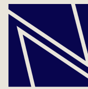

Nordam

The Exit Cycle

1 ESTABLISHMENT

2 MATURATION

3 EXIT PREPARATION

4 TRANSACTION

5 POST TRANSACTION

The Exit Lifecycle White paper

Nordam Business Partners

Christine Nordam Andersen / Managing Partner
+45 81733781 / christine@nordambp.dk

nordambp.dk

Ready for your next exit?

Make sure you are prepared to maximise exit opportunities when they arise.

This white paper provides an overview of the exit process that applies to most owner-led companies. It is intended as a guide to help you manage some of the new and challenging aspects of selling your company and is especially targeted at first-time sellers of small and medium-sized companies. This white paper will help you recognise your current situation and take concrete steps to meet your transaction goals.

What is an exit? We define an exit as any change in ownership structure or equity allocation, including the sale of a minority or majority share, management buyout, IPO or a merger.

Thank *you!*

This white paper is based on Christine Nordam's experiences as a financial due diligence adviser and as an independent M&A consultant focusing on financial and ESG exit preparation.

Thank you for collaboration with and contributions to Christine's network among Danish and international private equity funds, banks, corporate finance advisers, board networks, former owner-managers and clients.

A special thank you to Bente Brinck Jørck and Per Skov Jensen for sharing personal exit experiences, and to Jette Poulsen Jørgensen from the Centre for Owner-Managed Businesses at Copenhagen Business School for her input.

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Why prepare for your exit?

1. **Increase** your enterprise value by building the credibility of your projections. Start delivering on your projections before you enter the transaction to demonstrate their validity.

2. **Increase** the chances of selling your business by assessing its risks and potential red flags to decrease investor uncertainty. Start the assessment process years ahead of your exit to increase your chances of mitigating risks.

3. **Improve** the likelihood of a smooth transition by professionalising your organisation. Professionalise your operations, including your workflows, management reporting and board minutes, and ensure they align with the business plan and ambitions. These changes will ease the transition to new ownership and will serve your company regardless of whether the transaction is completed.

4. **Increase** your ability to operate and exit your company simultaneously. Exiting a company is hard work! Working ahead will help you personally prepare for the process and increase your ability to manage the conflicting demands of a transaction.

5. **Maximise** the opportunities available for your exit. Owners and management like to talk about the timing of exits as something they control. However, transactions are often initiated by unsolicited interest from large corporates or professional investors. Adequately maturing can help your business take advantage of favourable opportunities when they arise.

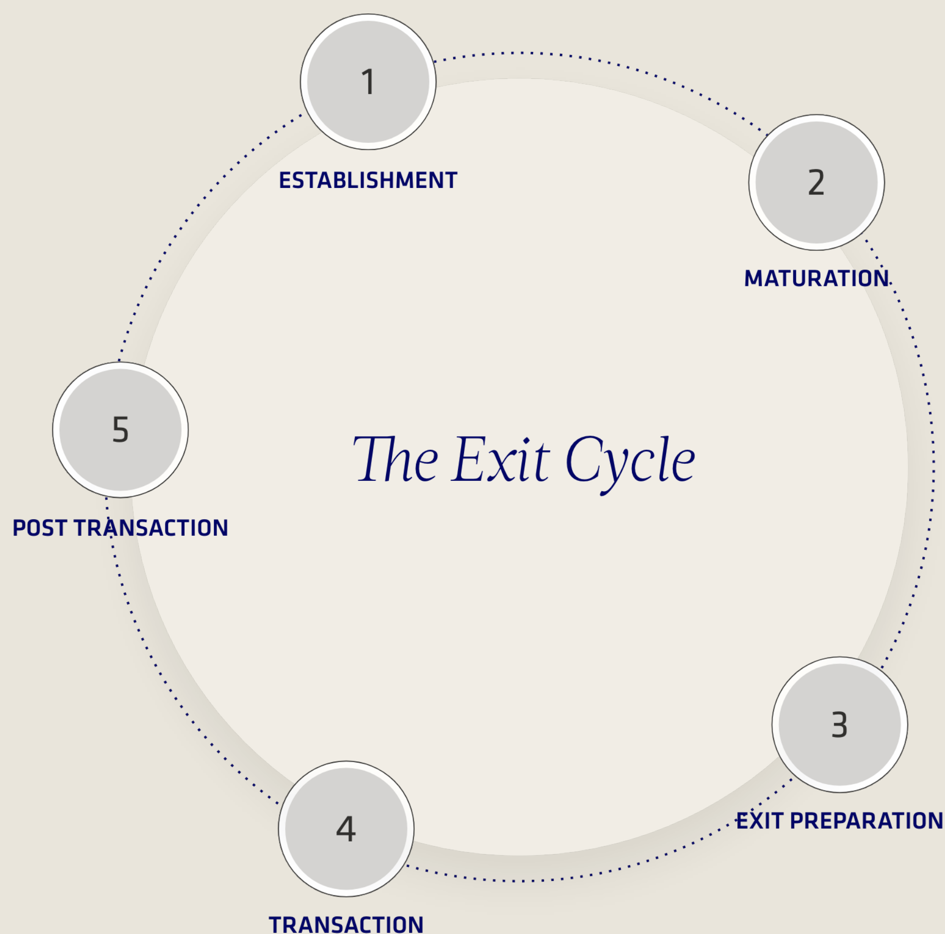
The Exit Cycle

This paper is structured around the Exit Cycle, our proprietary framework for approaching transactions. It will empower you to understand and navigate the transaction process.

