M&A SCIENCE

1st conversation to LOI with Michael Frankel

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The time between the first conversation with a target and signing the LOI is the buyer's chance to make a strong impression. Knowing what steps to take and who to involve along the way is critical in order to stand out among other buyers, assess value alignment early, and gather support for the deal thesis.

Joining Kison today for this interview is Michael Frankel, founder and managing partner at Trajectory Capital, an investment firm that focuses on growth businesses. Michael will refer to decades of M&A experience to walk us through the basic steps involved in sourcing a target to getting them to sign the LOI/IOI.

Kison: What is your background?

Michael:

I have a very diverse M&A career. I've done M&A from every direction. I started out as an M&A lawyer at Skadden, then was a banker at Merrill. I moved onto large-company corporate development jobs at GE Capital, IRI, and LexisNexis. I've also been the CFO of some high growth tech seeds. Most recently, I was at Deloitte where I ran an internal team that developed the strategy for doing acquisitions of tech businesses. I then helped operate those businesses and improve them and grow them. Around a year ago, I founded Trajectory Capital with two partners. I've done around 110 transactions. Most of them are M&A, the minority are venture equity and debt.

Kison: Walk me through this. I'm interested in getting from a first conversation through to a signed LOI. What key steps are there?

01 Warm introduction

02 The first meeting

03 Paint the Picture

04 NDA/Info request

05 Model assumptions

06 Test the waters

07 Draft the LOI

Michael:

I'll start with a caveat; when I'm an active corporate development officer, I hate cold calling. I hate having the first conversation be, "You have no idea who I am. You may have heard of my big company. We want to talk to you about M&A".

I encourage my business leaders to think holistically about their ecosystem and think about companies they might want to buy. **The best way to get free secret due diligence is through ecosystem partnerships: sell their stuff or put their stuff into our broader solution.** Even just code developed marketing strategies, it's an amazing way to figure things out in advance.

In a perfect world, the initial conversation would be between people who already know each other well, and can easily open the conversation on a strategic partnership. If you can't do that and you are cold calling somebody, I'm a big believer in doing your homework. If you have an established relationship, they already know you and like working with you. **That first conversation is critical, especially with a founder-owned business. Financial sellers are going to be a little more rational. They just want to maximize the purchase price. However, a founder or a management team that's going with a business is going to be very sensitive to the nature of the deal.**

If you are cold calling, I believe in doing as much intelligence gathering as you can. Find out who is in charge, who has authority to drive a deal, and what their priorities are. Is the founder ready to go? Is the founder ready to grow the business for another five years? You want to have a clear understanding before you have the first conversation.

I like to come in with a warm call. If you're a large company corporate development officer, most CEOs will answer your call suspiciously. I always prefer to use my network and my management team's network to find an "in". I look for someone who likes me, who knows the founder, and will reach out on my behalf to organize a time to talk.

Being able to smooth out the interaction is incredibly powerful. It takes them off of their back foot. They're not thinking, "What is going on here? Who are you?". That puts the conversation into a better context. If a CEO is running a decent company, if it is growing, that leader is getting these calls all the time from venture capital and investment firms. That CEO's Linkedin is likely filled with, "Hi, I run a fund and we'd like to invest in you".

Getting out from that noise and having somebody credible say, "These guys are real. You should talk to them", makes a world of difference to tee up that first conversation. It sounds like a lot of work before the first conversation, but I think it makes all the difference. Once you get that introduction or you reach out to them, planning the first conversation very carefully to do more listening than talking is also really critical.

I think the foundation of all good M&A is having a very clear understanding of what your priorities are and an even more clear understanding of what their priorities are. In my mind, M&A is considered to be about the battle of, "There's $10 on the table and I want $6, and you want $6". In reality, M&A is about, "How can I turn the $10 on the table into $15 on the table?".

You want everyone to think they're a winner. In order to do that, you have to understand what the seller wants. They may care about what happens to their employees. The management team may care about their job and their upside. The seller may care about being able to spin good PR out of the sale. If it's a strategic seller, they may care about customer relationships.

Sussing that out in advance or during the first call will help you to cut a deal in a way that appeals to them. I listen to what they say when I ask what direction they want to take their company. I ask them: “What are your plans for your and your management team? And what are your shareholders thinking? That information helps me frame something to them that will incentivize them to be exclusive with me.

