



The Investment Banker ...the benefits of using one and how to choose the right one

People often ask why they should use an investment banker when they already have their own in-house staff, auditor, tax adviser and lawyer. To answer this question one has to understand the various services provided by investment bankers. In addition to managing M&A transactions and/or obtaining financing, an experienced investment banker should be counted upon to keep his client informed of financial market sentiment, assist management and shareholders on financial and business strategy, and help “market” and promote his client to lenders and investors.

Many of the professionals already working for you either as employees or service providers are undoubtedly qualified; however, unless they actually specialize in transactions, or deal in the financial market every day, few will have the years of “deal-flow” experience and market pulse to ensure you get the best deal possible. Obviously, some investment bankers will have more experience than others; in the second part of this newsletter we’ll give you pointers on what to look for in choosing the right advisor. Not all situations justify the use of a dedicated investment banker; a good one will help you determine the value added.

Specific benefits to having an investment banker join your team include:

Credibility: Having an investment banker representing you confirms you are seriously committed to a transaction. Third parties will take you more seriously if you are well represented and surrounded. Using a reputable investment banker will also signal your deal has been vetted and will be far more likely to be “on top of the pile” rather than lost in the shuffle. Many parties, especially lenders, prefer to see an investment banker representing the applicant as it streamlines the process.

Confidentiality: An independent investment banker can be used to contact the business community without initially revealing who you are; this avoids broadcasting your intentions to customers, competitors and even your employees. At the beginning of a transaction, anonymity can level the playing field by avoiding pre-conceptions.

An intermediary: An investment banker is an invaluable intermediary who can “buffer” confrontations and exchanges. Having intermediaries negotiate a transaction reduces emotional responses and related stress and prevents you from being put on the spot to make a decision without adequate time to reflect.

Expert help: The sale or acquisition of a business, or a large financing, is complicated processes (see sidebar) that can take months and is typically highly disruptive to your everyday business. An experienced investment banker will manage your transaction leaving you and your staff free to continue managing your business. This is critical for transactions that rely on the continued success of your business during the deal process; dropping the ball on your business during this period can prove disastrous.

Sales Mandate Example:

A good advisor should provide the following services:

- Appraise the value of your business and determine if it is saleable;
- Help you manage your expectations, and help you understand various deal structures;
- Help you develop your sales strategy;
- Identify qualified buyers;
- Prepare a Teaser and a Confidential Information Memorandum (“CIM”);
- Approach buyers with the Teaser and arrange confidentiality agreements;
- Distribute the CIM and obtain Letters of Interest;
- Assist you in evaluating preliminary offers to confirm your expectations can be met and select suitable offers to proceed;
- Arrange a data room and provide sufficient information to solicit and guide commitments;
- Assist you in a final selection;
- Coordinate the due diligence;
- Act as an intermediary in negotiating final terms and supervise drafting of legal documentation to ensure the “spirit of the deal” is respected;
- Close the deal.



Choosing the Right Investment Banker

Choosing an investment banker to assist and represent you in a transaction is probably the second most important decision you will make after deciding to do the transaction itself; choosing the right advisor is essential.

The number one factor in choosing an investment banker is his experience. Chances are the more deals a person has done the more he has learned. Look at how many years the individual has been practicing. When choosing a firm, find out who will be doing the actual work, the seasoned partner you met initially or a junior being trained? Remember, it takes years and numerous transactions to build experience, it can't be imitated.

A popular misconception is that someone who knows your business intimately will serve you better than one who doesn't. While industry-specific expertise helps, the key component you should be looking for in an investment banker is his ability to develop practical solutions and workable structures while negotiating the best deal possible. An advisor with a wide cross-variety of deal-background may well be more capable of thinking "outside the box" to get the deal done.

Choosing a large recognized firm for the sake of the "name" may not be better if your deal doesn't command the right attention due its relative size. Your advisor should be incentivized to give you his utmost attention.

Finally, managing a deal means working with people. An experienced advisor will have a wide network of contacts which will prove invaluable. He will also have to "fit in" with you and your team; you should not undervalue personal chemistry.

Whether you are thinking of selling your company, buying a company, raising money for operations or expansion, or simply need business advice, you should consider including an investment banker in the team of experts you regularly consult upon.

"Much as you should get an advisor on board well before you start a transaction, look to an advisor who is interested in you and your business over the longer-term."

Here are a few questions you should ask your advisor before making a decision:

- Describe the process you intend to follow?
- How long will the process take?
- How will you communicate with potential buyers/sellers/lenders?
- Who will do the work and handle the negotiation on this project?
- What do you think my company is worth?
- What is your fee structure? Can you estimate the total cost vs. added value?
- Can you describe recent transactions you've completed; their size; industry?
- Can you provide references?
- Are you willing to sign a confidentiality agreement?
- Would this mandate place you in any conflict of interest?

If you want to know why you should hire Cafa, verify our credibility; call us.