T.V. METZ & CO., LLC

Boutique Investment Banking

November 2019

TECHNOLOGY ACQUISITION UPDATE

17 Reasons the CEO Should Not Sell the Company

CEOs and founders can sell their own companies—unquestionably. They do it all the time. However, can they do it effectively? Can they run the company and at the same time devote the significant time that selling a company requires? Will they reach out to a wide range of buyers and generate competitive offers? Will they get the best price for the shareholders?

Selling a company at the best price and terms to the best buyer with minimal problems is a difficult endeavor. Over the years I have observed many CEOs attempting to sell their own companies. These CEOs often make rookie mistakes and these blunders can cost the shareholders real money.

At first glance, it is tempting for a CEO to try to sell his or her own company. After all, he or she knows the company and the market very well. A CEO's mindset can often be characterized as: (a) I know the industry; (b) I know how to negotiate; (c) I'm a smart guy… I can sell the company. In addition, we will save a fee.

What follows are 17 common mistakes that CEOs and founders often make when trying to sell the company themselves.

1. This Will be Easy

Many CEOs think selling a company is easy and the process straightforward. Selling a company appears to be an interesting challenge as well.

What they fail to realize is the tremendous amount of time and effort required to do the job right. Without experience in M&A, they miss the subtleties that can lead to the best price, better terms and a smoother process. Plus, he or she must still run the company—a full-time job in itself.

2. Ignoring Opportunity Cost

Where can the CEO add the most value? Trying to sell it or continuing to build the company?

A CEO creates the most value by running the company effectively. He or she provides leadership, keeps things running smoothly, solves problems, increases revenues and keeps the team pulling in the same direction.

3. No Full-Time Commitment

Identifying and contacting candidates is a full-time task that takes several months. This process can be very tedious—something that an executive level person may not want to undertake. A CEO who is running a business cannot possibly give full attention to a comprehensive search process.

4. Not Generating Competitive Offers

CEOs tend to pick the low hanging fruit; thus, their search is rarely extensive. CEOs typically do a limited search, contacting about six buyers. They think they know the market and which companies would be good or poor buyers. Some are convinced that one particular buyer will pay the highest price. CEOs rarely seek buyers in the tangential and fringe markets.

Furthermore, once a CEO begins discussions, he stops looking for additional buyers. He is content to engage one or two potential buyers. Deals can fall apart; however, and it is smart to get multiple offers and generate competitive bidding.

Reaching out to additional buyers simply creates more work for the CEO. Many CEOs tacitly assume that the incremental price will not be worth the incremental effort. This is not the case.

5. Failure to Manage the Process

The sale of a company involves a multitude of detailed activities. The process must be effectively managed. One doesn't just make some calls and have a few meetings. A professional intermediary can, coordinate the activities, overcome the inevitable obstacles, and move the transaction along in a timely manner.

6. Poor Positioning

CEOs generally are not skilled at positioning the company to potential buyers. How should the company be presented? What technology or assets should be emphasized?

Value must be viewed from an external perspective, not from management's internal perspective. Since value is extrinsic, buyers will view value differently. This may be very different than how the CEO views value.

7. Setting the Wrong Price

A CEO's own prejudices can cloud the value issue. Unrealistic value expectations can be deadly. What the market is willing to pay may be very different from what the CEO thinks his company is worth or ought to be worth. I have seen this problem derail a number of deals.

A CEO may want to sell only if the price is greater than a certain threshold (where his or her stock options are in the money). This may misprice the deal and it may not be in the best interests of other shareholders.

8. Presenting the Wrong Information

Since they are not M&A experts, CEOs are not always aware of what information should be communicated at different stages of the M&A process. They will often give the wrong depth of detail—too much information too soon or too little information too late.

CEOs often do not take the time to develop the proper documentation to promote the sale. Most fail to draft an attractive selling memorandum.

In addition, CEOs typically portray their companies in a good very light. "Everything is going great. We have great marketing, great technology and great people." It is difficult for them to view the transaction from the buyers' eyes. Glossing over the negatives is a red flag for most buyers. And every company has some negatives.

CEOs rarely admit that they have done a poor job in marketing or sales. However, a company with excellent technology that has not had the capital to undertake a serious marketing effort can be positioned as an opportunity for the buyer.

9. Poor Listening

A CEO usually focuses on the points *he* wants to make and what *she* wants to say. One must listen with big ears. What is the buyer saying between the lines? What are they really after? A good negotiator is a keen listener.

The negotiator's job is to figure out the other side's issues and motivations. A danger is not being aware of a problem before it becomes full blown. You can't solve or head off a problem if you are not aware of it in the first place.

Plus, buyers will tell a third party things they would never tell the CEO directly. This enables the third party to pick up clues along the way about how strategic the technology is to the buyer or how the buyer perceives value.

10. Representation Shows that You are Serious

If a buyer receives an inquiry from an investment banker, it signals that the company is serious about selling. Buyers do not want to waste time with a company that is not serious. If the CEO is running the process, how serious could they be?

11. Persistence can Imply Desperation

The CEO cannot push the transaction without appearing desperate. He cannot call the buyer every other day. An intermediary can ramrod the transaction, calling the buyer four times a week to keep the deal moving. This is the advantage of being a third party; he is just doing his job. Buyers expect him to be persistent. A persistent CEO, on the other hand, can be perceived as a desperate seller.

12. Adversarial Beginnings

Friction can develop between the buyer and seller. To avoid an adversarial relationship, it is a good idea to have an intermediary handle the negotiations. An experienced third party will be more adept at dealing with troublesome issues.

A case in point is negotiating the president's salary and option package. Who can best negotiate these items—the CEO himself or a third party? Let the third party be the bad guy.

13. The Myth of a Narrow Value Range

This is a subtle mistake, but a common one. CEOs assume that value falls within a narrow range and that an interested buyer will pay them what their company is worth. This presupposes, of course, that they know what their company is worth.

The value of a technology company can vary widely. The same company could be worth $4 million, $7 million, or $10 million depending on the strategic fit with the buyer. The high price is several times the low price—a huge range of value! Don't assume that buyers will pay similar prices.

14. Incorrectly Valuing the Buyer's Stock

If the seller receives stock from the buyer, what is the accurate value of that stock? A public company's stock price may not represent its true value. What about receiving stock in a private company? The valuation from the last financing round may not reflect the current market or company situation. Most investment bankers have significant experience determining value.

15. Conflicts of Interest with Shareholders

If the CEO will be taking on a management role going forward, that situation my involve a conflict of interest with the shareholders. Why play hardball if you're getting a great job offer? In addition, the shareholders may have different preferences than the CEO about receiving cash or stock or other transaction terms.

16. Simply Not Objective

A CEO is so intimately involved and entwined with the company that he or she cannot possibly be objective. Objectivity is an important strength of any outside advisor—they have different eyes, different experience, and will view things differently. Even if a CEO has previous M&A experience, he or she simply cannot be objective.

17. The Fallacy of Saving a Fee

Everyone loves to save a fee. But is trying to save a fee really worth it? Is the amount of the fee saved greater than the incremental value that the CEO could add by focusing on building the business?

Rarely is the amount of fee saved greater than the value of the president's time. In addition, any fee saved is negligible in the overall context of the deal.

Summary

Most CEOs underestimate the time and effort required to do an effective job of selling a company. There are many moving parts in the sale process. The best thing for the shareholders is to have a professional intermediary sell the company, not the CEO.