Kison: Let’s do a quick recap. Step number one is to get a warm introduction. Can you expand on how to explore the different avenues to achieve that? I personally get hit up often by people I don’t know asking to introduce me to other people I don’t know. What is a good way to approach requesting introductions?

Michael:

I think the key is to find someone in your, your management team, or your company’s network that is trusted by the other person. That could be one of their investors. That could be one of their advisors. It could be their lawyer or somebody they know from prior companies. If the founder used to work at Intel, perhaps you know someone who worked with them.

To your point when you get a request for a cold call, my guess is what you're trying to assess as quickly as possible is, "Will this be helpful to me and will this be annoying to me?". You want the message people get to be, "They're serious about doing a deal". This could be significant for you if they believe, "This guy Michael Frankel is not gonna waste my time. He's reasonable. He is not a jerk and he's serious about doing deals and has done them before".

If I can get that message across and they know it won't be unpleasant and could be productive, they'll be more open to it. I want to get to the closer to that trust circle. This brings me back to my point around the ecosystem. I know it's hard as a corporate development person to influence this. However, you do not want the first conversation you have with a target to be, "We would like to buy you", because your chance of getting them to go exclusive with you is much lower.

Even if you can't do an ecosystem deal, I can give you a case study example of this. When I was at Lexis, there was a company that was not for sale. They told everyone they weren't for sale, but we all knew they were attractive. We all wanted them and all the big players in the space. One of the guys on my corp dev team made a point of reaching out to the CEO once a quarter just to chit chat, gossip, and trade market intel. He never asked him about selling his business. He just kept in touch, asked about his business, and told him about Lexis. He built a relationship. He did that for two years.

When we heard rumors that the company might be up for sale, my guy reached out and said, "Hey, I heard you might be thinking about selling finally". He goes, "Yeah, we might be". Suddenly, we had a direct in. Our corporate development guy said, "We're interested. You know that you'd be a good fit with our culture. Can you give us 60 days to just take a look before you run a giant process?". Because he'd built that relationship, the CEO said yes. We ended up doing the deal. It never went to anybody else. Nobody had a shot at it.

Figuring out some way to build a relationship outside the sales process is key. This is what real estate brokers do. They build relationships long before. The person has decided to sell their house, so they call up Bob or Susan because they know them. I think it seems like a tough investment of time, and you can't do that with every company, but you can do it with the ones that you're most attracted to.

Kison: Now, walk me through the first meeting. Do you have an outline? What are the things you try to hit on in that first meeting?

Michael:

It'll vary based on the conversation. If I'm talking to an 85 year old founder, I'm going to ask different questions than if I'm talking to a 35 year old founder. Similarly, if I'm conversing with a CEO who was hired by a private equity fund, I'll also have different questions.

Roughly speaking, I ask them a bunch of questions about their business and where they think it's going. I ask what they want to do with it, and what they think the opportunities are. Maybe I'll get into how one plus one could be three if we were building the business together. As evidenced by this conversation, if you ask people questions about stuff they're interested in and people are always interested in their own business, they will talk a lot.

I am always sensitive to make it clear I am not trying to delve into proprietary information. I'm not trying to learn anything competitive I can use against the company. We're not at that stage yet. We haven't signed an NDA. I may ask about finances in a very vague way. What I'm really trying to do is get them to talk about your business so I can understand where it's going, where the opportunities are, and what they want out of it.

An example is, "Kison: What about you and your team? Do you think you're going to run this business for the next five years? You've done a great job of getting it here. Is your vision that you'll hyper accelerate and keep going?"

My goal at the end of that call is to know enough that I can start to craft an offer that optimizes my result in their results. I'll give them aspects that have very little value to me but have great value to them. That's the way you create one plus one equals three.

Kison: How do you get numbers from them? When do you sign the NDA?

Michael:

This initial, early conversation allows you to start to send messaging that makes them want to sign the NDA. From their perspective, the conversation with you is a distraction from their time and their team's time. They are giving away competitive information that can be used against them. The starting position is that, unless they've hired a banker and launched a process, you need to prove to them why they should give you that information. Usually the fact that you're some big company with a big balance sheet is not quite enough.