The Exit Cycle contains five phases: Establishment, Maturation, Exit Preparation, Transaction and Post-transaction. Collectively, these phases cover the key changes that occur throughout the business lifecycle and the core actions during these phases that facilitate a successful transaction.

We focus primarily on the first three phases to help you take actions that will maximise your transaction value and ensure you reach your goals. With our guidance, you will be able to recognise benchmarks for success and identify areas where you need support along the way. Although we address the Transaction and Post-transaction phases, their inclusion is brief and intended to facilitate your advance preparations with a general understanding of what lies ahead.

We have also chosen to prioritise the unique challenges that face owner-led companies. While much of the contents of this paper may be applicable to other ownership structures, its focus is on educating and empowering owners and owner-led companies as they approach an exit.



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Establishment

During the Establishment phase, you are establishing the foundation for your company's long-term viability: your purpose, structures, systems and processes that yield consistent results.

Establishment is the initial preparations for your exit that may begin as early as five years before a transaction. In this phase, you may be exploring your exit options or have a broad idea about the right type of buyer.

Define your motivations for exiting

The very first thing any business owner should ask themselves is why they want to sell some or all of their company. As you consider why you plan to sell, it is also relevant to consider whether you, as an owner, want to continue to be part of the firm after the sale.

Motivations for a sale can be numerous. Some common reasons include age or personal situation, lack of competences within the organisation or a need for more capital.

Once you know your motivations for exiting, it is easier to determine the best type of sale and buyer. The type of sale or target buyer informs which areas of the firm require the most attention to prepare the company for sale. Clarifying this upfront can help you make sure your efforts and resources support your goals.

Refine your company purpose

A well-defined company purpose will make it easier for an investor to understand the value proposition of your company.

Investors know that companies perform better when they have a clear purpose. Purpose-led companies have more engaged employees, are more profitable and have more loyal customers.

In addition to clearly defining your purpose, it must be integrated into the company's strategy and operations. This takes time, and most companies need to work with their purpose for years to effectively demonstrate its authenticity during an exit.

Some questions you can ask yourself in defining your purpose are:

- What is your company uniquely good at?
- How can your company create financial value?
- How can your company create value to society and the environment?
- How does your company want to impact the world?

Conduct an ESG double materiality analysis

Investors are interested in understanding your position on Environmental, Social and Governance (ESG) matters. This can include a wide range of issues relating to climate change, biodiversity, human rights, employee engagement, management and board oversight, regulatory compliance, and more.

ESG is increasingly becoming a mandatory due diligence track due to the risks and opportunities created by ESG issues. In a transaction, ESG due diligence investigations will look at how your company mitigates these risks and is positioned to capitalise on potential opportunities.

Specifically, ESG will be considered in the context of your profit and loss statement (P&L) and balance sheet to assess the potential financial impacts of ESG. The due diligence process will identify the negative impacts of ESG factors, like increasing expenses from carbon taxes, reduced revenue from ESG-related products and the need to introduce balance sheet provisions for environmental contamination or occupational health liabilities. Investors will also look at the positive impacts of ESG factors, like higher demand for sustainable products, enhanced reputation, better talent retention or lower cost of debt.

To prepare for these considerations during the due diligence process, your company should build an ESG strategy and integrate it into operations as soon as possible.

First, if your company does not yet have a formal ESG plan, you will need to identify ESG areas that are most relevant to your business through a double materiality analysis. This analysis identifies ESG issues that impact your business as well as issues where your business has an impact on the world. These impacts can be positive or negative.

With a completed double materiality analysis, you can initiate ESG activities that meet stakeholder demands, support your company's strategy and mitigate operational risks. Establishing these activities based on a double materiality analysis is important for demonstrating to investors that your ESG resources are well spent on efforts that make sense for your purpose, business model and strategy, and therefore create value for the company.

Investors (and their advisers) can very easily assess the authenticity of your efforts through their due diligence investigations, so it is important that you begin your ESG work as early as possible as you consider and work towards an exit.

Improve your budgets and KPIs

Budgets and key performance indicators (KPIs) are used by investors to assess the company's financial standing and the credibility of its future projections. If budgets and KPIs are not yet in use by the firm, they should be introduced to provide investors with a strong record of financial decision-making.

Budgets

Budgets provide a framework for understanding your financial situation and making decisions. However, a budget can only create value for the firm if the numbers are derived from the company's actual operations and business plans.

The credibility of the figures and assumptions in budgets can play a key role in future negotiations with potential buyers as it builds trust. The more experience a firm has working effectively with budgets, the more trust will be given to the management's future expectations. For this reason, we recommend getting started as early as possible.

Consider these actions when introducing or altering budgeting practices:

- Select budget types, methods and periods based on budget purpose and context
- Establish a strategy to validate budget inputs. A budget is only as good as its inputs
- Include an ongoing evaluation of key data in your budgeting practices to continuously confirm the quality and utility of key figures and assumptions
- Analyse seasonality in your operations. Compare your results across years, not just month to month, as seasonality in sales may make monthly comparisons useless. An accurate understanding of your seasonality will help you to convey your company's progression more clearly to investors
- Communicate clearly with employees about the budgeting process and its purpose to drive cohesion and build trust
- Cross-check that budgets across company sections align. Budgetary alignment and cohesion across departments are essential for supporting a single strategic direction
- Remember that external factors like exchange rates and inflation may affect budgets.

