Private Equity Deal Progression

Montage Partners
PEOPLE CAPITAL

You've explored your options for exiting your business and are considering selling to a private equity firm. The transaction process can seem long and complex, but most transactions follow a typical pattern. Below we outline the most common steps you'll face when receiving an investment from a private equity firm like Montage Partners.

No Investment Bank

If you are selling your company without an investment banker, or with help from other advisors such as an attorney or accountant, you will interact with the potential private equity buyer sooner:

Initial Call

The PE firm and business owner will have an initial call to discuss the goals of the transaction, transaction expectations, and determine initial fit between the two.

NDA

Both the business owner and the PE firm sign a non-disclosure agreement (NDA), ensuring all information exchanged is confidential.

Due Diligence

- The PE firm will request initial information, including financials, revenue by customer, management structure, and growth plans.
- The PE firm will review the initial information and conduct its own research to determine how well the company fits with the firm's investment strategy.
  - The PE firm and owner may have one or more calls to answer any questions that arise during this research, and to determine alignment on potential transaction terms such as legal, capital, and management structure.
- The PE firm will visit the company and meet with management. This meeting is crucial to determining fit between the PE firm and company management.

With Investment Bank

If you've engaged an investment bank to sell your company, the investment bank will handle much of the initial interaction with the private equity firm in exchange for a fee:

Teaser

The investment banker engaged by the business owner sends a short teaser with high-level facts about the company to potential buyers.

NDA

Both the business owner and the PE firm sign a non-disclosure agreement (NDA), ensuring all information exchanged is confidential.

CIM

The investment banker will prepare an information memorandum, also called a CIM (confidential information memorandum). The CIM provides a deep dive into the company, including financials, management biographies, customer information and growth plans.

Due Diligence

- The PE firm will request more detailed information, such as revenue by customer, management structure, and growth plans.
  - The PE firm and investment banker may have one or more calls to answer any questions that arise during this research, and to confirm alignment on potential transaction terms such as legal, capital, and management structure.
- Following approval from the PE firm's investment committee, the PE firm will submit an indication of interest (IOI), which is a non-binding, non-exclusive document confirming the firm's interest in investing in the company and outlining key terms, including price, legal structure, capital structure and post-closing management structure. Three areas for caution:
  1. A seller would be wise to be skeptical of an IOI that has not been formally approved by the firm's investment committee.
  2. A seller would be wise to be skeptical of an IOI that is deliberately unspecific with respect to any key terms.
  3. A seller would be wise to be skeptical of an IOI from any firm or individual without readily available capital and a track record of completed transactions.
- The investment banker will arrange site visits, where the PE firm will visit the company and meet with management. This meeting is crucial to determining fit between the PE firm and company management.

Letter of Intent

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Letter of Intent

The PE firm drafts a letter of intent (LOI) to document key terms of the transaction. The LOI will include an exclusivity provision for the period of time necessary to complete confirmatory due diligence and prepare definitive documentation.

Confirmatory Due Diligence

- Post-LOI due diligence is often referred to as confirmatory due diligence because it largely consists of confirming what was learned during pre-LOI due diligence.
- The PE firm will submit a list of remaining information requests. Requests may include financial statement supporting documents, personnel information, insurance policies, customer and supplier contracts, leasing and equipment contracts, etc.
- During this time, the business owner can also complete "reverse" due diligence. This may include asking the PE firm for references from sellers and/or management at companies in which the PE firm has previously invested.

What is "Reverse" Due Diligence?

Similar to calling a job candidate's references prior to hiring them, sellers can perform reference calls about potential buyers. These references can include founders and/or management of companies the firm has invested in previously. Ask things like:

- What is the firm like when things are going well?
- What is the firm like when things are not going well?
- How did they work through differences during legal documentation negotiations?
- Did the firm try to renegotiate the purchase price?
- How is performance post-closing, and how has the firm contributed value to the company?

Quality of Earnings

The PE firm will typically order a Quality of Earnings report from a third party accounting firm, which will confirm the accuracy of the company's financial statements and highlight any deviations from generally accepted accounting principles (GAAP).

Customer Calls

The PE firm will request that the company arrange calls with the company's top customers to gather feedback on the customers' perception of their relationship with the company. These calls also serve as an important opportunity to notify top customers of the transaction, to reassure these customers of the continuity of the relationship, and to proactively address any questions from top customers.

Legal

The PE firm's attorney will draft the definitive purchase agreement (mirroring terms of the LOI and incorporating customary representations and indemnities) for review by the seller's attorney. The seller's attorney will prepare disclosure schedules to be attached to the purchase agreement. Disclosure schedules serve to inform the PE firm of pertinent details and to protect the seller from an inadvertent breach of any of the representations contained in the purchase agreement.

Closing & Post Closing

All parties sign the legal documents and funds are wired from the PE firm to the seller.
At Montage Partners, post-closing is an exciting time. We typically visit the company again, work with management to set a plan for the first 100 days after closing, and collaborate to set priorities through a 3-year strategic plan.

Founded in 2004 and headquartered in Scottsdale, Arizona, Montage Partners is a people-first private equity firm dedicated to helping established businesses reach transformative growth. Montage Partners invests in companies in diverse industries, including business services, consumer, healthcare, industrial and technology. Above all other investment criteria, Montage Partners invests in exceptional people. Montage Partners is actively seeking new investments in companies in the U.S. with EBITDA between $1 million and $5 million.