What I try to do early on is paint a conceptual picture for them of how this could be great. I'll come back to them relatively early on and go look, "I think based on our conversation regarding our two businesses, one plus one equals three. We can create a whole bunch of extra value. I think we can find a home for your team and a leadership position for you."

I paint a picture of a deal that not only maximizes financial returns, but also meets their other needs. That's when you introduce the need for more information. In order for me to sharpen my pencil, I need financial documents from them. By giving them a little teaser as to what this could be, it justifies them distracting their team and putting themselves at risk by giving me access to their P&L, customer base, product information, etc. These are all things that they are hesitant to do. I think people are much more successful at getting that out of the seller if you are giving them the hope of something really exciting.

Corporate development teams are never just asking for your financials out of curiosity. We do not want to give your business a proctological exam for our own entertainment. Rather, we are sharing a vision that we have based on what we've been told by that company. If we position our need for those financials as a way to verify the possibility of achieving that vision, the seller is more likely to comply. That's when the NDA is typically introduced.

I never actively volunteer for NDAs, but I'm always willing to sign them if it means I will be able to put a real offer on the table. The more information you give me, the more real the offer will be. The more you give me pre-diligence, the more the LOI I put in front of you is going to be really rock solid. That is my ask to get to an LOI. You have to give me information so that I can really sharpen my pencil.

Kison: I have step three: paint the picture. Step four is getting your NDA or info request.

Michael:

I would say coupled with the NDA and info request is an exclusivity request. I want a period of time where this is a one-on-one conversation. I can put that in the NDA. In a perfect world, I either want an informal or a formal agreement that they will not talk to anyone else.

You probably get that a quarter of the time. However, it is nice to get it because I want to create as much acceleration of my own bid ahead of anybody else's. I want a short period of exclusivity to get to the LOIi. Part of this depends on how rigorous your diligence is pre-LOI and post-LOI.

I've worked at companies that go both directions. I've worked at companies that basically say, "Sign an LOI. We'll negotiate it in post". There are others who will sign an LOI based on a P&L and one phone call. I've worked at other companies that view the LOI as almost a moral commitment. I've worked at one company where the conversion rate from LOI to closed deal was above 80%.

If you sign an LOI, you almost always did a lot of diligence up front. Part of this is going to relate to how your management team and board view signing an LOI. Either way, I want to keep exclusivity, whether it's formal or informal, as much as I can. If I can get them to give me exclusivity pre-LOI, I'll do it. Otherwise, I will push my management team to let me sign an LOI faster and then get exclusivity there.

Kison: Between an NDA and LOI, who is involved? How do you put together your model to put a bid together?

Michael:

> Again, it depends on how rigorous we want to be in our diligence for the LOI.
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> It depends to some extent on the philosophy of us as a buyer. At the minimum, I will want the business leader who is going to own the P&L heavily involved because I want to remain totally aligned with that business leader through the process. I don't want them agreeing to an LOI because they haven't thought through the business and then back off of terms later.

The business leader at a minimum has gotta be heavily involved. I would say the specialties that are critical to the acquisition basis should also be involved. If we're primarily buying it for technology, I want a tech leader involved. If we're primarily buying it for the customer base, I want a salesperson involved.

We're not going to due diligence pre-LOI on everything, but we're going to kick the tires on the stuff that would be deal breakers for us or could radically impact the valuation. I want those people to be really committed. I want them to look me in the eye so I can say, "This is serious".

There is a tendency on the business people's part to default to, "we'll look at it all later". I try to force them out of that because I don't want my time wasted as well. Those are probably the critical people you need because if you think about it, in my mind, there's a difference between fundamental diligence and confirmatory diligence.

Fundamental diligence is making sure we understand what the thing purports to be and what we would pay for what they say it is. Confirmatory due diligence is spotting a lie. I don't mind if it's late in the process as that will be their problem, not my problem. If you lied to me, all bets are off.

I'm less worried about financial due diligence, legal due diligence, or even detailed code due diligence. Those can wait until post-LOI. If you gave me a set of financials and I relied on it, and then I discovered that your accounting is wonky or just false, I don't feel about rescinding the LOI. If my business people go, "Oh, we thought it did X but it actually does Y", then shame on us. We should have known that before we signed the LOI.

