4 STEP GUIDE

How to Respond to an **Unsolicited Offer**

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Introduction

If you have a good business, you should expect unsolicited offers.

Unfortunately, many owners of great businesses are not sufficiently prepared to meet this moment. They resist engaging into discussions with buyers about a possible sale because it is inconvenient or because it invites real risks, hassles, and disappointments. On the other hand, sticking your head in the sand when an opportunity knocks on your door can be, in many cases, riskier. There is a better way to efficiently and effectively explore opportunities that protect your time and that also position you to profoundly transform your future.

In the "4-Step Guide – How to Respond to an Unsolicited Offer" business owners will learn:

- How to explore options while protecting time and confidentiality.
- How to create immediate leverage for your sale.
- How to lead buyers toward a mutually acceptable deal.
- How to walk away but keep the door open for a future deal.

STEP 01

Prepare Like **the Best**

The business owners who prepare to effectively respond to unsolicited offers are often the same business owners who expect and deliver excellence on a day to day business. They value time, efficiency, and stewardship at the highest level. That's why they have a plan in place for how to respond to unsolicited offers. Though they may not have a burning desire to sell, the best preparers recognize that their preferred time to exit from this industry might not coincide with when the right buyer is ready to make the right deal available.

Committing to a plan allows them to protect company time and resources while fulfilling their responsibility to explore and steward all opportunities that might advance the interests of the company and its stakeholders (employees and customers). Below are three ways to effectively prepare for unsolicited offers.

01 Get a third-party business valuation every 12-18 months.

Why? It is impossible to establish meaningful goals for a future industry exit if you don't know where you stand today. Also, obtaining regular valuations will help you understand the process of normalizing financials, what drives value, and how future buyers will evaluate your business. Don't rely on buyers to educate you on how this process works.

02 Form a teaser that provides a general overview of your business and showcases the major investment highlights.

Why? Too many business owners share too much information with buyers too soon. This is not helpful for either party. A thoughtful one-page executive summary that addresses the highlights of both past and future performance is the fastest way to help both parties determine if there is a potential "fit" while efficiently protecting confidentiality.

03 Condition your staff to start pulling financials and updating the teaser on a regular basis.

Why? One of the reasons business owners ignore interested buyers is because they are scared about the possibility of alarming their staff that the business is for sale. Using this preparation method eliminates this concern. When a buyer asks for information because they are interested in a sale, no alarms will go off internally because the practice of gathering this information has already been normalized. Some of our clients have told their staff that the reason they are regularly gathering this information is because they are committed to building business value, and the best way to do that is by constantly viewing the business from a buyer's perspective. As a bonus, the information about your business is always current. So, when a buyer requests information, you address those requests in minutes vs. weeks. From day one, you are differentiating your business from all others a buyer may be considering purchasing. This creates immediate leverage for your sale. Best of all, you avoid disrupting your team's normal course of business activities.

04 Connect with your wealth advisor/M&A advisor/tax advisor to understand market capabilities and then to refine your goals from a sale.

Why? It is very difficult to establish meaningful exit planning goals without incorporating wealth and tax advisors. The last thing you want to do is accept an offer only to discover late in the sale process that the deal can't satisfy your basic financial objectives. That buyer will never come back to the table after wasting an incredible amount of time. Establishing goals and incorporating the input from advisors prevents the possibility of an owner grossly misjudging what a future business sale will accomplish for them.

Too many business owners share too much information with buyers too soon.

STEP
02

Drive the Rules of **Engagement**

You have probably heard this story. Seller gives a boat load of sensitive information to an interested buyer. Six weeks later, the buyer won't return emails or calls, and the seller is left completely exposed and full of regret. It doesn't have to be this way. You can drive the rules of engagement. In doing so, you can protect your time (and the buyer's). By leading the process, you will also present your business as a more viable acquisition candidate. Here are some possible rules of engagement to consider.

01

After signing the non-disclosure agreement, share the one-page teaser mentioned in the first step. This is actually very helpful to the buyer. If there is interest to expand the conversation, you can extend more information in connection with the timeline request listed below. Remember, signing an NDA does not entitle a buyer to any and all information about your business. Sensitive information should be exchanged incrementally as a possible transaction gains traction.

