TECHNOLOGY ACQUISITION UPDATE

The 7-Step Strategy: Responding to an Unsolicited Offer

If an offer to acquire your company comes in out of the blue, you should be prepared to respond intelligently. In today's technology markets, receiving an unsolicited offer is fairly common.

When the offer arrives, it may not be an official letter or for a specific price. The CEO of the buyer may simply place a phone call to the CEO of the target company asking if they would be open to discussing a sale.

Everyone is flattered, of course, when a buyer is interested in your company. But how should you respond? Should you scramble to get competitive offers? When and how should you contact other buyers? What is your plan? These are questions that a company should be prepared to address.

Many companies are unsure about the best response. They wonder if trying to get additional offers is difficult, risky, will take too long or will displease the buyer. The smart management team will assess the situation and respond appropriately.

1. Get Experienced Advice

First of all, get the guidance of an experienced advisor. This might a board member, an investment banker, another CEO or a trusted consultant. In any case, it should be someone who has had significant experience with the sale of companies.

Most entrepreneurs are independent types and prefer doing things themselves. However, the sale of a company is different. It may seem quite straightforward at the outset, but the nuances and subtleties involved with the sale of a company are numerous. A CEO may not even be aware when he or she is slipping up or making a mistake. In addition, the consequences involve real money and rookie mistakes can be expensive. An experienced adviser will provide you with objective advice, a perspective on the market and recommend the best course of action.

2. Engage with the Buyer

Begin a dialog with the buyer and see where the conversation goes. Be aware that going down this road can be a very time-consuming process.

Think about the buyer's business. How good is the fit between your companies? Is the buyer already in your sector or about to enter it? Does the buyer have the ability to pay an attractive price?

Sharing appropriate information with the buyer begins by putting a nondisclosure agreement (NDA) in place. The buyer will want financial statements, projections, schedules, partnership agreements and other information about your company.

Be circumspect about how much and how soon you share sensitive information, particularly customer information. It is not unusual for buyers to ask for too much or inappropriate information early in the process. This is particularly true if the buyer is not an experienced acquirer. For example, it is not appropriate for a buyer to ask for your customer list (or revenues by customer) early on. This should be a red flag.

3. Assess your Situation

Assemble your management team and review your growth plans. Are you making good progress? Do you need additional capital for growth? Are your products and technology fully developed? Review your marketing and sales efforts. Are you effectively attacking the market? Are you winning the competitive battles? Perhaps being part of a larger company could be a good way to expand your marketing and sales capabilities.

Assess the market situation. What is the stage of the market—is it early stage or a mature market? Are new companies entering the market? Is the market growing?

If your firm is growing nicely and building market share, it may be wise to sell later on down the road. On the other hand, if your company is struggling to gain market traction or profitability, selling now might be a smart strategic move.

4. Have an Idea of Your Company's Value

What is the value of your company? An investment banker can help you understand your value.

Remember that there are two types of value—financial value and strategic value. The financial value is based on your company's operating profits. For technology companies, the strategic value is almost always greater than the financial value. It is critical to understand the strategic value of your company to potential acquirers.

5. Generate Additional Offers

My recommendation is almost always to generate additional offers. How else will you know if you're getting the best price? The value of competitive bids is significant. Are there other buyers that might be a better fit? The buyer may have competitors that might be good acquirers. Examine the sectors adjacent to your market. Do these sectors contain buyers that could acquire your company in order to enter the market?

6. Manage the Timing

Managing the timing is critical when generating additional offers. There are three basic options for responding to an unsolicited offer: rapid, medium and comprehensive. The rapid response involves reaching out to five or 10 companies as soon as possible to get competitive bids. Timing is important because if you have a quality buyer in hand, you do not want to dally too long.

The medium response involves contacting 10 to 20 companies, going beyond the obvious candidates. This response takes more time but it includes a wider universe of buyers.

The comprehensive response involves a fairly extensive search for additional buyers, contacting between 20 and 40 companies. The time line for this approach is longer but it leaves little doubt that all of the best buyers have been contacted.

7. Prepare Early

The best preparation for an unsolicited offer is to consider your exit strategy well in advance. There are measures you can take to maximize the price and avoid leaving dollars on the table. Make sure the goals of management and shareholders are aligned. Keep your financial statements up-to-date. Document your intellectual property properly. Manage and track the profitability of your products as well as the profitability of each customer. View your markets strategically. This means understanding the movement in the markets and assessing the likely outcome of that movement. Don't get caught off guard by an unsolicited offer.

This article includes excerpts from Tom Metz's book, *Perfect Your Exit Strategy—7 Steps to Maximum Value.* (Bettencourt Publishing, Ltd. 2016)