KPIs

Departmental and organisational KPIs measure performance against business goals. They require the company to first establish goals and then to measure and report on elements that indicate progress towards those goals.

The KPIs you choose will help investors assess your ability to grow and run the business. Financial and operational KPIs may vary depending on the company, but you should select KPIs that are relevant to your strategy and will be useful for assessing your progress towards your established targets and comparing your company to competitors.

You may also want to consider the KPIs that are most important to your target buyers. Investors and advisers will utilise KPIs of their own choosing when analysing your company's historical trends. Common KPIs include earnings before interest, taxes, depreciation and amortisation (EBITDA), compound annual growth rate (CAGR), cash conversion cycle (CCC), and employee turnover. They may also select industry-specific KPIs that assess elements of performance especially relevant to your business model or industry. Including these anticipated investor KPIs will help you understand and explain the company's historical development.

Additionally, we strongly recommend that companies include customer and supplier dependency in their KPIs. Outsized reliance on a single customer or supplier may be a red flag for investors because it increases the company's risk.

Implement KPIs early in your exit planning to help you identify potential problems, support their resolution and demonstrate that the company is moving in an intentional direction.

Document workflows

Any company working towards a transaction should document its workflows. This is typically a relatively straightforward task that will increase transparency about roles and responsibilities, strengthen knowledge-sharing and signal limited dependency on individual employees.

Your documentation should start with organisational diagrams and creating written documentation for how different circumstances like requests and approvals are handled.

Additionally, you should obtain written cooperation agreements with customers and suppliers if they do not already exist. Where applicable, have technologies or products patented or trademarked. Formalise all employee arrangements with contracts or agreements. If possible, resolve pending lawsuits.

Document workflows during the Establishment phase as some elements of workflow documentation may take time. You are also most likely to have this time during the Establishment phase before urgent and time-sensitive sale activities begin.

> *My husband and I knew that we would not be managing the business under external ownership. Therefore, we spent over a year documenting and recording all essential information about the business, ranging from workflows and contracts to passwords. Our aim was to reduce our dependency and enable a new owner to seamlessly continue operations. We made it clear that this was a prerequisite for any potential buyers before entering into any negotiations or processes.*
>
> Bente Brink Jørck, previous owner of Sorø Trælasthandel A/S

Assess independence from owner

Ideally, a company should not depend on the presence and strong commitment of any specific individuals. Although buyers often want the owner to continue in some capacity to retain institutional knowledge, it is important for the company to understand whether it will be able to perform without the owner. If not, actions should be taken to reduce the company's dependency on its current owner.

These actions can help to reduce owner dependency:

- Formalise relationships with suppliers. Does the company receive discounts because of the owner's personal relationships? Is the owner the sole point of contact with the supplier? Formalise these relationships by implementing contracts or written agreements with all suppliers if they do not already exist.
- Formalise relationship with customers. Does the company give customers discounts because of their personal relationships with the owner or other employees? Implement formal contracts or written agreements with all customers. Standardising pricing or sales models can also be effective for some businesses.
- Pass on contracts to other employees. Delegate responsibility for contracts to other employees while the owner is still part of the organisation. Educate relevant employees about contractual arrangements.
- Standardise and retain communications of management information. Information that guides your management decision-making, including informal communications and regular reporting, should be accessible in the case that others need to make decisions.
- Consider resigning from your position. If you do not intend to stay with the company after the transaction, resigning in advance can be an important step in demonstrating to investors and employees that the business is able to operate without you. If you expect to step down, we encourage you to leave an abundance of time for the company to transition and normalise under new management before engaging with investors or buyers.

> *Ensure minimal personal dependence and risk by avoiding storing value with the owner, but rather within the company. Identify and distribute the value.*
>
> Per Skov Jensen, previous owner of DAN-PAL A/S

Utilise your board of directors

A board of directors will create value by bringing in added expertise and guiding a company to make better decisions. However, if the board is not utilised properly, the cost of having a board may be higher than the benefit.

In Denmark, unless your private company is a limited liability company (A/S), you are not by law required to have a board.

To ensure that your board creates value, we suggest that you consider the following:

- Does the board have the competences that you need in this part of the Exit Cycle? Consider the duration of your board of directors. One-year contracts with the directors allow you to customise your board capabilities to your changing situation.
- Does the board culture foster relevant discussions or do you spend too much time on reporting financials? We suggest you communicate relevant business status information, including financial and ESG performance, prior to any meetings. Then, spend the first 5-10 minutes of the meetings discussing questions about the information provided. After that you may move on to strategic discussions that push your company in an attractive direction.
- Diversity of the board of directors is valuable because it brings a range of perspectives, better represents stakeholders, promotes innovation and may lead to better financial performance. A study by McKinsey & Company found that companies with diverse boards had a 36% higher return on equity than companies with less diverse boards.

