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Creating Value in Management Presentations

A well-scripted management presentation can positively affect price, terms and conditions in a sale.

by William S. Hanneman

A seller has three primary opportunities to influence a prospective buyer's mindset about a particular acquisition opportunity:

1. The information presented in the confidential information memorandum;

2. The quality and comprehensive nature of the information provided in the due diligence data site; and

3. The experience with management when meeting in person.

The first two are presentations of fact that assist the buyer in understanding the nature and the economics of the opportunity. The third, the management presentation, is where more subjective data is provided to allow buyers to assess the character and capability of the target's management and gain perspective on the "facts." Among these three opportunities, the management presentation is often the most influential.

After offering preliminary value conclusions based solely on the data available in the information memorandum, prospective buyers that offer the "best" proposals are invited to visit the company and meet with management. This visit allows the buyers to put in context the information they have already digested in order to develop confidence in a final proposal to purchase the business. A management presentation offers the opportunity for the managers of the target business to positively influence the prospective acquirer's understanding and perspective about the future of the business that is being sold.

Buyers that have already put in the effort to make an offer and travel to the target's place of business are predisposed to want to make a deal work; it is called optimism bias, the tendency to believe that planned actions will be successful. So, the seller's job during the time spent with each prospective buyer is to build rapport, ease perceptions of risk, and enhance expectations of return.

BUILDING TRUST

Although the audience is already predisposed to the seller's message, we know that an audience doesn't really hear what a speaker is saying until a level of trust has been established. One of the best ways to gain trust is to openly discuss the challenges in a business. All businesses have them and the audience knows that. Being open and honest about those challenges builds credibility and credibility leads to trust. Buyers will gain comfort by knowing that managers understand the risks of the business and have a cogent strategy for addressing them.

If possible, the best practice is to schedule a social event, usually dinner the evening before the management presentation, to allow the buyer and managers to build an unscripted rapport. In that manner, a certain degree of trust and credibility has already been established by the time the formal management presentation begins.

> **A well-executed management presentation can make millions of dollars of difference. When that kind of money is at stake, it pays to practice. Practice once, then practice again, and practice more until it feels comfortable.**

INFLUENCING THE PERCEPTION OF RISK

Because risk is subjective, buyers' perceptions will be different, colored by their own experiences, expectations, and objectives. In order to influence the perception of risk, one must understand how each buyer thinks about the target business. A financial buyer's viewpoint, for example, will be entirely different than that of a strategic buyer. Financial buyers may well know nothing about the industry in which a target company participates, requiring a base level tutorial about the dynamics of the industry and the target's place within it. Financial buyers will be highly interested in the experience, capability, and the depth and breadth of management and management systems since they are the key to making the business successful.

Strategic buyers, on the other hand, already understand the industry, or think they do. Unless the purpose of the acquisition is to collapse certain assets into the buyer's organization, strategic buyers are influenced by the viewpoints of managers of the selling company. As a result, successful management presentations must recognize the unique aspects of each buyer and address the issues most important to each.

INFLUENCING RETURN EXPECTATIONS

Although mitigating risk is important, valuation will ultimately be influenced by each buyer's expectation of the future financial performance (either on a stand-alone basis or in a business combination with its own operations). Therefore, another key purpose of management presentations is to bring to life future business opportunities.

While it would seem to make sense to have the CFO handle the financial portion of the presentation, particularly when it comes to the forecast, prospective buyers really want to hear from the operating managers, listening closely to ascertain how they evaluate the economics of the business and its opportunities. The more articulate that managers can be about economic decisions and financial performance, future plans appear more "real" and will more likely be taken into consideration in a buyer's ultimate value determination.

THE DELIVERY

Management presentations are an opportunity to showcase the capabilities of each member of the management team and finding a role for each serves to highlight the company's bench strength.

It is critical for buyers to see that all managers are pulling on the same oar. There should be no contradictions and no controversy. Give credit where it is due, and don't criticize! The presentation should not only demonstrate that managers actually comprise a "team", but also offer a glimpse into the culture of the business. Bear in mind that, at some point, the buyers will likely have the opportunity to talk to managers individually, so it is important that these behaviors are genuine and that the information is consistent.

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PRACTICE, PRACTICE, PRACTICE

A well-executed management presentation can make millions of dollars of difference. When that kind of money is at stake, it pays to practice. Practice once, then practice again, and practice more until it feels comfortable.

During those practice sessions, the investment banker will play the role of the buyer, asking difficult questions, critiquing the responses and offering suggestions for improvement. Among the suggestions we routinely offer are that managers should remember that the answer to nearly every question has an implication with regard to risk or return. Because buyers will always be filtering the discussion into the impact on value, take a moment to think about the value implication of each answer. The quickest answer is not always the best. Answers of fact are often better for a later follow up unless the facts are known with certainty.

OVERALL GUIDELINES

The best presentations are market and operations focused, as it is there that the real value is determined. Buyers want to understand how managers think about the business, make decisions, and work as a team. They are interested in the strategic direction and why that direction has been chosen. A slight degree of optimism is appropriate, but don't sugarcoat the business risks. The numbers are important, but rarely is the management presentation the best venue for detailed financial analysis. If a good job is done in the management presentation, a follow on meeting to discuss financial details can be convened.

The management presentation also offers an opportunity for company managers to build a personal connection with decision maker(s) on the buyer's side. This connection can be quite useful if negotiations become entrenched. Buyers that come away from a management presentation with a favorable impression are more likely to stretch the elements of their acquisition proposal when needed to clinch the deal. ❖

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ABOUT ZACHARY SCOTT

Zachary Scott is an investment banking and financial advisory firm founded in 1991 to serve the needs of privately held, middle-market companies. The firm offers a unique combination of in-depth knowledge of the capital markets and industry competitive dynamics, sophisticated analytical capabilities, and proven expertise in structuring and negotiating complex transactions. For more information on Zachary Scott, please go to ZacharyScott.com.

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