

# THE CHICAGO CORPORATION

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- Most private business owners will at some point receive a cold call from a potential buyer asking if their business is for sale.
- There are thousands of financial buyers—private equity funds—with billions of dollars available to make acquisitions on a leveraged basis.
- There are also many strategic buyers—operating companies—that also have billions of dollars of liquidity that are looking to expand their operations through acquisition.
- There are “hybrid” buyers that are strategics owned by private equity groups that are on the hunt.
- There are also individuals with some capital of their own looking to invest in a company to run for themselves.
- So the likelihood is high that one of these parties will call you.
- You may receive a call from an intermediary on behalf of one of these principals to inquire about buying your company.
- **General Rule Number 1:** If you receive a call from an intermediary, be sure to find out who they are representing before any conversation. That intermediary may be trolling on its own account looking for companies that are “for sale” to then go and try to scare up a buyer. So get the name of the client or say nothing.
- **General Rule Number 2:** No matter who calls, don’t ask about price. The potential buyer doesn’t know anything about your business so any pricing indication is purely speculative.
- In addition, the question of “what will you pay” sends the signal that you are “for sale”. You may want to sell your company, but this is not the way to start the conversation.
- **General Rule Number 3:** Be prepared for the call. Don’t wing it. Don’t dodge it. Treat it seriously. It may be the most important call you get about your business and it should be handled carefully.
- The following are suggested questions to ask the caller to qualify that person as genuine or not.

## Top 10 questions to ask a financial buyer:

1. What is your current investment in, and knowledge of, my industry? How much research have you done on the industry?
2. Why do you want to invest in this type of business at this time? What drove you to be interested in my business?
3. If I told you that my company generated \$x dollars in revenues, would that make me a “platform” or a “add-on” in your portfolio?
4. How do you build value and generate returns in your portfolio companies? By generating incremental top line, by cutting costs or by financial engineering?
5. What is your time frame for actually buying a business? What is your time horizon before you would look to “flip” the business?
6. What is your history relative to retaining management after the acquisition and how much day-to-day control does retained management typically maintain?

7. What is your model for compensating retained management with equity incentives and how do you decide what the standard of performance is to receive equity incentives?
8. How do you tend to finance your deals? What percentage of equity do you put in? What percentage of debt? Have you historically asked for seller notes? Earn-outs?
9. Why are you different from other private equity firms? Why should I sell to you?
10. Would you give me the names of the CEO's of five companies in your portfolio so that I can talk to them about your track record of ownership?

### **Top 10 questions to ask a strategic buyer:**

Before asking any of the questions, be sure to tell the caller that the company is “Not for Sale”. Industry players are always a bigger risk because there could be competitive issues, overlapping vendors/customers, industry rumors, etc.

1. Why are you calling me? This company is not for sale. Anything I tell you could be used against me in the marketplace.
2. What is the strategic rationale for even thinking this combination could make sense?
3. What is your long-term plan for my type of business as part of your organization?
4. What would you do with my plant and employees? Keep them in place or eliminate them?
5. Who would my business be reporting to in your organization?
6. How do you see the cultures of our two organizations meshing after a transaction?
7. Tell me about your last three acquisitions? How did you price them, integrate them into your organization, and how are they doing post-acquisition?
8. What kind of synergies do you see between our two companies? Top line? Cost savings?
9. Is there any equity upside for me and the management team after we go inside your organization if we outperform expectations?
10. Would you let me come down and look at your operations to compare them to my own before we go any further?

### **Top 10 questions to ask an individual:**

1. What is your business background and experience?
2. How long have you been looking into buying a business? Are you currently employed?
3. Have you ever been in business for yourself? If so, why did you get out of that business? Have you considered the demands of running the business?
4. What drove you to be interested in this type of business at this time? Which other businesses for sale have you approached?
5. How much research have you done on my industry?
6. How do you plan to fund the acquisition? Do you have an investment partner? Who? Is financing already in place?
7. What is your timeframe for actually buying a business?
8. Where do you live? Will you relocate to run the business?
9. In the first year, how much profit will you need to take out of the business to live on?
10. If we decide to move forward on a transaction, I will want to check your credit, work and character references; is this OK with you?