Which Way to the Exit [Strategy]?

Red-hot start-up company CEOs looking to sell confront stressful situations and many questions.

BY PAUL R. BERGERON III

Entrepreneurs are optimists. The last thing they want to hear is that 80 percent of the time a start-up company intends to sell the business, the transaction falls apart. But those are the numbers, according to McKinsey.

Real estate executives who have been on either side of such deals—successful or not—spoke as a panel during the Multifamily Technology & Entrepreneurship Conference (MTEC) in May in Huntington Beach, Calif. They shared with an intimate crowd of mostly 20- or 30-somethings their advice on what to expect and how to handle a company being bought or sold.

Steve Heimler, President, Cirrus Management; Ron Reed, President, NWP Services; and Mike Britti, Senior Vice President of Mergers and Acquisitions, RealPage; offered guidance and defined realistic expectations to an audience of nearly 100 real estate industry entrepreneurs.

The panelists agreed on most points, each supporting and supplementing others' input during the 45-minute presentation.

The comments forthcoming were made both individually and collectively. Consider these to be opinions—from the trenches—with no need for direct attribution.

A Hot Property

If you are running a successful company, people will come up to you, looking and sounding sincere, and they will say, "I want to buy your company."

Your response should be: "Prove It."

Sometimes they really do mean it. In one case, they said this to me and the entire transaction went down in six weeks. Other times, you never hear back from them again.

When there is interest, don't rush. Do your due diligence.

Recognize the signs of an over-eager seller. You can smell him a mile away. Play the entire negotiation phase out. Remember, entrepreneurs by nature have Attention Deficit Disorder. They are impatient. They want resolution so they can move on to whatever that next big thing is that they plan to work on.

But keep in mind that sometimes you can't be too patient. There's an arc to any business cycle. If your phone really is ringing off the hook to sell, then maybe it is time. Realize, because there undeniably is a cycle, this might be the peak. Timing can mean everything.

Deal Fatigue

Moving too slowly on deals can kill them. It is completely normal that the CEO will experience "deal fatigue." This entire process is very stressful, which is why you hire attorneys, bankers and accountants. If you are the CEO, you can't lose focus on running your company. You still have to "fly the plane" during the negotiations.

Hire a professional to handle the exit. Your nerves will become frayed throughout the process, so hire the best attorneys you can afford. Remember, you still are dealing with the day-to-day operations of the company through all of this. And CEOs, especially those running start-ups, don't really work 9-to-5 with weekends off.

Attorneys can educate the business people on all the legal jargon: remember, a lot of this will be new to

you. For example, you don't need to disclose your balance sheet from the get-go.

But consider that sometimes lawyers might take you down the road of a $250K invoice because there is something in the wording they don't like, which turns out not to be a serious business issue with a great affect on the success of the deal. It could unnecessarily bog down the entire process.

When it comes to the economics of your business and this deal, you need to hire a banker to help determine your company's value and an accountant to make sure it all adds up. Remember, lawyers don't always understand the business side of economics. They are lawyers. You'll soon realize that, of the three, the accountant will be the best "bargain" among that trio you just hired.

Letting Go

If you truly want to move forward with selling your company, be sure to ask yourself at this point, "Do I really want to do this?"

You are a good, smart businessperson who built your company with your bare hands. This is your baby. Do you really want to have another baby?

If you want to proceed, this might be the time to take a few days off to refocus and re-energize. Days, weeks or months later, you'll be glad you did.

To reduce stress, appoint someone who is not you to handle the negotiations.

Entrepreneurs, we all know, find it hard to give up power. But in this case, it is beneficial.

Keep the negotiation period quiet. Exposing to anyone that negotiations are underway could prematurely undermine the deal. And once you've received an offer and "everyone" finds out, your company's reputation becomes that of one positioned on the selling block. Hearing this, many of your talented staff will start to look elsewhere.

A lot of times, failure comes at the beginning or after the transaction because of a clash in culture either among management or staff.

Once a deal has been reached, make sure you involve your staff as much as possible. Give them a role or responsibilities to help with the transition. Make them feel like they are part of the new company. They will pay you back with hard work and loyalty.

If your company is acquired, begin the integration process as early as you can. This gives you the chance to ease into any changes that might have to be made in terms of culture. At the same time, this can reveal irreconcilable differences or unhealthy factors that could come into play down the road.

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