Maintaining Confidentiality

BCC Advisers Baton 14.3, August 2017

One of the biggest concerns among business owners when selling their company is keeping the discussions confidential, and rightly so. A full staff, satisfied customer base, and strong vendor relationships are a few of the value factors creating positive interest from a buyer. Damaging any of these components decreases the value of the total business package you are selling. There are preventative steps both the business owner and investment banker can take to mitigate confidentiality risks throughout the process.

Limit Size of Initial Team
The greater the number of people who know about a potential sale, the greater the number of opportunities for word to slip out to your customers and competition. It is important to limit the number of employees brought into confidence to only those that are absolutely necessary, which typically includes those required to assist with due diligence requests, such as your CFO/controller.

Confidentially Approach Buyers
How do you reach out to prospective buyers without allowing them to guess your identity prior to signing a confidentiality agreement? Your investment banker will utilize a “blind profile” or “teaser” that discloses enough information for a buyer to determine if they have initial interest, but not so much that it is apparent who they are representing for sale. If there is initial interest from a potential buyer, a non-disclosure agreement should be executed prior to any confidential or sensitive information being shared.

Utilize a Virtual Data Room
As the process enters its final stages, a significant amount of information trades hands. In order to control the flow of this information, it is advisable to use a virtual data room. The web-based virtual data room securely stores information in a centralized location. Access to information can be controlled by the investment banker and/or the client. In addition, users have the ability to track who has accessed specific information. Virtual data rooms also minimize the need for onsite due diligence.

Strategically Timed Announcement
Eventually, a business owner needs to inform the entire employee base about an ownership transition, but in most cases it is appropriate to wait until right before or even after a transaction is finalized. When significant time passes between the announcement and the actual sale, employees may get nervous about their security and “jump ship” for other employment opportunities. By announcing the transaction with both the buyer and the seller present, you’re able to answer questions, introduce employees to the new owners, and minimize uncertainties. If there is concern that news about the transaction is becoming public, a press release can be utilized prior to closing in an effort to head off any potentially incorrect information caused by rumors.

Although there is no way to 100% guarantee confidentiality is maintained from start to finish in any transaction, the steps above will help minimize the possibility of such breaches. Having a solid, upfront plan in place between your advisors is crucial to a successful transaction.