A Courting Process: Selecting the Investment Bank that is Right for You
By: Scott Becker, Amber Walsh and Krist Werling

For many healthcare companies, when it is time to sell or refinance their business, finding an investment bank that fits the needs, philosophies and goals of the seller can be an important component for success during the sale/refinance process. Earlier this year, Barclays PLC represented biopharmaceuticals company Ception Therapeutics, Inc. as it closed the $250 million sale of 100% of its capital stock to Cephalon, Inc., arguably helping Ception to achieve optimal pricing. Likewise, in 2006, when hospital system HCA went private via a $33 billion management leveraged buyout, the largest in history at the time, Merrill Lynch Healthcare Investment Banking Group acted as financial advisor to HCA through the process, likely increasing HCA shareholders' return.

Utilizing an investment bank is not necessary for all companies in all transactions, but an investment bank can help the seller successfully market the business and attract the right potential investors/buyers and ultimately can result in not only a more lucrative deal but a resulting transaction that otherwise meets the seller's goals. Assessing which investment bank is right for a seller can be a daunting process, but there a few key questions that you as the seller can pose to your leadership when evaluating the various banks in order to find the bank that will ultimately meet your needs.

Ask yourself the following:

1. How well versed is the investment banker in your particular industry? Not only are there investment banks that specialize in healthcare (either boutique investment banks that focus on healthcare or healthcare divisions of larger more diverse investment banks) but some investment banks have specialized experience and knowledge about a particular industry within healthcare such as surgery centers, imaging facilities, etc. For example, Bank of America-Merrill Lynch, William Blair, Goldman Sachs, Morgan Stanley, JP Morgan, and others have significant health care banking groups within their larger investment banking segments and have made headlines with some of the most substantial healthcare M&A deals in the past calendar year, including Pfizer's purchase of Wyeth for $66.2 million, Roche Holding's acquisition of the remaining 44% of Genentech and Merck's purchase of Schering Plough. Other banks like Cain Brothers, Leerink Swann and Edgemont Capital Partners have the advantage of focusing nearly exclusively on health care services. Working with an investment bank that understands the complexities of your industry enables the bankers to jump right into a transaction without the need for you to educate them about your industry or to explain basic fundamentals about your business.

2. Does the bank understand your individual company as an entity with a unique model, management team and philosophy? Have they taken the time to get to know your corporate culture and special aspects of your product and service delivery and do they appreciate the ways in which your company differs from your industry competitors?

3. Is investment banking a main focus of the company? We generally caution people against hiring parties to do investment banking services where this is not a core part of their efforts. For example, one client hired a big four accounting/consulting firm a few years ago to help sell its specialty pharmaceutical business. Investment banking was a newer business line for the big four firm. After months without good results, the client hired William Blair, a company that does focus in investment banking and in part in healthcare and had much better results: i.e. the client ultimately completed a transaction which exceeded essentially all of its targets.

4. How many investor/buyer targets does the investment bank intend to contact with the request for proposal? More specifically, how many potential investors/buyers does the investment bank intend to contact at each stage of the process? Investment banks can very greatly in their philosophy of which and how many targets to contact. Some believe in disseminating the RFP to as many possible targets as are available in the industry whereas others chose to limit distribution to a few select potential investors/buyers that they believe would have the most interest and that would be the best match for you. You should ask how many targets does the bank intend to initially contact and sign confidentiality agreements, how many will receive RFPs, how many will be invited to management meeting and with how many will the bank negotiate offers/letters of intent? Investment banks can very greatly in their philosophy of which and how many targets to contact. Depending on your own sales philosophy, this is another way that you can distinguish among investment banks.

5. Within the spectrum of investors/buyers that the investment bank intends to contact, how many strategic buyers vs. financial buyers such as private equity funds will be targeted? Strategic buyers are existing players in the industry that may seek to purchase or invest in your business in order to expand an existing business in a strategic fashion, and this may be a more or less attractive option for you as a seller depending on your relationships with your competitors in the industry, your willingness to divulge confidential information to competitors, etc. Financial buyers often will be willing to ultimately pay a higher price for the business where strategic buyers are often more stream-lined in their acquisition methodology and thus more likely to close the deal quickly and efficiently.