It is the leaders that are gonna sign off on it, and it is the functions that own the reason why we're buying it. Those are the people who have to be involved pre-LOI. The other thing I'd say is the leadership and this will depend on deal size, but the leadership that has to advocate for it.

In every organization, as you go up the ladder, you go from advocators to approvers. For most deals, the board is going to listen. They're going to say, "Yes, we're comfortable" depending on how big the deal is. The advocator could be the CEO of the company or it could be the CEO of the division or the business unit. However, they have to be upfront with me. I'm not bringing this idea because I don't have a P&L. I'm not going to move through this deal unless I get the general manager of the $500M business unit's enthusiastic agreement on the deal. In fact, I'm going to make sure that GM's name is on the documents.

I run deal structuring and deal process. The person who says we should use a bunch of the company's capital to buy that can't be the one whose name is on the deal. It is important to figure out who is in your organization is going to be that person, and have a very direct conversation with them. Especially if they've never done a deal before, they need to understand they are not the passive participant, they are the owner of this exercise.

Kison: How do you ensure your assumptions and your model overall is accurate without losing the speed needed to close a deal?

Michael:

I'd say a couple things. First, for core large scale assumptions, you need the business leader to own them and understand the business well enough. They have to know what it looks like when A comes together with B. If you've done a bunch of deals as a corporate development officer, you have simplifying assumptions. You know what happens when a little business enters your business in terms of back office operations, enabling areas, technology support, real estate, and other areas.

You should be able to rough those out with accuracy. With the core assumptions, you have to go to the business leader. This goes back to the question of, "How much diligence are you doing before lo LOI versus after LOI?" I would say if you're trying to move super fast and you're going to throw a few things at the wall to get into LOI, and then after do most of your diligence.

I'm a big fan of valuation ranges. Sellers don't like them because they want to know for certain what they will get. However, I think it's a good way to demonstrate the neighborhood and incentivize them to show you why it should end up at the top of that range. If you indicate what you need to produce that number, they're more likely to comply.

Some sellers are willing to go along with it. **It leads back to the trust and relationship you've built with them. Do they trust that you really want to do the deal? That's where being an existing ecosystem partner with them and having a long relationship helps.**

I think that the biggest thing I'd say about financial modeling pre-LOI is to not be penny wise or pound foolish. Understand what levers are actually likely to change the trajectory of the deal. That is where you focus all your attention. If you have their P&L, you can look at it and go, “Once we merge it into our business, what's gonna change?”

All the enabling areas are going to roll over to your enabling areas, unless they’re a massive business. If they’re small compared to you, you’re going to swap out their finance function for your finance function structure, HR talent, real estate, and other core areas. That’s where you should spend your time.

I like using simplifying assumptions on those standard cost areas and rather focus all my attention on revenue and big cost areas such as product management and product development. These areas are ultimately where you’re going to find most of your synergies.

There should be enough meat on the bone in any acquisition for you to be a little off the mark. Nobody should do a deal because they will make the business 1% better. If you can only make the business 1% better, you’re not the ideal buyer for that business.

You have to accept the fact that you’re going to take your best shot at that synergy. You’re going to scare the business people by pointing out to them that the model is going to survive and come back to haunt them. This ensures they’re not overly aggressive to get the deal done. They will end up living with the errors in that model.

If you're doing good M&A, there is enough synergy value for you to be wrong on some of the synergies and still have it be a good deal.

Kison: How do you put it together and still be accurate? For example, how do you make revenue synergy assumptions without having your CRO or some head of revenue in the room?

Michael:

If it's a simplified sales process, you can statistically say this company is relevant to 50% of your customer base. When they pitch customers, they convert. 75% of the time. You can do the math and calculate how long it'll take for them to penetrate your customer base and then cut it back by 10% or 20%. If there are no other complexities or value to the joint sale, you may be able to come up with a simplifying assumption.

If the difference is more complicated than that, then I would bring in the CRO. You can get revenue synergies, like with the company I mentioned earlier who had a two year relationship with a corporate development team member. Part of the reason we wanted to buy them was because they would generate about 15 million of revenue for us directly.

We thought that owning that capability was going to be a differentiator of a billion dollars worth of revenue over a few years. It got complicated because how much of those incremental wins do you attribute to this acquisition? That is where you need the CRO to really step in as now it's a complicated question.

