

## **Things to Watch Out For When Hiring Your M&A Firm – Part I**

Most people will hire an M&A firm just once in their lifetime/business career. When you do, you want to make sure you are doing the right thing in hiring the right M&A firm. Here are some things to beware of and mistakes others have made that you can prevent as you choose the firm you want to work with for your business transition/sale or acquisition.

### **1. Beware of the M&A firm that is charging a large retainer fee up front.**

Many M&A firms charge \$25,000 and more when they are retained to sell/transition your firm. Don't do this. The reason for the large amount of up-front retainer fees according to these firms is for the valuation to determine a listing/selling price and preparation of the marketing materials to sell your firm. Valuations and marketing materials aren't worth \$25,000 or more. The real reason for the large charge up front is that these firms just "list" firms without focusing on selling the firms so they have to live off of the retainers versus a final success fee/commission. As a side note beware of firms who do not deduct the upfront fee from the final success fee.

### **2. Beware of the M&A firm that does not have a focus in the Architectural / Engineering / Construction / Interior Design markets.**

Architectural/engineering/construction and interior design firms are way different than general businesses: gas stations, healthcare companies, manufacturing companies, CPA firms, shopping centers and more. In the A/E/C industry there are other things to consider like, longer transition periods for a seller, tail insurances, work in process and backlogs, goodwill that makes them different than other businesses. Valuations are even unique to the A & E markets. Finding a firm that is focused on your industry niche will pay off in the long term.

### **3. Beware of the M&A firm that lists businesses for sale, online and then adapting a "hope" strategy, especially in the A/E/C industry.**

Engineers and architects do not visit online websites searching for businesses for sale. A/E/C firms are strategic buyers that are looking for specific fits and they have to be approached on an individual basis to understand the particular and strategic fit that they are looking for.

**4. Beware of firms with a lack of experience in your markets.**

You will realize the most value for your business sale if you are working with an M&A firm that has prior experience transitioning a business similar to yours. Selling an A/E/C firm is much different than selling a house, online or other brick & mortar business. Not only is the process different but so is the prospective target buyer. Working with a firm that is connected to the right types of buyers related to your business, understanding the nuances of the markets and that has the right process will increase the value of your sale.

**5. Make sure you work with a firm that understands value, the valuation process and pricing of the business to be sold.**

Asking a mergers & acquisitions advisory firm how they value a business will give you a good indication of how experienced they are. If their response is a canned ratio or multiple only of some sort then move on from them quickly. There are many things to consider when valuing a business in the A/E/C industry. Many times banks and even CPA's don't understand all that goes into such a valuation. Finding a niche M&A firm that does will increase the probability of you getting more value for your firm in a sale/transition.

Most A/E/C businesses do have a value component based on a multiple of seller discretionary earnings (SDE), which are the net profits plus add backs of expenses that a new, prospective buyer/owner will not have to pay. Every business is different. Have this conversation with an advisory firm before hiring them.

**As an additional note to this topic:**

Work with an advisory firm to come up with a realistic valuation and

listing price that will lead to a successful sale/transition. Typically the advisory firm doesn't get paid unless your business is sold. Valuation and pricing strategies must be done correctly for this to happen. An experienced firm will not waste their time nor your time with a listing that isn't priced correctly.

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