



**Left Lane**  
ASSOCIATES  
Supply Chain M&A Advisors

# The Role of an Investment Banking M&A Advisor



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# Role of an Investment Banking M&A Advisor

The right advisor can transform your company by unlocking value through navigating the complex M&A environment

Companies retain the services of investment bankers or mergers and acquisitions (M&A) advisors when they want to either sell an ownership stake of their business or purchase and acquire other companies. In both instances, the goal of the investment bank is to maximize the Enterprise Value of their client's company at the end of the transaction. Put simply, Enterprise Value is the total takeover cost of your business in an acquisition. On the sell-side, this would involve finding the most capable buyers who are interested in paying the maximum value and/or with the best deal structures. Conversely, buy-side advisory aims to grow a client's business by finding suitable target companies that would accelerate growth and add to overall Enterprise Value as a combined entity.

The right advisor can transform your company by unlocking value through navigating the complex M&A environment. The complexity involved in finding, analyzing and negotiating with buyers and sellers is why it is crucial for entrepreneurs to engage

with investment banks. With that said, as most business owners are operators first, they are often unaware of how a typical M&A advisory contract looks and why it is valuable to retain a specialized investment banker. Common questions include: How do the fees and contracts typically look? What value does an investment banker bring? How does this work differ from other professional services?

In this brief overview article, we will aim to clear up some of the more common questions. With this primer, you will be better equipped to find the right advisor and continue to grow your business exponentially.

# Complexity of Selling a Business

When it comes to buying or selling shares in a business, there is a good reason why M&A advisory services have existed since the invention of corporations. Unlike the purchase and sale of basic assets in typical marketplaces (ex. properties), there is an extraordinary level of complexity involved. Addressing this requires the insight and knowledge of professionals experienced in pricing and valuing companies, not only the step by step process of buying and selling shares.

A business is a continually moving, evolving and, ideally, growing profit-generation machine. It is not a simple matter of looking up pricing of goods on retail shelves or checking the listings for property values in a certain neighbourhood. How does one account for the value of something like a brand name? How much are customer relationships worth? What is the value of good employees? The company

made 20% gross profit last year, is that good or bad? How do I tell if that is a sustainable level of profitability?

All of these questions quickly add up leaving a prospective buyer or seller in a very confused spot. How much is the thing I am buying or selling actually worth? Moreover, after I have bought or sold it, how do I make the most out of what I have received? This is where an M&A advisor steps in and delivers exceptional value. With industry-focused experience and several successful transactions completed, they can add support by relying on comparable data, financial modelling and skilled negotiations to ensure that the client is creating as much value as possible through the deal.



# A Note on Real Estate vs Mergers & Acquisitions

All too often, entrepreneurs look to draw similarities between selling their business and selling property. After all, real estate is a universally understood asset that most people have to deal with at some point in their lives. Similar to selling a business, buying and selling real estate also involves a high value transaction with brokers, “going to market”, negotiations and advisors. Unlike real estate, further complexities in M&A transactions include employees, clients, properties, equipment, taxes, international regulations, certifications, and others. Further, approaching the purchase or sale of a business requires a deep understanding of how all these complexities combine to drive value in the transaction.

With all that said, issues arise when this comparison leads to false assumptions that can make for a rocky M&A process. Firstly, the fees charged by real estate agents as a percentage of home value are quite a bit lower than the costs of participating in the acquisition of a business. Tying in with the previous section, the work of analyzing the value of a company and finding suitable buyers has extensive layers of complexity. This additional work and lack of a common marketplace of comparable valuations (such as with property listings), makes the work far more labour intensive and specialized. Secondly, as occasionally happens in real estate, some entrepreneurs may opt to try running an

M&A process on their own to save on costs. Of course, these owners fall prey to very common transaction headaches. In the first place, a business owner may find it extremely difficult to get in the door to have an acquisition conversation with companies competing in the same industry. They may be very hesitant to reveal financial, client or even operational data to a competitor. Furthermore, time spent searching and analyzing businesses takes away the valuable time needed to run your company. This distraction should not be overlooked, as the time it takes to discover, analyze and negotiate a closed deal can easily extend from 8 months to two years. This does not even include the time it will take to integrate the two businesses and ensure the merger is successful, above and beyond the normal 60-80 hours per week most entrepreneurs tend to spend working.