It's not just how much of this can you sell, but how much of the other stuff can you sell? We have this and our competitors don't have this. That is where I say if it is that kind of a hypothesis, you need the CRO at the outset. You also need them leaning in on the reality of the deal.

Projection models are not a science, but rather an art. You're never gonna get it perfectly right. The key is to get the big things as right as you can get them, and the small things in the right neighborhood. That is all you can hope for. Honestly, no amount of diligence is going to remove the inaccuracies in your projection model. It will just reduce them. You could diligence a company for 10 years and I guarantee your projection model wouldn't be exactly right once you closed the deal.

I bring integration people in at the front end of the process. I bring them in even before the "why" is formed, because I want them to own those assumptions. If they want to challenge it, I'd rather they challenge it up front. I'd rather them let me know that getting everyone off their old financial system and onto ours will take far longer than I predicted and provide me with a more accurate number. I at least bounce integration off the integration leader before I send an LOI.

When I was at Lexis, our integration lead reported to me. The integration leader was one of my people. He would do a first look at any deal that we were looking at and submitting an LOI. Based on his extensive experience, he could gauge if the integration would have any problem areas. This gave us a gut sense.

The problem occurs when the integration person comes from within the company and is ad hoc for the deal. This means no one is going to pull that integration lead out of their role until well past the LOI. In that case, you have to go back and give them a chance to revisit the model.

I get back to my point about how there should be enough meat on the bone. **You should be conservative enough in the projection model supporting your LOI so that even if it gets shaved down, it's still a good outcome.** The deal should be a home run so even if it pulls back one or two bases it's still a double.

These business leaders are various stakeholders and will vary depending on what is driving the value of the deal. They are brought in the model and start making assumptions for the LOI. I start to formulate what I think the winning terms are. Now I've got my model, I've got my views on the business and how strategic it is. If I'm doing a roll up and this is one of 20 companies that I'm buying, I'm not going to give away most of my synergies because I know I have 19 others I can go after. If it's a must-have company, I will feel differently.

I put all that together in my mind while, most importantly, I assess what the seller wants. I think too many buyers focus on what makes them happy. Ultimately, if you don't make the seller happy, you don't get the deal. Then, I love to test the waters. I love to have an informal conversation where I bounce ideas for terms off the seller, so I can gather their gut reaction.

Right now, I know they're playing a little bit of a game too, so they're never gonna just give me total transparency, but I can usually get some body language out of them. I can sense if they are overjoyed at my valuation or if I have a problem. If I'm overvaluing the business, something is wrong. I try to tell the difference between slight frustration and extreme frustration. More importantly, I need to see what terms of the deal are exciting to them.

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I'll give you a great example for my personal life. The house that I'm sitting in, I bought three months ago. I found out through the broker that the seller was very focused on the certainty of close. When we put in our bid, we made sure to tell them that we've already sold our other house that we're moving here because our daughter goes to school eight minutes away. These factors made our certainty of a close way higher than with other bidders. That was more important to him potentially than purchase price.

I want to test the fields with the found or CEO for two reasons:

01 I can refine my offer to make it better for me and more likely to be accepted.

a. If I say to the founder, “We’re not planning on changing the brand of the company. We love your brand”. If the founder wants the brand to survive, that actually has some incremental value. If my business leader’s okay with making that commitment, now I’ve created value for the seller with no cost to me.

02 I can squeeze out the purchase price.

I want to make sure I’ve explored every way of creating value. I never want to put an LOI in front of someone that will be terribly disappointing, as they’ll instantly lose their attention. You don’t want to offer them 10% of what they expect because they’ll go hire a banker. It’s hard to come back from a lower than expected offer.

You want them to be slightly disappointed. That is a good starting point to the negotiation. That is what I want in the LOI when I send it to them to ensure I’m getting as much value as I can for myself without risking the deal.

Cause once you slide that LOI across the table, there will be a period of silence. There will be a call where they ask questions. Then they’re going to go hide in a hole while they talk to their board and advisors. You will want to make sure they think it’s close enough to have room to come back and negotiate with you.

If somebody doesn't mark up my LOI, I overbid. If I sandbag them too much, they'll just walk away from me or use my LOI as a stocking horse to go find another bidder. I want them to see the light at the end of the tunnel and go, "I can probably negotiate with the guy, and stay engaged with them".