02

Work to set up a mutually acceptable timeline for when a buyer will present an offer and what information will be made available to guide that offer. Example:

a. Seller allows buyer 1-2 weeks to review limited information.
b. After that time, buyer will either pass or present a non-binding indication of interest. *This is a proposal that is often a range of offers. Its purpose is to quickly help buyer and seller determine if they are in the same economic universe.
c. Upon clarifying buyer and seller are generally moving the right direction, the parties can map out the next important milestone dates:
   i. Release of more information to buyer.
   ii. Management team meetings.
   iii. Submitting a more thought out Letter of Intent (formal written offer that would provide framework for due diligence, closing date, etc.)

If you are not comfortable facilitating this type of conversation, instruct the buyer that you have sale representation and direct them to your M&A advisor.

Too many business owners share too much information with buyers too soon.

STEP 03

Establish **Context**

Many sellers misinterpret the quality of the buyer's offer because they are evaluating it in the wrong context.

Example: A transportation business owner and friend of Tenney Group recently ignored an offer of $25M. At the time, the owner was in the middle of a DOT audit and his daughter was getting married. It was highly inconvenient to engage into sale discussions. The owner had no context from which to judge the offer. He assumed it was fair market value or, more likely, an initial low-ball offer. So, he blew it off. He later discovered that the buyer's proposal was a premium offer. The seller's company offered an immediate solution to a very expensive problem the byer was desperate to address. Six months later, the seller reached out to the buyer to see if he would still honor his offer. The buyer said that was not possible. After the seller failed to engage, the buyer acquired a different company in the region to address its expensive problem. The buyer shared he would still acquire the business, but it would be at market value. Sadly, our friend did not realize that the initial offer was $6M over market value. Had he sought third party assistance to establish a context from which to evaluate the offer, he would have likely found a way to get a deal done. You can't advance your position if your response to an offer is not rooted in reality.

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STEP 04

Set Up **Future Success**

People do business with people they like. Even if you can't get your goals aligned with the buyer's goals today, it is critical to the leave the door open should things change. How can you do this? Be kind. Be courteous. Be fast. Be open-minded. Most of all, be intentional in the way you express genuine interest in revisiting the opportunity should things change. What could change? The performance of the business. The economy. The severity of the buyer's pain or strategic need to do a deal. Your financial or lifestyle goals, etc. Below is simple message to keep a deal in play.

> "Buyer #1, it appears that we are not going to get our goals aligned today, but I have really appreciated the way you have conducted business. I certainly want to keep the door open should anything change on my end or on your end. Is that all right with you?"

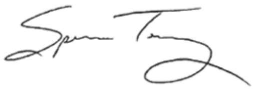
Spencer Tenney,
President & CEO
of Tenney Group

Final **Thoughts**
About the Author

Responding to an unsolicited offer to purchase your business should always present high upside and limited downside. By following this 4-Step Guide, you can efficiently and effectively position yourself to advance the interests of your family, employees, and customers in a variety of ways. Regardless of whether you reach a deal or not, applying these practices will elevate your Deal IQ and ensure you maintain peace of mind as you map out your future - in or out of the transportation industry.

Spencer Tenney serves as President & CEO of Tenney Group, where he oversees the firm's day-to-day effectiveness and long-term vision. Tenney Group is an industry specialized merger and acquisition advisory firm that has been dedicated to the transportation industry since 1973. The company's core focus is sell-side advisory services for companies with annual revenue ranging from $10M - $300M. Spencer has been published in Transport Topics, Fleet Owner, The Trucker, 3PL Perspectives, Trucking Authority. He is also a regular speaker at national and regional transportation association events. His family has been part of the transportation industry for three generations.

Spencer is a graduate of the University of Texas at Austin and holds the designation of Certified Merger & Acquisition Advisor. Spencer and his wife, Lauren, reside outside of Nashville in Franklin, Tennessee and have been married for 13 years. He has three amazing kids – 10, 7, & 4. He enjoys writing country music, reading presidential biographies, and F3 (Fitness, Fellowship, Faith). He currently serves on the board of Franktown Open Hearts, a faith-based organization dedicated to equipping inner city kids to free themselves from generational poverty.



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