The Basics of Selling a CRO or CMO

In the biotech sector, there seems to be a merger or acquisition every week. In June 2017, acquisitions included Stryker (a $700M deal for Novadaq), PerkinElmer (a $1.3B deal for Euroimmun), JSR (acquiring Selexis for an undisclosed amount) while Bioblast, an Israeli company, seeks a merger partner. And that doesn't count nine deals announced in May.

That seems like a lot of deals but, according to Bloomberg in an article from April 2017, "After almost three years of booming health-care dealmaking in the U.S., 2017 is off to a slow start."

For members of the New England CRO/CMO Council, many of whom bootstrapped their companies, the challenge may be to find a partner to acquire it or to grow by acquiring another company. Locally, we've seen some of both in recent months.

Last month, the council brought in Lincoln Taylor, a senior broker with 13 years of experience as a business broker and M&A advisor, to provides an overview of how to buy or sell a CRO or CMO. Taylor's approach is to employ a win-win style that benefits all parties, and discussed why and when some business owners decide to sell their companies.

Exit Planning: When Is the Right Time?
The big questions are:

- Why sell?
- When to sell?
- To whom to sell?

Often, owners will decide to sell when it's time to consider retiring or if they want to step back in order to devote more time to another endeavor. But they may want to sell in order to diversify their investments; financial advisors often tell clients to reduce the percentage of any single investment in a portfolio. But selling may also provide access to financing and additional skillsets that can accelerate growth.

The worst time is a forced sale due to divorce, health issues or death of the owner. The business won't get top dollar because, basically, the owner or the estate will have to take the first offer.

What's ideal, Taylor said, is to start planning on a sale years *before* you want to or need to sell so you can prepare and evaluate the best options.

As to who to sell the business to, some owners consider handing their businesses to their children. But, Taylor warned, the children may not be interested or the timing for a generational transition may not be right, if the child still is in college. An additional challenge is that CROs and CMOs require executives who have a technical background, and owners' children may not have that kind of background. So it's important to determine whether your children might even be interested.

Another possibility is to sell to an employee or a small group of employees. Presumably employees would be interested and capable but they may lack financing. In this situation, an owner has to decide whether or not to finance the purchase. On the one hand, with an employee group, the owner knows the business will be taken care of by people who value it. On the other, the owner's finances are still tied up in the business. So if the goal is to diversify your investments, you haven't solved that conundrum.

By seeking out a third-party buyer, a business owner can determine goals and has control over the process. The next step is to figure out what type of buyer.

There are **synergistic buyers**: Companies that are looking to acquire customer base, capabilities, employee talent, facilities. And they may be willing to pay more to purchase an essential piece to the puzzle they seek to solve.

There are **financial buyers**: These buyers typically have the financing and management skillsets to be able to accelerate growth. For owners who put in a lot of years and blood, sweat, toil and tears into building the company, the challenge with financial buyers is that they may be unsentimental and dismantle the company for parts – this can happen, for example, when the value of the real estate holdings exceed that of the company itself.

7 Challenges Before You Find a Buyer

According to Taylor, there are seven challenges facing a business owner contemplating to sell the company.

1. **Valuing the business**: Objectively determining how much it is worth (as opposed to how much you'd like the business to be worth) is not easy. You need to look at recent sales and other trends (like the difficulty to secure financing) but with CROs and CMOs, this can be an apples-to-oranges comparison, especially if one company has stronger IP than a competitor.
2. **Keeping it confidential**: There's an important balance to keep. You want to cast a wide net but you also need to keep the news confidential. News that you're shopping around the company can lead employees and customers to get skittish and leave for a more stable company to work with.
3. **How to market the company**: You know what kind of marketing attracts customers, and you know how to sell to customers. But marketing to potential buyers is far different from selling to customers. You need to prepare documents that accurately package your company to someone who might want to buy it from you. You also need to decide how to execute your marketing plan – do you use an email or other direct mail campaign for example.
4. **Dealing with prospects**: Owners should ask potential buyers to answer questions to learn more about them, what their plans are, etc. to qualify them to make sure they are appropriate buyers. At the same time, prospective buyers will expect you to answer their due diligence questions. (Remember to get them to sign a non-disclosure agreement.) Again, this can be like taking on another job.
5. **Negotiating and remaining objective**: As with No. 1, you need to be objective during negotiations. While the company is your "baby," a prospective buyer is looking for a deal to make sense. As with real estate offers, don't get offended if you get a low-ball offer; it's business, and you can always just decline.
6. **Financing**: As with home sales, it's easier and cleaner if the buyer already has the financing lined up. But there are a number of ways to structure payment, and it's good to get advice for a lawyer or financial advisor about the pros and cons of different financing options.
7. **Running and selling your business at the same time:** You're already juggling a lot, including managing the business and growing the business (which are two different things). Add to that, now, you have to find time to get out there to meet with prospective buyers. The more time you spend preparing to sell, the better off you'll be when you have to balance running and selling the business.