> *An exit represents a significant strategic decision, encompassing various elements and typically involving a planning horizon of 2-3 years.*
>
> *Reflecting on my own experiences with two exits, there is one crucial factor that played a key role in many considerations: our external board members. It is highly recommended to augment your board with one or more individuals who possess experience in business management and company sales.*
>
> *External board members should prioritise safeguarding the company's long-term interests, while also demonstrating empathy with the profound emotions and attachment owner-managers have in relation to their businesses.*
>
> Bente Brink Jørck, previous owner
> of Sorø Trælasthandel A/S

> *Engage professional board members who are willing to ask the question: who will succeed the managing director?*
>
> *Give priority to the necessary competences for the role. In this regard, exclude bankers and lawyers from the board*
>
> Per Skov Jensen, previous owner of DAN-PAL A/S

Advisory boards

- Have you considered an advisory board? An advisory board is like a board of directors in many ways, but it does not have the legal or financial responsibilities of a board of directors, and participants are often not paid. This gives a lot of flexibility on the advisory board's structure, frequency of meetings and number of members.
- An advisory board can be a good stepping-stone before committing to a board of directors.
- Many companies find advisory board members through their networks, so posting on LinkedIn and discussing your needs with your professional network can also help you identify candidates with competences that match your expected short-term challenges.

Establishment checklist

- ✓ You are confident about your motivation for selling.
- ✓ You have a well-defined company purpose.
- ✓ You can demonstrate the authenticity of your company purpose.
- ✓ You have an ESG double materiality analysis.
- ✓ You can present a credible budget.
- ✓ You have identified and work with KPIs relevant to your business.
- ✓ You can document workflows and approval procedures.
- ✓ You have technologies or products patented or trademarked, if relevant.
- ✓ You have written contracts with suppliers, customers, and other business partners.
- ✓ You are independent of any specific individuals, especially current owners.
- ✓ Your board of directors creates value.

Maturation

In Maturation, you are developing your business goals and indicators of performance. In this phase, you know what kind of investor or buyer you will target and are looking for opportunities to connect with them.

Maturation may begin up to three years prior to the transaction for a stable firm, although it may be significantly less for a start-up or scale-up. During maturation, you will work to understand your preferred buyer's expectations and their perceptions of your current position. You will take practical steps to improve your preferred buyer's perception or meet their expectations.

Consider your buyer

At some point, years before a transaction, it can be beneficial to consider what type of buyer might buy your company. We distinguish between financial and corporate buyers.

When you consider which buyer(s) who could be the best fit, we recommend you look at your firm from that buyer's perspective to understand how your firm can bring value to their business. Some motivations for buyers include:

- Consolidation within the industry
- Demand for special technologies or know-how
- Access to new markets or customers
- Access to lucrative business opportunities
- Optimisation of the business through synergies
- Change in direction through a turnaround process
- Discover underestimated firms that bring innovation

The motivations of your target buyer will inform the operational and strategic choices you make in preparing for your exit.

Example A. Buyer considerations inform decision-making

You are an entrepreneur and slowly getting bored of managing day-to-day operations. Therefore, you are hoping for an exit in less than two years.

In the meantime, the purchase prices of your goods are increasing. You look at the possibility of establishing your own production facility instead of buying goods from a subcontractor. Inhouse production would reduce your costs and increase your control.

When you consider your buyer, you realise the most likely buyer for your company is a competitor with a large production facility.

Because your potential buyer already has a production facility, you determine that it is probably not worth your money or effort to establish your own production. Instead, you focus on growing brand awareness and driving top line growth. The difference between your current purchase price and the price your potential buyer produces at creates value for them in a transaction.

Perform light due diligence investigations

A due diligence (DD) is a structured investigation of a potential deal partner's performance and activities before a transaction. It allows a buyer to identify and assess risks before bidding for or acquiring a target.

Due diligence investigations are focused on a specific area. Common DD streams include financial, tax, ESG, technical, legal, IT, commercial and HR. The relevant DD streams are selected by the buyer based on the target's industry and size. The DD process is often complex and exhausting for both sides as it is an extensive, specialised investigation into the target.

Once complete, the results of the DD can be used by the potential buyer to determine the price that they are willing to pay for the deal.

To minimise the potential deduction a buyer will ask for, you as a seller can prepare for the transaction by hiring advisers to perform a light due diligence investigation of your company in advance of a transaction. Such an investigation provides you with an opportunity to understand and work with the findings before the buyer enters the picture.

The work done in a light due diligence process often pays off regardless of whether a full due diligence investigation is completed as part of the transaction. A light due diligence procedure highlights potential issues that may negatively impact the firm and creates an opportunity for the company to address them.

This process can also be seen as an assessment of a firm's readiness for sale.

We recommend asking these questions when looking for advisers to facilitate your light due diligence process:

- Do they have experience with M&A due diligence?
- Do they have the speciality knowledge required for your company's industry, business model or size?
- Have they supported companies in your industry with light due diligence services in the past?

We especially urge caution when considering ESG due diligence advisers. The phrase "due diligence" holds different meanings in M&A and general corporate sustainability. Asking about M&A experience and clearly conveying your goals can help you to ensure that your advisers create value and provide a due diligence service that is appropriate for your sales goals.

> *Avoid exiting as a forced consequence of not keeping up with the times. What a company has earned in the past is not indicative of future earnings. What can you earn and with what investments?*
>
> Per Skov Jensen, previous owner of DAN-PAL A/S

Strengthen your business plan

The primary goal of the business plan is to communicate the company's direction. When drafted well, it can build trust with investors and allow them to assess the company's future. Implementing and following a strong business plan are an effective method of demonstrating to investors that the company is strategic.

A strong business plan also serves the company internally by creating a path forward toward its goals.

Many companies have an existing business plan that does not add value during a transaction. To make sure that your business plan serves your goals during your sale, we recommend formalising your plan and assessing its validity as a planning tool.