Kison: Step five is to model assumptions. Step Steven is then figuring out what makes the seller happy, or testing the water. Then finally, the last tep is drafting the LOI, correct?

Michael:

You have to reflect. You will bounce around with your lawyers, especially if you are creative. If all you're doing is saying X dollars, your lawyers will get that LOI done quickly. If you start to do things like retaining the brand, maintaining acquired employees on similar benefit systems, and similar leadership positions with earnouts, lawyers' hairs will stand on end.

You'll have to spend more time cycling with your lawyers to get something that reflects your business goals, but that doesn't create unanticipated liability. The last thing I'd say is even as you're sliding the LOI across the table, messaging is really important because you want to maintain a tone of trust and honorability.

When I share an LOI with somebody, I believe you want to message your intent and show them that what you are trying to do is respect the value they've created. Structure something that addresses what they have told you. Point out specific aspects from the conversation you had with them via the line items that mention them. They'll see there is value to be created by the deal happening, and they'll see your best intent. You want to demonstrate you're open to being flexible and I'm open to negotiating.

You don't want them thinking that you didn't hear them or you're trying to put one over on them. You want them to attribute good faith to everything you've done because that's gonna bring them back to the table to correct you.

Kison: How is the presentation of the LOI? Do you fax it over or hand deliver it?

Michael:

I personally prefer to walk people through it. The reason is that legal language is hard to digest. If you walk them through it live, you tie a string back to the things they have said. What I prefer to do, if they'll accept this, is to get on a Zoom call with them and then I screen share the LOI. I talk them through the sections, show them where the purchase price is, describe how we valued the business and detail why we ended at X.

I'll even share some compensation with them so they can see my thinking. You can say, *"Here's the earn-out. Here are the drivers of the earn-out. Remember we talked about how you think that you can do A, B, and C? I heard you and I think we'd like you to do A, B, and C and have struck them in the earn-out."*

You walk them through the LOI serves two purposes. The first is that they understand your intent and your good faith behind the terms. The other thing, I hate to say this, but you sometimes have people who don't understand some of the legal structures, especially if they have never done M&A before. If they don't want to leave it to them and their lawyers to sort it out.

Because you don't know who is talking to them. I like to explain the earn-out to ensure the other side understands how it works and when they'll get their money. If they want to give feedback right there, that's fine. However, I almost encourage them not to do that. They should sit with it, talk to their advisors about it, and then set up a call in a few days to give feedback.

I don't want them to feel pressured to give feedback. If somebody wants to sign the piece of paper that I've just shown them on a screen without thinking about it, I probably overbid.

Kison: Do you have any time based incentives? Any expiration dates that you apply to LOIs?

Michael:

I'm hesitant to put an expiration date on it because I'm not trying to be abras. I hold them to a reasonable standard. Part of that depends on the control structure. If I'm talking to the owner of a company, they will talk to their advisors but ultimately are the main decision maker. I'm going to expect that you can get back to me within a few days. However, if I'm talking to a private equity owner that has a board of 10 shareholders who each have more than 5%, they will likely need a few weeks.

It varies, but I definitely don't put a date on it because it doesn't serve any purpose. They will only be in a rush if they are about to go into bankruptcy. I have a reasonable standard by which I ask them around how much time they expect they will need. If they ask for a long period of time, I can push back a bit and suggest we schedule a call a week out instead. It's not likely I will officially withdraw the LOI. It's non-binding anyway, but we set expectations between each other about when they are going to get back to me.

Kison: As you walk through negotiations, do you plan for a bit of padding ahead of time? For example, setting aside 10% on what you're bidding?

Michael:

I think about all the different variables. This is a lot like compensation negotiation. When you get a job offer, you go back and think, "I could ask for more base. I could ask for a bigger bonus. I could ask for more vacation time. I could ask for more equity". You think about all the different stuff you have and you come in with a strong offer. However, you come in knowing you have a best and final.

Before I send an LOI, I always have a "best and final" conversation with my management team so that we know what aspects would make us walk. It comes back to the question of whether or not it is a "must-have" deal or not. More importantly, I know which variables I'm more comfortable giving on. I'll often have a conversation with my management team where I go, "We're not going to pay the core purchase price. We're not willing to go much higher on, but we would go a lot higher on the internet".

