

life science **FINANCE**

How to become an attractive target for purchase or IPO

In the most common types of transaction there is a "target." In the case of a merger or divestiture, the target is the company being sold. In a private financing or IPO, the target is the issuer. In every case, the target goes through a variety of steps to get to a closing event.



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The attractive target gets to closing more quickly, cost effectively, efficiently, and with better terms than an ordinary target.

We have all heard what it takes to raise private equity: strong and dedicated management, barriers to entry, growth potential, reasonable expectations, and experienced advisors. In an acquisition, much of the same applies, with the additional step of "dressing up" financial results.

There is much more, however, that goes into making a company attractive. Here are some suggestions to make your company an attractive target (not in any particular order of priority).

Know what's feasible. You cannot fit a square peg into a round hole. To a degree, every transaction is a numbers game. Know the probability of success associated with any particular transaction and evaluate whether your firm is truly a candidate for such an event. As an example, if the IPO market window is closed, don't spend months pursuing underwriters for an IPO. It just won't happen. If you don't have sufficient assets, asset-based lenders probably aren't the answer. Choose those transactions that have the highest probability of success.

Be prepared. The "Boy Scout" motto is ageless. Expect that any due diligence process will find whatever "issues" may exist. There is no hiding. The right course of action is to identify problems and be prepared to offer solutions to mitigate them. A corollary to being prepared is to allow enough time for whatever transaction you are contemplating. Your company could be put into a severely disadvantaged position by not allowing ample time. Many transactions take over one year to consummate, so make sure to have enough cash to make it through.

Be consistent. While to some, consistency may be the hobgoblin of little

minds, if a company has a plan and a vision, it should be articulated clearly throughout the organization. Alarms are activated in a due-diligence process or a negotiation when the CEO, COO, and Director of Research and Development express three different priorities.

Generate publicity. It is hard to attract attention to your company and opportunity if no one has ever heard of you. For many young companies, "staying under the radar" is appropriate and necessary. At some point in a company's development, trade shows, conferences, articles, advertising, and press releases all go to create a "buzz" and image of a successful organization. All of these tools work to establish a "brand" and goodwill value. One caveat to the publicity rule is to not be excessive and shallow.

Know your audience. Advisors can be helpful by creating "warm introductions," and perhaps more importantly, by knowing how a certain buyer or investor thinks or evaluates a transaction. If a large corporate buyer has a moratorium on new deals, they usually stick to it, regardless of how compelling a particular opportunity is. Try to learn the internal decision making process and who will be your internal

champion. Know how you fit and what impact you will make to a buyer, investor, or partner. For example, multi-billion corporations rarely acquire small companies because small targets literally have no impact on earnings of the acquirer.

Know yourself. Knowing yourself is related to being prepared, but requires more introspection and self-evaluation. Do I really want to be a public company? Am I ready to sell and walk away? Will the management team stay together and shine through the process or will all of their warts be exposed? Do we really have the time and talent to take on this new endeavor? If the answer is no, you may need to try an alternative or fix a problem.

Have an alternative. It is an uncomfortable situation for anyone to have spent tens of thousands of dollars and countless hours on a deal only to face concerns about whether "I'm doing the right thing," or even worse, a transaction that is falling apart. Know the alternatives, formulate a back-up plan, and you'll have the confidence that comes from a well-informed decision.

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