

Mergers and Acquisitions Part Four: Six Milestones to M & A Success

by Wayne Einhorn and Norma Rawlings

This is article # 4 in a series of four articles on Mergers and Acquisitions in the Real Estate Brokerage Industry. In this article, Wayne Einhorn and Norma Rawlings describe six milestones to merger and acquisition success to assist anyone looking to buy or sell a real estate brokerage.

The challenging economic environment coupled with the average age of real estate brokers has created an abundance of buying and selling opportunities. Therefore it is helpful to consider what makes a merger successful. There are Six Milestones to M & A Success.

The first milestone is Developing Relationships.

When people consider buying and selling their business, people think about pricing and deal structure. Obviously those are important considerations, but they pale in comparison to the relationship. People mistakenly think the most important commodity in a transaction is money. The reality is that we cannot get to that pricing conversation if there isn't trust. We know and we teach that the most important commodity in a transaction is trust.

One of the reasons that relationships are so important is that when people call us, they're usually motivated to move quickly. Perhaps they're low on cash, or maybe they are just tired of running their brokerage. When they decide it's time to move on, they want out quickly. If you don't have a relationship with them, you're literally out of the game. They rarely call us and say they are thinking of selling in a year or two. It's much more immediate.

The relationship you develop doesn't necessarily have to be with the ultimate buyer or seller. We have numerous customers whom we connect with other customers for mutual benefit. Hence it could be a relationship with a company like ours whereby you tell us what you are looking for and we match you to those opportunities as they arise. The point is you want to make it known to the people you do business with that you are interested in buying or selling.



The second milestone is the Preliminary Discussion.

Once we have a relationship and somebody identifies for us, "Hey I'm thinking we've got to do something" for whatever the motivator or for whatever the reason, we then begin the preliminary discussion. The background for the preliminary discussion is always WIN-WIN or no deal. We always coach people that it is not a conversation about how you can get one up on the other person. We always talk about it in the context of WIN-WIN or no deal. You're not playing poker.

These relationships last for a long time. It's unlike closing a house purchase and the buyer shows up and the light switches are gone and the garage door opener is missing but there is no ongoing relationship so the impact is minimal. With the purchase and sale of a brokerage, you're entering into a relationship that typically lasts years.

In our business, a broker owner who spent the last twenty, thirty or forty years building his or her business is less likely to sell to someone who's going to pay them more if they don't have the same character and values as the seller. It's a fascinating dynamic because





what you've built is like one of your children. You don't want to sell to someone you don't trust. As a result, most of the time price, although always important, is not the most important component.

The most important component is trusting the person that you're proposing to do business with. You want their character in line with yours and compatible. We've seen deals with little money down where we fear that the proposal is going to be rejected but it proceeds because of trust. There's not a lot of money on the table but the transaction is agreeable because of great relationships. In contrast, we've seen deals with millions on the table that fail because there's no trust and the two parties cannot reach a WIN-WIN agreement.

The third milestone is Valuation.

Until you know the value of the brokerage being purchased, you cannot accurately negotiate to buy or sell it. In a merger or acquisition, a valuation will provide a lot of the due diligence information needed to streamline the transaction. It will also serve as a basis for the price discussions and help in structuring the deal.

The valuation will show the normalized EBITDA or free cash flow that the brokerage generates along with all the revenues and expenses that go into that calculation. It will also show the flows of the business and compare how the brokerage is doing relative to other brokerages in that specific geographic location and across North America. Competitive information along with industry norms, averages and ratios will be provided.

The valuation reassures both the buyer and the seller that the deal is fair. It provides objective confirmation of what the brokerage is worth. It forms the basis for the next milestone.

The fourth milestone is to create Deal Terms.

If the company that prepared your valuation has expertise, you can engage them to help you at this stage. We strongly recommend you engage a professional for this milestone if you haven't already done so. Once you have a preliminary discussion and figure out what WIN-WIN is, the next step is to paper Deal Terms.

You need to discuss what the deal structure and letter of intent is going to look like. An expert who has done this multiple times can help you determine if the transaction is viable. Creating a deal structure and a letter of intent requires expertise. It always goes back to the idea of win-win or no deal.

Your professional can meet with each party one on one and then in a group setting to understand what everyone wants. Then she can help you negotiate a WIN-WIN set of Deal Terms that can then form the basis of the transaction. The Letter of Intent should cover price, timeline, transition plan, roles of each party, dispute resolution mechanisms, and the path to an effective closing, amongst other issues. A good professional will also ensure a deal stays on track. She will determine what each party wants out of the transaction, and design Deal Terms accordingly. The objective is always a mutually beneficial deal.

