Puget Sound Business Journal
Business Leaders Get It.

DECEMBER 2007

An Insiders Guide to Selling Your Company

A common entrepreneurial exit strategy often includes selling your business. Ideally for a handsome profit. The bigger the buyer, the more exciting the ride. However, no matter who a prospective buyer may be, John Hansen says you better be ready for the ride of your life. He should know. As former CEO of Vallent Corporation (formerly WatchMark), Hansen recently completed the sale of his company to IBM.

Hansen has experienced the buying and selling game twice before. In the 1990's, Hansen was CEO of Solant, a Colorado-based Internet software company, which he sold. Prior to that he was founder and CEO of Bellevue-based Metapath Software, which was sold to Marconi PLC in 2000. As CEO of these companies he also purchased two companies.

Hansen is living proof than some entrepreneurial dreams do come true, but he's also suffered battle scars along the way. He's the first to say, "Buying is a lot more fun than selling." His assessment on selling is frank. The good: "It's normally worth it; even if you don't make any money—because it's good to get out." The bad: "It's really, really hard work and unnerving and everyone from investors, the board, executives and employees act squirrelly." The ugly: "You need to avoid costly mistakes by advisors, might experience fractured stakeholder interests, and need to be wary of common big buyer tactics." At a recent Northwest Entrepreneurial Network meeting, Hansen was happy to share his insider tips for how to do a deal right, the first time:

1. Know your investors
   Do your homework. Understand that each board member has a different agenda and unique perspective. You have to understand what they need financially. Hansen says, "Typically it's a dollar more; a dollar less and they won't go for the deal." Your objective is to pinpoint the exact point the buyer needs in order to get investors to vote for the deal. It's also important to understand what the buyer needs politically. It might be a cache name, or the venture capitalists might simply need to get old money off the books. Also understand their future needs. Are they looking for future funds and investments? Hansen's insider tips: "Be aware that not all investors make money. The board for example might have different exit ideas. Also be savvy to behind-the-scenes investor discussions that can change the deal; you need friends on the inside who will look out for you."

Executive Insights

Cheryl Isen ▼

2. Know your advisors
   When selecting your advisors be demanding. Working the deal isn't time for "training." It's critical that you have experienced merger and acquisition advisors. Be selective about who will be doing the work day-to-day. Understand that if you're negotiating with a Fortune 50 company you need to be prepared. They'll bring in an army of people. Also be clear about the various roles involved. For example, no matter what your investment banker tells you to justify their fees, their primary role is opening doors and making connections. That's it. You'll be responsible for the pitch, negotiating the deal and bringing it home. Hansen's insider tips: "Read every word that comes from your lawyer. They do make mistakes and as CEO you're responsible. Pick up the phone and ask if you have questions. Also, agree upon up front costs and be aware of possible add ons after the deal."

3. Know your buyer
   Find out why they really want your company and learn their political landscape. Be clear about who your champion is and also who can kill the deal. Find out specifics. Does the deal maker have internal support? Big companies do lots of deals and yours may not be the most important one. Politics between deal makers are inevitable. Make a list of what could kill the deal and work on action plans with your deal maker. An understanding of timing is critical. Does the buyer have a drop dead date? Be wary of artificial dates being forced on you to spur negotiations. Hansen's insider tip: "Make sure you always have a back up buyer and avoid signing an exclusivity agreement too soon. Once you're exclusive the buyer loses urgency because you're locked up." If you keep selling your deal to others until the very end you'll have the power of being able to walk.

4. Know the process
   The reality is this: a deal always takes longer than expected and normal business operations are going to be affected. Hansen explains, "Our deal with IBM took 13 months

and during that time I spent 50 percent of my time as CEO working the deal." This type of time drain affects the business. Rumors start. Customers and employees hear about the deal. You can't deny the truth when investment bankers are showing up in packs so it's hard to diffuse the situation. Hansen's insider tips: "Before you enter a deal, understand the impact. Customers will hold off on re-negotiating deals, impacting revenue and your company's value."

5. Know the deal
   From a negotiating perspective, remember that you're dealing with pros. You have to be clear on the buyer's hot buttons. Form a negotiating plan and then rehearse. For public companies take time to research their past deals to learn their buttons. Don't be shy about using all points of influence. Find others who have done a deal with the company such as former CEOs. Hansen offers four critical tips: "First, avoid doing the deal yourself; you'll be out gunned and out maneuvered. Second, have viable back up plans in place for every conceivable scenario. Third, avoid putting yourself in the position of having to do the deal too soon. And last, don't buy into their process just because they always do it that way."

6. Hang in until it's done
   If you think doing the deal is tough for the first 10 or 11 months just wait until the last 60-90 days. Once the definitive agreement is signed things get really tough because everything you do as CEO will require the buyers permission. This includes negotiating customer contracts. Employee issues such as answering comp plan questions, addressing healthcare changes, and even who will have a job. The reality is that you won't have any answers until the deal is done. Hansen's insider tip: "The fastest way to resolve these issues is to become a daily task master and push on every outstanding issue to get the deal finalized because no one else will. Then, just hang in there until it's done."

Given John Hansen's history—five deals and counting—it's a safe bet that even with the hassles involved, Hansen would do it again, —albeit in his own highly prepared way.

These "Executive Insights" are based on monthly presentations provided by leading entrepreneurs at the Northwest Entrepreneur Network (NWEN.org), a non-profit organization dedicated to helping entrepreneurs succeed. The column is written by Cheryl Isen, founder of Isen & Company, a strategic marketing and public relations firm that helps emerging companies increase corporate visibility and brand awareness Contact Cheryl at (425) 222-0779, Cheryl@IsenandCo.com or on the web at www.IsenandCo.com.