Done the Deal Yet? - Mind that Gap

The team at ValueStep has acted across the spectrum of roles in transactions, as advisor; lead negotiator; client team coordinator and as 'Principals' too in acquisitions and exits in several companies across different market segments.

Getting a deal done can be extraordinarily easy, or near impossible depending on the motivations, ambitions, insight and experience, appetite and focus of the parties. In almost all cases, however, we have found, one common and fundamental piece of the multi-faceted transaction puzzle exists and that is the 'Deal Value Gap' (DVG).

The DVG, in simple terms, is the difference between value and valuation - positioning you as a buyer or a seller. Whilst every transaction is unique in many regards, the common elephant in the room is the question of what the deal is worth to the buyer (value) verses the aspirations and expectations of the seller (valuation) for their return.

Outline valuations are often unhelpful. In whatever way they are achieved they estimate a 'likely' current worth of an asset, company, or a contract, but critically, and almost always, they can set-up an expectation in the mind of the seller who thereafter measures everything from that benchmark. It is tricky to shift from that in the heat of negotiating what for some can be a first or final wealth securing moment.

Value, on the other hand is real-time and dynamic, essentially it is the amount that an actual buyer is willing to pay for the business at a particular point in time and based upon the situation, trading, prospects of the business and the broader synergies or opportunities that the acquisition might over time deliver to the specific acquirer.

It is the difference between these two measures that is likely to be the main obstacle to completing a deal. There may well be good intentions in progressing a transaction, but if value and valuation are wide regardless of motivations, the prospects of seeing a transaction completed will be slim. In the advisor space, those who can support their respective clients to reach a balanced and apparently fair 'compromise' on price to pay/value to receive, will ultimately be more successful as 'deal doers'. These deal doers will typically need to rely on skills of extraordinary communication, adept negotiation and in many cases a good bit of coaching, counselling and in some instances cajoling their respective clients too.

Whether the DVG will be bridged, and a deal done, or if it remains unbridgeable, will be decided by the willingness of parties to make critical concessions and to reach compromises. It is almost unheard of for a deal to 'just happen' and in our experience the best deals are ones where both buyer and seller feel that a level balance has been achieved in bridging the DVG.

One area in deals that many involved find of great challenge is that of remaining emotionally neutral. As emotions can indeed cloud judgement and logic, it is essential to keep a sense of calm and rational thinking even in the eye of tough negotiations. An area from experience we can highlight as 'much easier said than done', nonetheless, vital for a positive outcome.

And, as a final aspect to consider, but sometimes overlooked, but there is often a time to know when to walk away. It is important at the outset to set objectives and, also to have documented the drivers for the sale or the purchase and a range of 'what if' scenarios considered. Sometimes it is necessary to step back and decide to terminate dialogue and not to proceed. Linking the emotion point, having the clarity of when a transaction no longer aligns with objectives, be prepared to walk away.

Here we share our ValueStep top 10 tips to bridging the DVG and to achieving success in securing the right transaction completion: -

1. Set up open communication

It is vital from day one to foster transparent and honest communication between the parties involved. Encourage them early in the process to clearly express their needs, concerns, objectives, and priorities.

2. Understand the parties' motivations

It is critical to establish as quickly as possible a clear understanding of what each party hopes to achieve from the transaction. Knowing their motivations helps open options to find creative and mutually beneficial solutions.

3. Use real-time market research

It is all well and good pulling historical information out and promoting industry statistics of transaction multiples achieved, but the important nuance to that is being alert to the real-time actual data and insights on emerging economic backdrops plus and emerging industry trends and influences. Comparable transactions, and prevailing market conditions need to be assimilated carefully to help both parties arrive at a realistic valuation.

4. Explore creative deal structures

Consider alternative deal structures or financing options that can accommodate the interests of both parties can often unlock a blockage. These will perhaps include a range of responses including earn-outs, milestone-based payments, loan notes, rolled over equity positions for example.

5. Identify and address non-financial concerns

It is important to remember that 'people' are at the heart of the deal. And it is not always about the money as that is only one aspect of a transaction. Non-financial aspects like job security, organisation and cultural fit, and long-term vision may be equally important.

6. Seek win-win solutions

Aim for outcomes that provide advantages to both parties. This can involve compromises and concessions on both sides but inevitably will draw together the sides and close the outstanding matters down.

7. Set clear expectations

Ensure that both parties have a realistic understanding of what can be achieved. Mismanaged expectations can lead to disappointment and impede negotiations. Whether valuation or timing of due diligence and completion, always provide solid management plans that are smart.

8. Keep things professional

If negotiations become challenging, and often they do, it is essential to remain professional, respectful, patient and always willing to listen. Have fall back positions and alternative approaches considered ahead of the controversial topic meetings.

9. Build long-term relationships

The business world is a small one. Reputation and conduct as a buyer, seller or the advisor, spreads beyond the deal itself. It is good practise to encourage a cooperative and respectful atmosphere during negotiations, but vital to have integrity to build trust. Building trust can lead to smoother transactions and potential future collaborations and it will give parties on the next deal a head start.

10. Select the right advisors in the first place

Take good care to select advisors that suit a particular transaction. Every transaction has quite unique elements and the right advisors can make the difference for getting the deal done. A blend of pragmatic, practical, focussed and engaged, not just aware of the dynamics and dimensions of transaction elements of the deal, but also alert to the individual personalities of the parties, the principals, and respective advisory teams probably describes the right choice.

Can ValueStep help you?

Over the past three decades the ValueStep team has led major construction and infrastructure projects; national scale programmes for public service delivery; business purchases, mergers, and disposals; turnaround and restructuring of businesses and projects/ contracts.

Our team has time-served experience of deal making and transaction services from every angle. We can offer tailored advisory support and capital investment solutions backed with the highest level of integrity, leadership, and courage.

Contact us to learn more.

James Leng, Director
ValueStep Limited

UK: +44 (0) 7799 060674
International: +353 (0) 87 460 5484