While the business plan is a projection, and therefore includes some narrative freedom, it must still be grounded in reality and fairly outline how you expect the company to change in the next five years. Your business plan should provide an overview of the business and include your vision, governance, strategic plan, market analysis and projected financial budgets for the next five years.

1. Write it down.
Formalising your business plan is essential for sharing and discussing it with investors. Many owners and executives keep their strategy or plans informally as thoughts or personal notes. These approaches are insufficient for utilising your plan or communicating it to others, including investors. Instead, make sure that all elements of your plan are written down and up to date.

2. Conduct a reality check.
Investors will immediately notice if your business plan is unrealistic or impossible. Consider the market and your competitive positioning. Recognise the limitations of your current operations. Confirm that you have accounted for the reinvestment that your business will require to support expected growth. Express caution with hockey stick projections; investors will question whether your company will grow continuously without reinvestment in infrastructure and operations within two or three years.

3. Keep it cohesive.
Your business plan should be a single cohesive plan. Investors will look for contradictory elements, and the presence of conflicting information can reduce trust. All elements are interrelated and should support each other. Your operational projections should align with your financial predictions. Most investors will find it hard to believe that your revenue will double if your plans do not first account for how to expand your production facility or hire and retain more employees. Your business plan should reflect that all elements of your business are tied together.

Adjust management reporting

Management reporting is a formal tool to communicate both what is occurring and what is valued within the company. Investors will consider whether you have implemented useful management reporting practices, and whether they are utilised in your management team's decision-making.

Your management reporting should align with your business plan. KPIs that monitor trends and value drivers that correspond to your business plan must be included in your reporting. Relevant KPIs are essential for pushing your company in the correct direction. The trustworthiness or feasibility of your long-term plans may be questioned if you have not implemented management reporting that supports your stated plans.

Adjust your management reporting practices with these key considerations:

- Establish processes for recurring management reporting.
- Check that your management reports include KPIs and value drivers.
- Confirm that your KPIs align with your business plan and strategy.
- Revisit the role of management reports in your decision-making across the management team.
- Write down all one-off or non-recurring costs and income for a multiples-based valuation.

Example B. Adjust for non-recurring items
You are the owner of a company preparing for sale. Your adviser recommends that you adjust for one-offs or non-recurring items to measure financial performance. It is common to use adjusted or normalised EBITDA, rather than the company's reported EBITDA, to provide a more accurate picture of the company's financial health.

Adjusted EBITDA typically refers to the EBITDA of a company with certain one-time or non-recurring expenses, such as restructuring costs or legal settlements, removed. This can help provide a clearer picture of the company's ongoing earnings potential.

Normalised EBITDA takes the concept of adjusted EBITDA a step further by removing both one-off or non-recurring expenses as well as other items that are not part of the company's ongoing operations. This may include items like non-cash expenses, changes in working capital and other non-operational income or expenses.

In general, normalised EBITDA is a more accurate measure of a company's ongoing earnings potential because it removes non-operational factors that may distort the company's financial performance. However, it can be more difficult to calculate than adjusted EBITDA and may require more detailed financial analysis.

Refocus your board agendas

Potential buyers will study board meeting minutes for the past three years through a due diligence process. They will look for events that have not been mentioned in the investment material, like litigation and operational challenges, and interpret recurring topics as a reflection of the company's priorities. Your board minutes convey what has been top of mind on your strategic agenda.

Therefore, it is of the utmost importance that you discuss topics of interest to investors years ahead of an exit. Investors will not believe that your company prioritises a specific challenge, goal or event if it has not been added to agendas, discussed at board meetings and recorded in the meeting minutes.

For example, if your company claims that ESG is important, then ESG should be included in your meeting agendas and minutes. It will be hard to convince a buyer that you are serious about your ESG efforts if your meeting records never touch upon your ESG reports or strategy.

Utilise these tips for managing your board records:

1. Include all strategically important items on your board agendas.
Consider what is important to you and to your target buyers and outline your agenda accordingly. If it is not on the board agenda, it is unlikely to be perceived as important by investors.

2. Follow the agenda during your meeting.
Everything on your agenda is there for a reason. Planning your agenda ahead of time to target your strategic goals and indicate your priorities are only useful if you follow the agenda.

3. Confirm that your meeting minutes are accurate.
Minutes are the formal (and legal) record of your meetings. The minutes should accurately reflect what was discussed.

Maturation checklist

- You have considered what type of buyer might buy your company.
- You have identified relevant DD streams.
- You have identified advisers to facilitate your light due diligence process.
- You have completed relevant light due diligence investigations.
- You have implemented and follow a written realistic and cohesive business plan.
- You have implemented useful management reporting practices.
- Strategic important items are outlined on your board agenda.
- Your board minutes accurately reflect discussions.

Exit Preparation

Exit Preparation is about creating and initiating a game plan for the intensive work ahead. In this phase, you are clear about the purpose of your exit and believe that the timing is right. An exit is no longer hypothetical but expected within the coming year.

> *"Always be prepared to exit! The shorter time you have to prepare an exit, the worse the result.*
>
> Per Skov Jensen, previous owner of Danpal A/S

Exit Preparation often begins up to one year before the transaction. During Exit Preparation, you will take control of your pragmatic and actionable preparations for the transaction. You will create a story, prepare documents and data, make plans to support your employees and determine which buyers you will invite to the transaction.

Select transaction advisers

Selecting the right advisers is essential in obtaining your desired transaction terms.

