TOP 10 M&A Deal Killers

M&A advisors are often asked about some of the reasons why M&A deals die. Although this is a very painful subject, hopefully through sharing these reasons it will help some deals survive the M&A process.

Here are the top 10 M&A deal killers (and some of the solutions):

1. Seller's revenue and/or profits drop while in the market, or worse, during due diligence.

This is probably by far the number one reason, and it is also very difficult to prepare for. Buyers generally like to see that a company has a few years of growth in sales and profits, and projections with backlog that support further growth. A drop in sales can cause a buyer to reduce price and terms for a company, or to back out altogether.

Ways to combat this issue are to create stable, high-value revenues and to develop systems that allow for good visibility into future revenue.

2. Due Diligence Surprises

Buyers hate surprises during due diligence. This can cause buyers

- to back out of deals,
- to delay the process while they decide how to react, or
- to reduce the price and terms.
- At the least, it will create a lack of trust, which can hurt the deal later in the process.

There are three main types of surprises:

- things that no one knew of or that happened during due diligence;
- things that the seller knew but did not disclose; or
- things that the seller disclosed, but the buyer either overlooked or misinterpreted.

In most cases, conducting a pre-sale due diligence check will help to reduce surprises. If something comes up while in due diligence, it is important to disclose the issue quickly to the buyer. For any issue, it is important to disclose the facts to a buyer before they find out either through the grapevine or through customer due diligence.

3. Slow Responses

Time kills all deals, so the longer a seller takes to respond to a buyer's questions, it not only drags out the process, but can cause the buyer to lose trust and interest. Slow response time shows that the seller

- is not serious,
- is too overwhelmed, or
- their systems need to be upgraded.

Sometimes, the seller's advisors do not have experience in M&A or they are too busy, which also causes delays.

Ways to prevent this issue are

- to be prepared,
- to have good advisors who help guide you through the process, and
- to focus on the deal.

Some sellers hire an inside part-time advisor to help them.

4. Inaccurate Information

If a buyer finds that the information provided is not accurate, or that the books have been overly cooked, this can cause the buyer to back out or reduce their offer. Financials or other reports may not be accurate, or forecasts may be overly optimistic. Sellers may claim that they have state-of-the-art equipment and facilities, but if a buyer discovers that all the equipment is over 10 years old and there is a pile of used chemicals in the corner, they may not be very happy.

Sellers tend to exaggerate the value of their company. For example, advisors often hear statements such as “sales have increased 10% every year since establishment in 1985” (but sales are only $5 million and down from the previous year), or “the company is a leader in the industry” (if sales are $5 million the company is not a leader, except in maybe a very tiny industry).

If your company has survived throughout the ups and downs of the industry, you must be doing something special, but make sure your claims are not over-inflated.
A seller can have their CPA review or audit the financials, or provide a sell-side quality of earnings report. There is a cost for these, but it is well worth it.

5. Unrealistic Expectations

Sellers often have unrealistic ideas of the value of the company.
This can cause buyers to back away, as they do not want to waste time if a deal is not going to happen.

The best way to get a premium for a company is to be well-prepared and to build the company over time.
A good sale process can create competition for the company, but it is a lot easier to create competition if the seller has good financials, great equipment, and above-average technology and quality.

6. Over-Negotiating

Some sellers and buyers cannot stop negotiating.
It is important to be able to tell if the other party is a “one and done” negotiator or they negotiate until the other party threatens violence. Most people are in the middle, but everybody gets tired of re-negotiating points that were already discussed.

It is best to be prepared about the expected value and terms, and your advisors can help you decide what is important and what is not.

7. Buyer Issues

Most issues are on the seller side, however, sometimes things come up with the buyer. The buyer’s business can go down, they may not have financing in place, or the buyer themselves can get acquired during due diligence.

There’s not much a seller can do, except keep the buyer on a short leash and move to a backup buyer if the first buyer starts to drag their feet.
Usually, if a buyer isn’t moving quickly to complete a deal, there is an issue in the background on the buyer’s side.

8. Outside Market Issues

This is mostly out of the seller's control. Usually, if the general market or economy is bad, the market for all sellers is not good. However, if your company is doing well in a down market, that could make the company more attractive.

The best ways to counteract this issue is to always be prepared to sell and to not try to time the market exactly. When the economy is really good, everyone is trying to sell, but buyers may not be able to react before the market goes down.

9. Partner/Stakeholder Disputes

An M&A nightmare is when a partner or stakeholder suddenly disapproves of the deal at the last minute. If the deal is near a closing, any hiccup can cause a lot of concern as well as delays.

It is important to discuss the sale with all partners and stakeholders, including family and key employees. Be sure to keep everyone informed of the process.

10. Not Ready Emotionally

Sellers sometimes drastically change the deal at the last minute or get cold feet, which is a way of indirectly saying they are not ready. The seller has the right to do what they want, but it may be difficult to go back to certain buyers if they have been burned before.

An owner should work with their advisors to prepare for a sale, but, in the end, the owner must decide on their own if they are ready to part with their 'baby'.

These are the top deal killers, but of course there are a wide variety of other reasons. In general, preparing the business and the owner for a sale is a good idea, as well as having trusted advisors to help the seller through the process.

*The above text is the revised version from **Tom Kastner**'s article:*

"Top 10 M&A Deal Killers"

Tom, a long-standing and highly regarded cooperation partner of ACS, generously allowed us to use his article as a basis for this paper!

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