For these reasons, it is very risky to draw too close a comparison between the private real estate and private M&A markets. Though they may share some surface level similarities, one cannot operate the same in both markets. It should be kept in mind that often (but not always) the sale of a property that a business operates in is conducted in a separate sale process from selling the business itself. Trying to do both at once will overly complicate an already involved process.



# M&A Fee Structures

The fee amounts and structures that clients can expect to pay on the buy-side and sell-side in M&A are as varied and diverse as the underlying work itself. With that said, there are a few common elements that can be identified in many investment banking engagements. The main components often include:

## 1) Commitment/Retainer Fees

These represent fees to ensure that a client is engaged in a process and committed to making an acquisition or selling their business. Often times this fee comes in the form of an upfront down payment and subsequent monthly fees for the term of the engagement. From the investment bank's perspective, this ensures that the client is not conducting an aimless search with no real intent to close an acquisition or sell. This can be understood as an investment by the client into the many hours involved in researching, marketing and negotiating with prospective target companies for the client.

## 2) Success Fees

This portion of fees is paid upon the successful close of a M&A transaction to the investment bank. It makes up the large majority of fees earned by advisors and why the main focus of the work is always to close on accretive deals for clients.

Typically, the fee is a percentage of transaction size based on Total Enterprise Value (TEV). This represents the total takeover cost of buying a company including both equity and debt, irrespective of the particular payment structure or percentage purchased.

## 3) Performance Incentive Fees

A third source of income for investment banking fees are performance based on a mutually agreed target with the client. Usually these only apply to clients looking to sell their business and represent a high-end valuation target that the investment bank will aim to exceed. If the transaction value ends up above this threshold value, it results in a bonus payout to the advisor. The core purpose is to incentivize your M&A negotiations to pursue maximum value above and beyond value expectations. Going beyond this threshold is not common but worth setting goals exceptionally high for all parties involved. The end result is sharing in the gains of this hard work for both the shareholders and investment banking team.



## Questions?

# Contact Left Lane Associates

*“Be less curious about people and more curious about ideas.”  
- Marie Curie*

Left Lane Associates is an M&A advisory firm that works exclusively with companies in the supply chain industry. Our deal team executes successful M&A transactions that create enterprise value for shareholders.

M&A is one of the surest paths to value creation for businesses and should be a part of every entrepreneur's plan. Reach out to us today to discuss your M&A strategy and any questions you might have.



## The Left Lane Team

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# Why do I need an M&A advisor to sell my supply chain company?

If your M&A advisor does their job - their fees are free. Learn more by contacting Peter Stefanovich, President of Left Lane Associates.

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**Significant family wealth is tied to your business, so get it right for your future generations.**



**Allows owner to keep running/growing their business while protecting bottom-line during sale process.**



**Confidential search protects customers & employees from potential flight risk.**



**Negotiate terms before LOI is signed while seller is still in control and has leverage.**



**Reduce risk of deal fatigue.**



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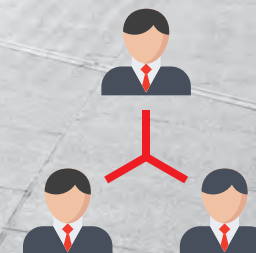
**Most owners have never sold a company, and have limited knowledge of the difficulty, steps and process.**



**Advisors who run a full process will create deal tension between multiple buyers & drive price up.**



**Expertise to find right buyers with best synergies & terms.**



**Negotiate with buyer so it does not get personal for the post-sale working relationship.**