We strongly recommend vetting your advisers prior to committing to them. M&A advisers are often expensive, and it may be challenging for inexperienced sellers to assess what services are needed and who can create the most value.

Start by reaching out to your network and trusted experts who may provide referrals or advice. Then, meet with multiple potential advisers. Check that their credentials include companies and transactions with similarities to yours. Call their past clients and understand the work they have done with companies like yours.

While advisers may offer different prices, their price point is often not the best indication of fit. Instead, focus on what they offer you and their experience with transactions like yours. A good adviser is worth the cost, but an adviser's high or low price point is not necessarily indicative of the value they will generate for you.

Selling your company is likely to require multiple advisers, each with their own purpose. The exact number of advisers will depend on the deal itself and the existing knowledge within your firm. Here are some of the core advisers you will likely need:

Accountants bring insights into the financials of your company and build credibility with the investors. However, remember that accountants are not transaction advisers and may not know much about valuation for transaction purposes. While many accountants believe they can prepare you for a transaction, we recommend critically considering their self-assessment by asking questions. Depending on your accountant's expertise and your company's size, you may need additional financial specialists. These most often include an auditor, who can provide a declaration of your trading position, and a tax adviser.

Lawyers will manage the legal aspects of the transaction. They will especially be necessary during the Transaction phase as you negotiate and finalise the legal terms of your deal. We highly recommend selecting lawyers that have experience with exits due to their importance in the process.

Corporate finance advisers will take care of your (the seller's) interests and try to get the highest price for your company. Generally, their payment is a combination of hourly billing and a success fee based on the transaction value. We strongly recommend considering corporate finance advisers that are experienced in companies similar to yours. Ensure you obtain a second review of their engagement letter to confirm whether their pricing is fair considering the task at hand.

Due diligence advisers can prepare a vendor due diligence report that will assess and document the conditions of the company. In many cases, however, we recommend you pay for light due diligence assessments as part of the Maturation phase to provide you with an opportunity to address – instead of just document - any potential flags that could reduce the transaction value or its viability.

Determine your transaction perimeter

Once you have selected your advisers, you will need to work with them to outline the exact legal boundaries of your transaction. Based on the scope that you have previously identified, your advisers will work with you to define the legal inclusions (and exclusions) of what you are selling.

Defining the transaction perimeter well can help to reduce unnecessary delays and costs in later phases because it clearly distinguishes between what is and is not included in the sale. This process can be especially challenging for companies selling only a piece of the business, in which that exact piece must be clearly defined, as well as for owner-led companies where the owner and business are very intertwined.

We recommend speaking with your advisers about any inclusions or exclusions that are especially important to you, like naming rights or assets that are essential to the continued operations of the remaining business.

Involve key employees

During Exit Preparation, your company will need to determine which employees will be involved in the transaction, if any.

While we often see that that owners try to manage the full transaction process themselves, we do not recommend this approach. The solo approach can be interpreted by buyers as a sign of weakness of the management team and may also be an unforgivably hard job. If you do not want to or cannot involve employees in the transaction, bring in external support instead.

Here are some key considerations when determining who to involve in the transaction:

- Who can provide the data that will be requested during the due diligence process? You will need employees who are able to respond promptly to due diligence requests for data. If you do not have personnel in key positions, or your current employees are not capable of handling high pressure investor dialogues, consider hiring an interim consultant to securely manage the workload.
- How will employee engagement in the transaction impact daily operations? You will need to maintain ongoing operations throughout the transaction. Pulling too many employees into the transaction will reduce operational efficiency and create rumours when others notice changes. Yet, you need to bring in the right support to facilitate the transaction.
- Are there key individuals needed to facilitate the business plan? You may consider incentivising these individuals to remain with the company and participate in the transaction.
- In these cases, all employees involved in the transaction need to sign a non-disclosure agreement (NDA).

Once you have determined who will be included in your transaction, known as “under the tent”, you should develop a plan for managing the team. The number of people under the tent often expands during the transaction process, so determine ahead of time at what stage you will let different employees under the tent. You should also determine how you will respond if someone in your company accidentally senses, hears or sees something in relation to the transaction.

Make sure to set clear expectations with your employees regarding their ongoing work and transaction-specific activities. Establish communications channels upfront, including lines of reporting and where questions pertaining to transaction work should be directed. Be clear about the level of confidentiality required by everyone.

Prepare your information memorandum

An information memorandum (IM) is a written presentation (or presentation deck) about your firm that will be shared with prospective buyers or bidders. It is effectively a detailed pitch deck that will convey how your company views its current operations and opportunities. In many cases, the IM is the main source of knowledge about your firm for potential investors.

The exact details of the presentation will be specific to your company and where it is in its lifecycle. It will incorporate an outline of the company’s business plan, including information about market share, sales and marketing, finance, technology, ESG and other relevant areas. Other information about the firm’s history, business model, competitors, team or employees and governance may also be included.

The IM should focus on the strengths of the firm and provide a positive outlook for potential investors. Other less positive elements of the firm should be included, but not highlighted, as most investors will ask for this information. Including it demonstrates awareness of the less positive elements of the business, and serious investors will uncover details during a due diligence investigation anyway.

Creating a strong IM is important as it is your initial sales pitch to most investors. Additionally, it will also serve as the foundation of your management presentation, which is a live presentation to prospective buyers. A strong IM may reduce the number of surprise questions you receive and demonstrate your expertise about your company.
Preparing the information memorandum is a key task of your corporate finance advisers.