   To this end, challenges can arise with investment banks when they have too high a comfort level in one part of the market vs another. For example, in one healthcare transaction for a small specialty hospital chain with outstanding earnings, a client hired an investment bank for the principal purpose of seeking financial buyers. There, the bankers spent the great majority of their efforts with strategic buyers seeking, in the client's view, the easier close but not necessarily the maximum price. Ultimately, the client perceived that it already knew each of the strategic buyers and that pricing from the strategic buyers would not permit a deal.

6. Do the investment bankers understand why your company is ready to sell at this time? Have they worked out the background story of the sale – essentially explaining why, if the business is such a great thing, you now want to part with it? Buyers will want to know why you are selling and your story about why you want to sell thus becomes an important part of the process.

7. Do the bankers believe you need to take significant measures to get the business more fully in shape to sell at a maximum price and are you willing to takes these steps?

8. What is the investment bank's philosophy with respect to the completion of due diligence and negotiation of the form of purchase agreement/investment documents before signing a letter of intent? In other words, is the investment bank comfortable with signing a letter of intent before diligence is substantially complete and before at least a rough form of purchase agreement is agreed upon? Investment banks have different philosophies on the wisdom of signing of letters of intent early vs. further long in the process and it is important you be comfortable with the bank's intended approach although the determination of which negotiation approach will likely be as dependent on the negotiation power of the seller (i.e. on the strength of the seller's business and interest it generates) as it does on the investment bank's own philosophy.

9. What are the fees to be charged by the bank? Most banks will charge a retainer fee (which will be treated as a deposit on payment of the full fee) as well as a sliding scale fee based on achieving targeted outcomes.

10. Who at the investment bank will be contacting the potential investors/buyers? In other words, will be bankers that you meet with during the initial selection process and works with most closely at the senior leadership level actually be contacting the targets and doing much of the ground work? Likewise, will those particular bankers be present at management presentations and at other key discussions with potential buyers after initial contact is made?

11. What does the investment bank believe is the range of value for your business? Specially, what assumptions of earnings are used to generate the value range, what multiple of earnings do they anticipate an investor/buyer paying? Within the total purchase price, what does the bank anticipate will be

the buyer's split of cash and debt financing? Although it is important for you to know that the investment bank values your business and will strive hard to achieve the most lucrative deal possible, it is also important to insure that you are working with an investment bank that sets aggressive but reasonably achievable targets.

12. Is the magnitude and type of transaction exciting to the investment bank such that it will keep the bankers' attention and keep energy focused on pushing the deal through to completion? In other words, does the deal fall within the bank's sweet spot? Deals that are at the larger end of a bank's typical transaction size may mean that the bank has fewer contacts with the types of investors/buyers that should be targeted. Deals that are in the smaller end of a bank's typical transaction size may not keep the bankers' attention to drive the deal efficiently toward closing.

13. Will the investment bank be willing to follow your management's lead on the key deal terms (including which targets are contacted, how the various stages of the process will run, etc.)? With the seller management team, does the bank have strong relationships with one or a few leaders that you perceive would be favored over other seller leadership? Alternatively, do you as the seller prefer an investment bank that will lead you through the process and is the investment banker able to do this for you?

14. Are the bankers willing and able to provide significant research and insight into potential buyers? For many sellers, choosing a buyer turns on not only the purchase price but on the buyer's reputation and own strategic goals as well. This is particularly true when all or some of the seller management team will be staying with the buyer going forward. Most investment banks have research teams who can provide the desired information, but if in-depth information relating to the buyers is important to you, this is one aspect of the bankers' services that should be discussed.

15. Does the proposed timing and track of the deal process proposed the investment bank make sense to you and work with your needs and goals?

16. Finally, what do the bankers' clients have to say about them? The bankers should offer the ability to contact references from current and former clients. Discussing your questions with these references, particularly former sellers, may prove to be very enlightening as to the road ahead.

These are just a handful of questions that we suggest companies consider when assessing the value of various investment banks. Ultimately, if you determine that working with an investment bank makes sense for your transaction, a bank can help you move a transaction along in an efficient, low stress and financially rewarding way if you are able to find the right bank for you.