Assumicide*

By Jack Lyons, CEPA
President of Lyons Solutions, LLC

We've all heard that when you assume, you could make an ass out of you me. Let's go one step further. When business owners make assumptions or poor decisions that could potentially kill a successful sale or transition of their business…that's called assumicide. Coined by Patty Harty of the St. Louis Sandler Sales Institute® franchise, I first saw it used in an article by Mike Lissner, CEPA and partner in Acropolis Investment Management in St. Louis.

Below are four key areas where business owners are likely to jeopardize a business sale or merger and acquisition transaction.

Assumicide #1: Lack of Information

Lack of information can take many forms. But, two of the biggest missteps are:

- Having an inflated opinion of the value of the business
- Making unreasonable demands in the negotiation process

Both of these missteps are a common form of assumicide that can prevent any and all merger and acquisition transactions from happening.
Based on lack of information, the worst-case scenario for the owner when selling is:

1. He or she receives a good offer from a credible buyer
2. He or she decides to turn down the offer because it wasn't what they felt the company was worth or they have unrealistic expectations regarding the company's future
3. The decision is made to hold off selling until some later date
4. A negative change in the economy, the industry or their company takes place
5. The company loses a significant percentage of its value
6. The company becomes unsalable
7. The owner has to close down the company because it became

unprofitable and can't get the financing it needs to survive. That's the worse example of assumicide I can conceive of because the lack of information is so easily preventable if the owner had realistic valuation and performance expectations to begin with. It is mind boggling as to how often this string of events happens.

Assumicide #2: Lack of Proper Representation

Lack of proper representation is another form of assumicide. We see it all the time when a business owner wants to use his or her regular attorney and/or accountant. How can an attorney, inexperienced in mergers and acquisitions (M&A) and/or an accountant who is inexperienced in transaction taxation and due diligence be expected to make sure they represent your best interests? Using the wrong advisors is always a mistake. It will increase the likelihood that the buyer's attorney will have a distinct advantage in the negotiation of the purchase and other agreements and perhaps even blow a great deal by negotiating inadequately. An inexperienced transaction accountant almost always slows a deal down and that could also put the transaction in jeopardy. Buyers become impatient when information isn't right or is not received in a timely manner. In our experience, this increases the likelihood that the buyer may walk, try to renegotiate the deal terms or expose the seller to the additional risk of something in the company or economy changing that puts the deal in jeopardy.

Assumicide #3: Being too Smart for Your Own Good

Business owners are self-confident, intelligent and in many cases over-achievers. Many are visionaries, decisive and insightful. Unfortunately, many business owners are too smart for their own good when it comes to selling their company. They have little, if any, business sale, merger and acquisition experience yet look upon an M&A transaction as just another deal. It's assumicide not to know your own limitations and to think of an M&A transaction as just another deal. It is a unique, complex and emotional type of a deal.

Given that most business owners have the majority of their wealth tied up in their company and a business sale is a one-time opportunity, I am puzzled as to why a business owner would want to sell-out without using an M&A advisor. From what I've read, most business owners that go it alone admit that an M&A advisor would have protected them from their lack of experience. If a business owner has little or no knowledge of M&A, how can assumptions and poor decisions not be made concerning the complexity of M&A transactions and which buyers would be interested in their company? Additionally, owners can't foresee how the emotions and stress of the transaction process will impact their objectivity and judgment. In my experience, this is very risky — in most cases, you only get one chance to get it right when you sell your company.

Assumicide #4: Unreasonable Valuation and Deal Structure Expectations

Sometimes, a little knowledge is a dangerous thing. Perhaps this has never been more appropriate than in today's Internet era and ease of information access. In the M&A deal-market, it's the business owner's presumption as to the appropriate purchase price multiple that qualifies as having the potential to wreak the most damage. Many sellers are more comparable transaction oriented than buyers. Worse yet, sellers tend to be selective with what they consider to be comparable. For instance, many sellers hear industry chatter that someone sold for X multiple of EBITDA. Or, they see that a public company sells for a certain multiple of earnings. Then, they assume that their company automatically qualifies for that multiple. This is assumicide of the worst kind because it is often based on greed. Getting greedy is a risk that you can't afford to take in a merger and acquisition transaction. Most buyers look at the value drivers inherent in a business. They don't begin with a multiple but tend to use multiples as a checkpoint that can supplement their view of value. We've all heard the expression, "Figures lie and liars figure." This holds true for both buyers and sellers. In either case, one party can end up spinning their wheels and if there is a busted process, it can take as many as three years to clear the air before you can pursue another sale. What sellers fail to understand is that each business' strengths, weaknesses, opportunities and threats are unique and that the acquisition market resets on every unique transaction, forcing each deal to stand on its own.

If you don't want to jeopardize the sales process of your business, call Alan Brind at 585-624-7998 Ext 111.

*As coined by Patty Harty for the investment industry