Establish data room and collect data

Throughout the due diligence process, potential buyers will need to access internal data and information. A data room facilitates this sharing of data in a secure and structured manner.

Data rooms are virtual and often referred to as virtual data rooms (VDRs). Together with your selected advisers, you can set up the data room before the due diligence process.

Your advisers will tell you what data your potential buyers are most likely to ask for. Then, your key employees can provide that data. Preparing your data room and acquiring the necessary data may be a time-intensive process, based on the size and structure of your organisation and the accessibility of the required information.

As the due diligence process is often an extremely busy time for all parties involved, we strongly recommend that you collect all the necessary data beforehand to avoid some of the anticipated work pressure. While some data need to be as current as possible, like financial data, and cannot be added ahead of time, legal contracts, board minutes and other historical documentation can be uploaded early. You can expect to provide data for the past three full years.

Many different data room providers exist. Ask your advisers or network for recommendations about data room providers they have used previously. Data rooms are often hosted by lawyers; however, we see an increasing number of independent data room providers. These may have different or better solutions than the usual suppliers and are worth researching prior to selecting a data room provider.

Define the type of transaction

The type of transaction refers to key elements of your transaction strategy, like how many potential buyers you will reach out to. If you will include multiple potential buyers, do you work with everyone at the same time or focus first on those you deem most likely to advance? At what point will you offer exclusivity to a potential buyer?

The type of transaction should reflect your exit purposes. Do you want the highest price or the quickest transaction possible? Do you want to stay with the company, or is avoiding post-transaction handcuffs a top priority? Once you have determined which outcomes are a top priority for you, work with your advisers to ensure that your transaction process facilitates your goals.

When defining the type of transaction, keep in mind that your transaction may not proceed as smoothly as you initially plan. Many transactions experience delays or fall through entirely. Exclusivity contracts with potential buyers who back out can add to the duration of your transaction, so how early you offer exclusivity is an important consideration. Macroeconomic factors, like political instability or war, natural disasters, pandemics and uncertainty about a recession can also impact the speed and smoothness of your transaction.

Reach out to potential buyers

At this point, you should know which potential buyers are most suitable for your firm. If the potential buyers are in your network, you can contact them yourself. Otherwise, your corporate finance adviser, who specialises in finding potential buyers, will reach out to their substantial network.

If potential buyers have contacted you first, we still recommend that you connect with other potential buyers yourself or through an adviser. Bringing more buyers into the discussion will increase your negotiation power.

You will likely need to provide a teaser document to potential buyers. Your corporate finance advisers will help you to prepare this document, which will maintain confidentiality about a potential sale by excluding your company's name. The teaser is usually around ten pages and includes key information that could prompt potential buyers to express further interest. Only those who express interest based on the teaser will sign an NDA and receive the confidential IM you have already prepared.

Exit Preparation checklist

- ✓ Meet with potential transaction advisers.
- ✓ Select adviser, and sign engagement letters.
- ✓ Determine your transaction perimeter.
- ✓ Identify key employees.
- ✓ Develop a plan for managing the internal transaction team.
- ✓ Involve employees and make them sign a non-disclosure agreement (NDA).
- ✓ Prepare your information memorandum.
- ✓ Select a virtual data room provider.
- ✓ Involve employees and make them sign a non-disclosure agreement (NDA).
- ✓ Decide on data room content together with your advisers and collect data.
- ✓ Define the type of transaction (may not proceed as smoothly as you plan for).
- ✓ Prepare a teaser for potential buyers.
- ✓ Reach out to potential buyers.

Transaction

During the Transaction phase, you are in active dialogue with potential buyers. Time is now your most scarce resource.

The Transaction phase usually has a duration of three to nine months, depending on the size of the company and the equity ticket, but it can be extended due to a range of transaction-specific and macroeconomic factors.

During this time, you are managing information requests, responding to questions, and utilising the tools, presentations, memoranda and references you created during Exit Preparation. You are seeing the outcomes of your prior preparations or the repercussions of limited preparations.

Manage risks and red flags

During the due diligence process, the potential buyer may come upon information or data that was not expected. If this information is negative and holds significance to the potential buyer, it may be seen as a risk to the investment and therefore decrease the valuation. The degree to which new information impacts the valuation will depend on the significance of the acquired information and your company's response to the situation.

New information that is particularly negative may raise a red flag for the potential buyer. The information might be of such importance that it is a dealbreaker for the potential buyer.

As the seller, you should ensure that your records and data transparently reflect the actual situation of your company. Providing accurate and comprehensive information reduces the likelihood of surprises that could become dealbreakers for the deals team. Strong business practices like effective governance and recordkeeping help facilitate transparency during a transaction, as will advanced preparations.

Understand the valuation

Before considering buyer offers, you should understand how the valuation is generated.

There are two commonly used valuation models: multiples and discounted cashflow (DCF). In brief, the multiples approach bases the valuation on comparable transactions with similar companies, while the DCF model uses cash flow projections for the next three to seven years to determine the investment's current value.

Speak with your advisers to understand which model is likely to be used in valuing your company. You may also want to discuss other valuation considerations, like premiums or discounts based on your company's saleability or the buyer's priorities, with your adviser.

