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5 Questions Investment Bankers Ask CEOs on the First Call

By Ryan Foley | November 24, 2015

To a CEO who has never sold a company or raised capital, the prospect of speaking with investment bankers and M&A advisors for the first time can feel daunting.

While it's easy to push these conversations to the bottom of (or even off) the to-do list, preparing for the next stage of your business is just as essential as running your core business. Even if you're not looking to transact in the near term, bankers and advisors can help you understand what to do now to guarantee more value in a transaction years down the road.

Here are five questions CEOs can expect on an introductory call with a banker or advisor:

1. “What does your company do, and how are you differentiated from your peers?”

A banker will ask you to explain your current position in the marketplace and your plans to grow the business. “Understanding a company's positioning in the competitive landscape is critical to assessing the viability of a potential deal,” says Jonathan Cunningham of Aequitas Advisors, an Axial member. Be prepared to talk about how you distribute your products or services, how your management team is organized, how you generate revenue, and any unique strengths of your company or business model.

2. “Why are you interested in selling your business or raising capital?”

Before the call, be sure to think through and distill what you're hoping to get out of a transaction — whether now or in the future. Is your interest based on the current market, a personal situation, growth opportunities in the industry, or a combination of factors?

“This is a critical question in that it reveals motivations, expectations, potential anticipated changes in the business (positive or negative), personal goals and objectives, and more,” says Dexter Braff of The Braff Group, an Axial member. “These are variables that are important to know to begin to assess the viability of a potential transaction.”

3. “Do you have a valuation or capital amount in mind?”

It's OK if you don't — but if you do have a specific amount in mind, bankers will want to understand how you came to that number. “We ask this question because, more often than not, the business owner is unsure of the amounts needed to facilitate growth and of typical valuations in their industry,” says Kevin Owen of Madison Street Capital, an Axial member.

Many CEOs base their initial ideas around valuation on figures they've heard casually thrown around at cocktail parties or industry events, but numbers can vary widely even within a specific sector. If you're unsure where to

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start, Axial's free DCF valuation Excel template can help you arrive at a ballpark number.

4. “Besides an attractive valuation, what would a dream deal look like in your mind?”

Some CEOs want to stay on with the business; others may want to leave but have their management team stay on. Are you willing to sell your company to someone who may overhaul your entire business model or start with layoffs, or is employee security your top priority? Whatever your answer, “this question reveals other tangible and intangible items that are important to the seller, which not only helps to further qualify the prospect, but gives the banker further insight regarding how the prospect thinks,” says Braff.

5. “What are your revenues and adjusted EBITDA?”

Bankers will always ask this question. “The investment banker needs to begin to qualify the deal to determine if it matches their requirements and resources,” says Braff. If you're concerned about confidentiality here, ask the banker to sign an NDA before getting into details. If you don't have your own NDA on hand, use Axial's standard NDA template.