

THE SELL-SIDE MARKET STUDY

Increasingly, sellers and bankers running processes are advocating a sell-side market study. In addition to placing a sell-side Q of E in the data room, many sellers want a credible, objective assessment of the viability of the market and the positioning of the Company (and its growth potential). Providing the sell-side market study to buyers can enhance bidder interest in (and potentially valuations of) the Company.

Therefore, the purpose of the sell-side market study is to be able to place a legitimate, credible, third-party assessment of the market's viability, attractiveness and the Company's positioning and growth potential within the market. For prospective buyers, the report is likely not a substitute for their own buy-side diligence. However, it may pique their interest, allay a possible concern, or otherwise advise them of a future opportunity that may be worthy of their own investigation. In other words, it may

make them more interested, confident bidders!

Thinking about the assignment through the lens of a potential buyer will help shape the study to uncover any concerns, risk factors or red flags

that might spook a buyer – or cause them to ask for a reduction in price. In addition, thinking about the assignment

from the buyer's standpoint also provides the blank slate necessary to identify new growth opportunities – with fresh eyes open to ideas, options and alternatives that management could seize.

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Ideally, these opportunities, changes, and new risk factors are then internally discussed

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to ensure management has answers for the inevitable questions that potential buyers and their lenders may be asking. How are you mitigating these risks? What heavy lifting should take place? What improvements can be made? Which path to even more rapid growth is most sensible?

Knowing that management is “on it” – pursuing all of the best opportunities uncovered during their own sell-side diligence, will cause buyers to step back, impressed that management has their act together. We have witnessed it happen.

The sell-side study should be conducted several months before the investment bankers start writing their CIM. This timeline allows the consulting firm to work with the owner, the management team and the banker running the process – all three have unique perspectives, interests and needs. The scope should be focused largely on tangible, quantitative market and customer data. And the research objectives should be cover opportunities and drivers, rather than risks and challenges. (Some weaknesses or problem areas will inevitably surface, and these should not be hidden. But proactively looking for red flags does not serve the purpose of the sell-side study, either.)

Conclusion

Market, customer and competitor research serves to support management’s strategic thinking and provides potential buyers with a candid, objective market overview. The result, enhanced awareness and understanding can eliminate the anxieties that often result from lack of knowledge. Buyers sometimes fear the worst. Knowing that the worst case is really not so bad, and that the upside is tangible, real and not going away can be very compelling. Sell-side market insights can be tremendously impactful, value creating, risk mitigating and can have a tremendous ROI.

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