Here are a few considerations that could be relevant to your transaction:

- A buyer will typically pay a premium to get decisive influence over a firm.
- If multiples are used as the basis for your valuation, observe whether there has been a premium involved in comparable transactions. If you use DCF, the premium may not be directly present, but could indirectly be included in the recognition of synergies between the acquirer and the seller.
- If your company is in a market where it is hard to find potential buyers, a liquidity discount is usually offered. If this is the case in your industry, be aware of whether and how this discount has been approached in comparable transactions.
- ESG increasingly informs investment decisions and impacts the value of companies. The benchmark for ESG performance expected from companies is constantly being raised, making it harder to achieve premiums on multiples and leading to discounted deals.

Sales and purchase agreement

The sales and purchase agreement (SPA) is a legally binding contract that obligates the buyer and seller to go through with the purchase and sale. The SPA is the core document for realising your sale.

It specifies the valuation, closing mechanism, indemnities, post-transaction obligations or handcuffs, as well as how the company will be managed between signing and handover. It also includes definitions, guarantees and warranties, and other legal information to protect both the buyer and seller.

We recommend speaking with your advisers about any elements of the SPA that are unknown to you. Your advisers can advise you about completion accounts and locked box, the main closing mechanisms, and help you to identify and advocate for any relevant protections that should be included in the SPA.

If your lawyers have not been involved throughout the process, you should bring them in for negotiations and finalisation of the SPA. Do not sign anything until your legal team, with expertise in these types of transactions, has reviewed and approved all documents.

Sign and close

After a successful due diligence and negotiation phase, you will sign the agreement.

During the signing stage, the parties may also agree on additional documents or contracts, such as non-competition agreements or transition service agreements (TSAs), which will be executed at closing or in the post-closing phase. Once the agreement has been signed, both parties are legally bound to fulfil their obligations as stated in the agreement.

The closing phase is the final step of the M&A process, where the actual transfer of ownership or assets takes place. It is the point at which the transaction is completed, and the buyer assumes control over the target company or its assets. The closing date is typically specified in the definitive agreement and may occur weeks or even months after the signing.

At closing, various activities are performed, including the exchange of funds, execution of ancillary documents, transfer of shares or assets, and the fulfilment of any closing conditions specified in the agreement. These conditions may include regulatory approvals, shareholder consents or other requirements that need to be satisfied before the transaction can be finalised.

We also recommend that you agree with the buyer on the communications surrounding the deal. Will you communicate together, or should you each communicate separately about the deal? If you choose to pursue separate communications, you should coordinate on when and what you share, and who communicates first.

Transaction checklist

- Be mentally prepared for the Transaction phase.
- Be prepared to provide accurate and comprehensive information.
- Understand the different valuation methods.
- Make sure to inform your advisers about any pre- or post-transaction preferences.
- Involve your lawyers for negotiation and finalisation of the SPA.
- Make sure you agree with details of signing and closing.
- Coordinate communication about the deal with the buyer and advisers.

Post-transaction

In the Post-transaction phase, you will adjust to a new normal. Your involvement in the company during this phase may vary based on the terms you established during the transaction. Regardless of your engagement with the company, you will adjust to your new reality both personally and professionally.

During this phase, the company will integrate changes and align processes, structures, and cultures with new expectations. You will work to maintain momentum for yourself, and for the company. The Post-transaction phase often lasts up to two years after the transaction, or up to a formally established integration deadline. Post-transaction is an extensive phase, and the information below provides a brief educational overview of what to expect.

Manage your involvement

Depending on what has been agreed, you, as the current owner of the company, could be involved with the firm in different ways after the transaction.

If you are no longer involved in the company, you will be adjusting to your new life without any influence on, control over or engagement in the business.

If you are still involved in the company, it is likely that you are facing new power dynamics, personalities and demands. Understand the terms of your involvement and recognise that your role, and the company itself, may go through significant changes (that you not necessarily agree with) moving forward.

Post-merger integration

Post-merger integration aims to maintain momentum in both businesses, maximise synergies, align the organisations and cultures, and advance the joined company's competitive position. Unfortunately, these efforts often fail, and more than half of all mergers and acquisitions do not generate value.

As a result, post-merger integration is an important consideration for anyone staying with the business after a merger or acquisition. It will be a significant focus for the business immediately after the transaction and may last for months or years based on the size and complexity of the companies.

The first 100 days

For mergers and acquisitions, a 100-day plan is usually created to outline the most urgent and essential actions to be taken. While the 100-day plan only covers the first 100 days of integration, it serves as the foundation for the ongoing integration activities that will occur in the following months and years.

The 100-day plan takes a comprehensive approach. It will address all key aspects of the business, including marketing, sales and services, supply chain, operations, research and development, finance, human resources, IT and legal matters. Across these areas, it will establish a timeline for identifying key people, reviewing conflicting practices, assessing risks, creating new reports or standards, and defining new strategies. Having this type of action plan is crucial for realising the synergies and value predicted prior to the transaction.

Who are we?

Nordam Business Partners was founded by Christine Nordam in July 2021. After several years as a financial due diligence adviser in the Big Four, she wondered why many companies did not prepare well for transactions, as better preparations would increase their valuations and chance of getting sold. She founded Nordam Business Partners with the mission of empowering companies to prepare for and navigate transactions.

Investors have already changed their focus to ESG, and it is our view that it will continue to become an integrated part of operating a profitable business. Therefore, our services and analysis are always focused on finance and ESG expertise – often in combination.

Interested in how we can help you, or our credentials from previous projects and transactions?

Reach out for a non-binding cup of coffee or phone call.

Christine Nordam Andersen
Managing Partner

+45 81733781
christine@nordambp.dk
www.nordambp.dk