Four Stages of Selling

It can take four to six months but more likely seven to nine months to sell a company, Taylor said. During that time, owners will go through four main stages:

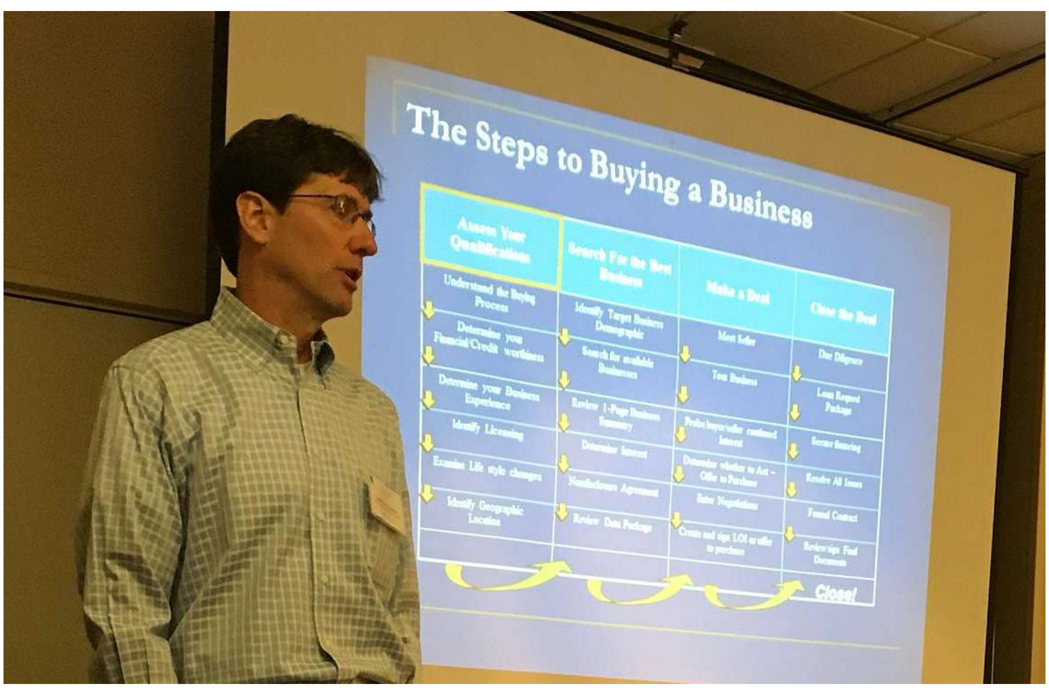
1. Planning.
2. Buyer Search.
3. Deal Making.
4. Closing the deal.

We've already touched on planning and buyer search. Deal making can be complicated. For example, you may have signed a purchase agreement but it may not be binding. There's still a layer of due diligence by the potential buyer.

And when you get to closing, there can be bumps in the road. For example, a company's finances may not be what the seller thought they were or an investor with in the buyer's group may back out for reasons that have nothing to do with the deal. Transferring licenses can take time, too.

What Buyers Look For
To help owners understand how to market their companies, Taylor spent time discussing the following nine key attributes that buyers look for in a potential acquisition.

1. **Provable cash flow**: This is one of the most important aspects of any company. Prospective owners want to understand your expected cash flow and to understand trends that affect it.
2. **Diverse customer base**: It's great to have some big customers but no buyer wants to buy a business tied to one major customer. They're going to want revenue to be spread over a number of customers, to reduce risk if that one big customer leaves.
3. **Skilled management/employees**: They will want bench strength so that if you leave, the company will still operate well. So owners need to develop their employees to take over responsibilities.
4. **Growth potential**: They would want to understand what steps you think the company needs to take to grow the business. It could be more financing, new skills among management, expansion into new geographies or parts of the business.
5. **Transferability**: Buyers will want to know that the business isn't only the owner or one other key employee. This goes back to having a skilled management team and employees.
6. **Flexible terms**: They may be interested in seller financing. The reason: Not just because that may be easier to secure than a bank loan or SBA loan. Seller financing shows that the seller believes in the future of the company because the owner still has some skin in the game.
7. **Motivated seller**. They don't want a seller who backs out at the last minute, after a lot of time and effort to close the deal. At the same time, they may not want a desperate seller, either, because that can be a red flag about the business' prospects.
8. **Valuation and selling price**: Potential buyers will be concerned about overpaying for an acquisition. According to the Harvard Business Review, there is not necessarily a correlation between premium paid and one- or two-year returns on the business – so buyers will be looking for reassurance that they're not overpaying.
9. **Potential for the business**: Buyers want a business that has a future. That's certainly not an issue for CROs and CMOs as it would be an industry more on the way out, the equivalence of a buggy whip company. Forbes recently profiled a former life sciences executive who loved high-end watches, purchased a sleepy watch company and transformed it into an innovation leader, now worth many times the purchase price. For that reason, it's important that sellers understand what the buyer is looking to do with the business.



Lincoln Taylor, a broker in New Hampshire, discussed buying and selling CROs and CMOs at a recent event.

Four Steps When Buying a Business

For those looking to buy an existing business, Taylor said there are four stops to consider:

1. Assess your qualifications.
2. Search for the best businesses.
3. Make a deal.
4. Close the deal.

Closing the deal is important, whether you're selling or buying. Even at the 11^{th} hour, a deal could collapse, even if both parties are motivated to make it happen.

Selling or buying a company is not easy, and Taylor did not discuss what to do after you've sold or after you've purchased a company. Brokers can help sellers and buyers navigate the process, and hold your hand during the rough patches that may occur during the due diligence.

The NE CRO/CMO Council holds educational and networking events several times a year. To get information about other CRO/CMO resources and events, please sign up for our mailing list here: http://newsletter.necrocmo.com/.