniak](#) | July 14, 2015 1:58 PM ET



Fotolia Fielding a takeover offer? No matter what you've been told, you definitely need an adviser.

At Sapien Capital Partners, we are frequently approached by entrepreneurs and business owners who want to do a wide range of things from the simply brilliant, to the challengingly complex, to the fatally flawed.

Sometimes we can help. Other times, they are just not in position to succeed. Or they are too impatient to do what is necessary to succeed.

My next few columns will offer unvarnished insider insights to what we consider to be the best and most relevant queries.

This is one of my personal favourites: How do you respond to an unsolicited approach by an investor/buyer regarding your small to medium-sized private company?

“Do I need an adviser? The other party says we don’t need one — we can do this ourselves in a friendly deal.”

Of course they’ll say that, it’s like asking a hockey player whether he’d like to cover your kid brother Johnny in a game, or Jonathan Toews. Don’t rely on your adversary to tell you what’s in your best interest.

And if you don’t think they are at least your financial adversary, you are their prey. Don’t be naïve. Capitalism is wonderful and history’s greatest generator of wealth, but it is still a combat sport. So, yes, you need an adviser — unless you have sold several businesses and have the scars to prove it.

“Do I need a specialist adviser with specific and significant experience in my industry?”

If you are a small to medium-sized client, a specialist adviser would more likely be looking out for the buyer’s interests, not yours. They do many deals in your sector, and know all the buyers. They have probably done several deals with many of them.

Selling your company is a one-time event, but they will meet up again and again with the same buyers.

Do you think it is more advantageous for these advisers to curry the favour of their repeat customers by getting them sweet deals, or risk falling out of favour by aggressively representing the seller, you, to maximize your value and get you the best transaction terms? It doesn’t take much to turn the tide in the buyer’s favour.

And the industry experts these advisers tend to trot out when they are trying to get you as a client are there more to impress you than the buyers. Save for very specialized industries and situations, the only industry expert needed is generally the business owners themselves.

It is more important for the adviser to have a broad range of deal and transaction experience. Smaller deals with smaller companies tend to have far more material unique features and circumstances than large corporate deals. There are far more with imperfections — opportunities for buyers to try to hit you with them like a club to gain the advantage in the negotiations.

Negotiating skills and the ability to work with imperfect information and facts are your main defense.

“How do I pick an advisory firm that will be there with me to the finish?”

If the firm hasn't been around for five years or more as it is currently constituted, and it can't show you transaction tombstones and client testimonials, you can't be sure. They may be good, but their attention to you and your company could be fleeting if the firm is only a transition to something bigger and better for its founder.

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The bottom line is, you need to find yourself an experienced, successful adviser who specializes in small to mid-sized businesses exclusively, and who has done so for more than a short, and potentially interim, time.

Don't try to self-advise, you'll most likely regret it. Remember, capitalism is a contact sport.

Brad Cherniak has spent more than 20 years as a principal, advisor to and investor in private companies. He is co-founder and partner at Sapien Capital Partners, a Toronto-based advisory firm to companies from early stage to \$50-million in revenues. His column appears monthly in the Financial Post. He can be reached at brad@sapientcap.com and you can follow him on Twitter as @SapientCapital.