The fifth milestone is Due Diligence.

Once you have Deal Terms settled and a Letter of Intent in place, you roll into investigation of the other party's brokerage. You want to know exactly what you are buying or selling. The valuation will help expedite this process, but you will want to see source documents to confirm that you are buying what you believe you are buying.

We have a comprehensive Due Diligence List that permits both parties to know exactly what is being purchased. The provision of information should be done on a timeline of about 30 days to keep the deal moving. It should also be done in an organized manner such that everything or almost everything is gathered together and provided all at once or in two swaths to enable efficient analysis.

A financial professional should help you analyze the material, and it is at this stage you want to engage your attorney to prepare a legally binding agreement using the Deal Terms as the guide. The lawyer will prepare a share purchase agreement or an asset purchase agreement depending on the structure of the deal. Those two professionals will assist you in making the proposal legally binding based on accurate financial information.

The time spent on the deal terms is critical so that they're as clear as they can be. This dramatically reduces the legal fees and ensures that everybody's on the same page. When you are papering the deal into a legally binding agreement, the clearer the terms, the simpler the agreement. After completion of the legal agreement, we always check it against the Deal Terms because sometimes lawyers miss something and you don't want a problem on Closing based on a misunderstanding or confusion about what was agreed upon.

The sixth milestone is Closing and Transition Strategy.

We have a system for closing and transition that we've implemented time and time again. It's probably the part of a transaction that is often the most overlooked. Emotionally we're all invested in the deal terms and once the deal is papered pending closing, everything seems easy. That is not the case.

Inevitably, the day before closing, one of the seller's top agents calls him and asks if he is selling. If the selling broker doesn't have a plan for how to handle that phone call, the communication fails and you risk losing control of the message and the timing of the message. The closing and transition strategy is important.

The pre-closing checklist, closing, and post-closing checklist that we have developed help the buyer and seller address issues that you wouldn't necessarily think about but you have to. Murphy's

Law says something's going to blow up just before closing and you need to know what your plan is when that happens to deal with it.

Communication in the real estate brokerage industry is critical. If you tell your closest agents before the Closing date that you're selling, you lose control of the message. Your objective is to run a tightly controlled process that is disciplined and effective at transitioning ownership as seamlessly as possible. Ultimately you want as many agents as possible to move over to the new ownership. An effective Closing and Transition Strategy increases the likelihood that the deal closes smoothly and the agents move over as required.

Hopefully utilizing the above milestones to success, you can create an effective purchase and sale transaction. There are a lot of opportunities in the current marketplace. Being equipped with a strategic plan to take advantage of those opportunities increases the odds you can close a transaction successfully.





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Wayne Einhorn is an internationally renowned speaker, C-Suite executive, Performance Architect, and board member who has been involved at all levels in the real estate business for thirty-five years.

Wayne started his first business venture at the age of sixteen and progressed to the real estate and mortgage industry at age nineteen.

From selling to leading large companies to brokerage ownership to consulting, Wayne's unique approach to the business has kept him at the top of the industry throughout his career. After selling his successful multi-office brokerage firm, Wayne pursued his lifelong dream of completing his MBA at the prestigious Richard Ivey School of Business at the University of Western Ontario.

He has also assisted hundreds of brokers through the valuation, merger and acquisition process and has co-authored a best-selling book called "Are You Undervaluing your Brokerage."



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Norma Rawlings has a B.A. in French, a J.D. in Law and an MBA in business administration. She has spent the past 21 years in the real estate industry in various capacities from commercial and industrial developer to multi-residential builder to portfolio owner to property manager to strategic asset management. She has rarely met a problem property she didn't want to fix.

With her legal and business background, she has consulted over the years to numerous companies and individuals looking to sell their businesses. She brings a mediator's mentality to the table and enjoys helping people plan their own succession and organize the sale or purchase of their business in a mutually beneficial fashion. She believes that finding the right fit between buyer and seller is critical, and she does her best to ensure even difficult issues don't devolve into conflict.

When not working, Norma can be found in the pool doing laps, at the rink watching her boys play hockey, in the barn watching one of her girls ride, or in the gym watching her other daughter do gymnastics. She enjoys exploring then writing about her adventures, and always appreciates a good book.