Because the reality is if they hit these numbers, we'll be okay giving them the extra mile. There are different ways to skin the cat, but you definitely want to have that thought through in advance. You don't want to think that through in flight because what if they come back to you a week from now with a counter. You don't want to take time to think about it as you'll lose that momentum you've been building.

You're heading towards an agreement, so you want to move fast. You're the bigger company so you're less nimble and agile. You don't want to have to go back up the ladder to your leaders, board members, or anyone else to ask for 10% more. You want to figure that out in advance so you have the authority to negotiate it either exclusively with the corporate development officer and the business leader.

Kison: Can you walk me through how you put a range on the LOI?

Michael:

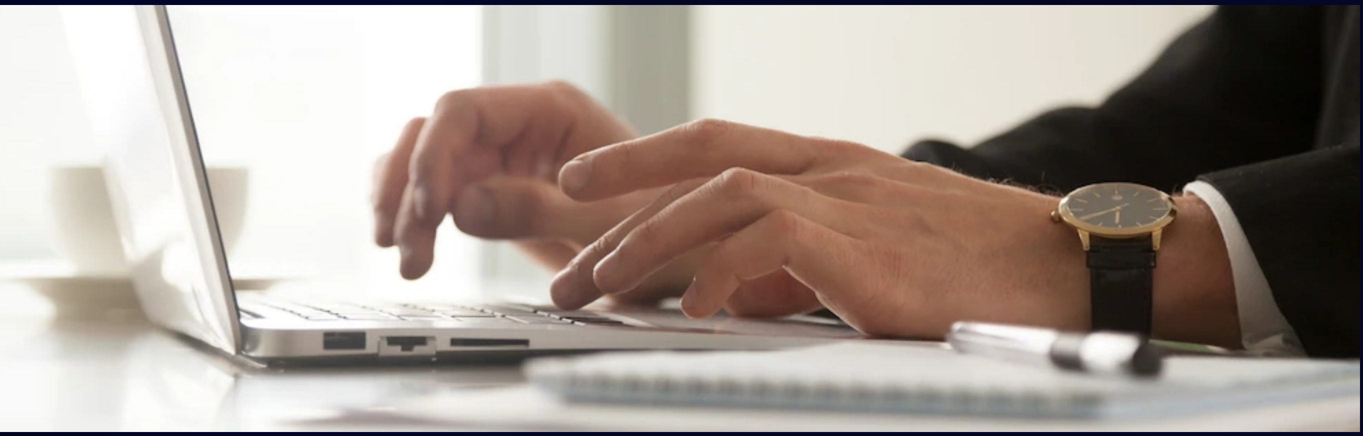
If it's a quick LOI where you haven't done much diligence, keep the range small enough that effectively you're showing the seller that they would want to do the deal even at the bottom of the range.

A downside to this is it usually makes sellers nervous. They assume once you've got them under exclusivity, you'll always go to the bottom of the range. However, it is a great way to solve for either getting to an LOI super fast before you've done complete diligence or situations where there's certain critical information they don't want to share until you've reached diligence.

I'll give you a really good example. Let's say they don't wanna share the identity of their top 10 customers. However, if their top 10 customers don't overlap with yours, there are these huge additional synergies you would get because you've been trying to penetrate certain Fortune 500 companies. If they have an in with those, you would attribute a bunch of extra value to the deal.

They don't want to tell you who they are until you get into diligence. That might be a good scenario of going, "Look, we understand you don't wanna tell us. That's totally fair. It's hard for us to nail down exact synergies, so we're somewhere between X and Y. If there's zero overlap between our customers and yours, we get to Y. If there's a lot of overlap, we still wanna buy your business, but we'll probably lower it to X".

Now, X and Y can not be that far. The further apart they are, the worse your LOI looks. If your LOI is somewhere between $50 and $100 million, that's not an LOI. That's an indication you have to still do a lot of diligence. If your LOI range is closer to $57 to $64 million, that is a reasonable range to give yourself space while still making a serious offer to the target. I think it is more helpful if you can tell them what it is that will determine where you end up on that range. I'm not just giving a range, but rather outlining the factors that will get them the various amounts.



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