EVALUESERVE

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Unlocking the Secrets of a Successful Deal: 7 Key Steps in the Deal Execution Process

Deal Execution – Introduction

Deal Execution refers to a multi-staged investment process, where each stage consists of a myriad of sub-activities. This process starts from the deal ideation, which involves understanding the objective of a business transaction and comprehensive research to identify the right targets/buyers, followed with months of activities involved at every step, and is finally completed at the deal closure phase.

The process can vary significantly depending on the type of deal, the complexity of the transaction, and the parties involved. For example: on the sell-side it involves a series of steps, which includes understanding the seller's objectives, understanding the target company (or segment/ division / asset), identifying & reaching out to prospective buyers, preparing marketing materials, and negotiating the right price & terms.

The process can be quite complex and requires vast amount of knowledge & experience, with confidentiality being a key component to the success of the process. For this reason, the parties involved hires an investment bank / advisor to assist in this entire process. These investment banks usually have years of experience in working on similar transactions and can bring their learnings to successfully execute the deal. An investment bank/advisor takes into consideration the buyers' / sellers' priorities and design a custom transaction structure to meet those priorities.

Strategies for Optimizing the Process

In order to optimize the process of deal execution, it is important to have a clear strategy in place. This involves understanding the steps involved in the process, planning for any potential problems, and implementing systems & procedures to ensure that the process is carried out correctly. Therefore, among other things, it is essentially important to:

- ☑ **Have a plan** that outlines the steps involved in the process and ensures that all parties involved understand their roles and responsibilities.
- ☑ **Set deadlines** for each stage of the process to ensure that the process is carried out efficiently and that all parties are meeting their obligations timely.
- ☑ **Use technology** to streamline the process of deal execution, from the initial stages of research through to the final steps of closing the transaction – resulting in increasing efficiency of the entire process.
- ☑ **Monitor progress** in order to ensure that all parties are meeting their deadlines and that the transaction is on track, without any delays - that can have a significant operational and financial repercussions.

7 Key Steps in a Deal Execution Process

Target / Buyer Screening

The deal execution process starts with a comprehensive screening of initial set of targets / buyers, with an aim to identify the relevant targets / buyers based on certain specific business objectives.

Eg: An advisor drafts an initial list of potential targets using various criteria including valuation, size and scale of operations, operational / geographic synergies, ownership, financial strength, and others.

Financial Analysis

This step involves an in-depth analysis of a company's financial performance which is imperative before an advisor can understand the valuation dynamics, conduct positioning assessment, or draft relevant deal documents.

Eg: A sell-side advisor conducts a thorough financial analysis of the target company to understand the historical growth, margin profile, technology partners as well as key financial metrics including churn, retention rates, recurring revenues, and others.

Valuation & Financial Modelling

There are various methodologies that may be used to establish valuation range, which is often represented in a football field. Based on the results of single or multiple techniques – an implied valuation is provided which becomes basis for deal negotiation.

Eg: A sell-side advisor values the target using (one or combination of) comparable companies' analysis, precedent transactions, DCF analysis, sum-of-the-parts analysis, and accretion/dilution analysis.

Drafting a CIM

Confidential Information Memorandum (CIM) is one of the first deal document a buyer receives during M&A process. The quality of CIM can significantly impact the value of business and the success of business sale.

Eg: A sell-side advisor drafts a CIM to create a positive perception of the target and potential of the target industry. This document includes details on target's business operations, growth potential of the sector, investment highlights, financial strength, etc.

To read more about our views on what an Effective CIM entails, click here

Deal Marketing

Deal Marketing is one of the most essential steps in the execution process, which primarily involves marketing the target company and educating potential investors. At a later stage, also includes executing NDAs with the interested parties, distributing process letters for an IOI, following up with the potential investors and processing IOIs with indicative bids to shortlist the most appropriate buyer.

Eg: A sell-side advisor rolls-out blind teasers / emails to strategic MSP players as well as financial sponsors. Negotiations are held with interested parties, with an aim to solicit and evaluate final offers (or LOI).

Due Diligence

Due-diligence is an important step for both sell-side and buy-side advisors. It is imperative for the sell-side advisor to have thorough understanding of the target's business. Similarly, a buy-side advisor must thoroughly examine the details provided to make most probable estimates of the targets' valuation and growth estimates.

Eg: A buy-side advisor will comprehensively analyze the historical financials & projections of the target, as well as its peers and overall sector – to correctly value the target.

Deal Closure

Closure management involves taking the necessary steps to ensure a successful deal closure and avoiding any possible delays. This stage includes various follow-up / negotiation meetings, legal documentation, onsite visits, and an effective PR management.

Eg: Both the buy-side and sell-side advisors in deal will be involved in follow-up meeting, final negotiations, bank meetings, closing conditions and final signing & announcement to conclude the transaction.

Conclusion

To summarize, the art of deal execution in investment banking is the delicate orchestration of taking a potential transaction from idea to completion. The process of deal execution commences, as the prospect of a transaction materializes, and a suitable opportunity is identified. The process encompasses everything from understanding and identifying the parties' objectives, screening, and creating a suitable target/buyers list, creating a perfect CIM – while assisting the clients in establishing a valuation based on standard valuation techniques, analyzing transaction structure alternatives, running through the due diligence process, and finally signing the sale purchase agreement. The entire process entails the meticulously crafted preparation of deal documents.

Evalueserve has extensive experience of working with large, mid-market investment and boutique advisory firms providing deal execution support for live deal mandates across various sectors. Most mid-market and boutique advisory firms have leaner deal teams and require support for deal preparation and deal marketing phases. Our trained pool of analysts supports deal teams across the deal execution process, thus helping our clients to execute more deals. For more information, please visit: https://www.evalueserve.com/solutions/deal-execution-support/

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