Choosing Wisely
How sellers choose Merger & Acquisition Advisors is fundamental to how current investment banks work and don't work. From a seller's standpoint, the first decision needs to be the size of the investment banking firm. This is the easy choice. The investment banking firm needs to be appropriate to the potential size of the transaction. Goldman Sachs may be the best divestiture firm in the world, but the fees on even its smallest deals can make your head spin. True, when business is slow, some big banks may be tempted to reach down for smaller deals by deploying junior resources and relying on their brand to carry the deal through. But when they do, they often end up creating an unhappy client who feels like a second-class citizen. It is human nature for sellers to reach up and try to secure a large, well-known name for an advisor. It is economic nature for big investment banks to divert their best resources toward their highest fee transactions. A scenario we have often seen is where a company hires a major investment bank because of the bank's perceived market connections. After a few fruitless phone calls to the logical suspects, the investment banker moves on to richer pastures. The company ends up doing all of the heavy lifting on its own deal, plus it gets the satisfaction of paying a huge success fee to the banker. This scenario illustrates a basic M&A premise that small deals take at least as much time and effort as large deals—and often more. If you are a large investment bank and you have options, you will always tilt in favor of your large clients. Over and over again, the lesson is to pick a banker that understands your market position, stage of operations, and business needs; in short, the right investment bank is one that is comfortable and experienced with the size and nature of your deal.

Experience
The next criterion is one that, over the decades, has led to many mistakes and unhappy clients – choosing the promise of expertise over the evidence of experience. Without question, the most important factor for a seller to consider is the experience and success of his senior banker. But this criterion is often obfuscated by the great fanfare that investment banks create around “industry expertise.” M&A is an immensely complicated process. Growth and middle market deals are often more complex, because the assets are less sought-after and, therefore, require great skill to position and sell to closing. Often, the banker needs to get deeply involved with the unit's management and operations and must have the mettle to stay the course, dictate changes, and correct and train senior managers. Finally, smaller deals usually have many unforeseen twists and turns to closing which only an experienced banker can negotiate. The difference between a good banker and a bad banker is that, on January 1 of each year, the bad banker talks about all the time and effort he put into the deals that almost got done, while the good banker counts his successes.
M&A is not an ordinary security. For stocks or bonds, there is always a price at which there is a willing buyer and seller. With M&A, many, many companies do not sell at any price. Buyers do not spend tens of millions of dollars on companies without understanding and knowing everything about the target. That is why preparation of the company, representation of the assets, and skill of the banker are crucial.

The Smoke and Mirrors of Expertise

We have said that experience is the key criterion for sellers to consider, yet all investment bankers claim to be highly experienced. They trot out lists of deals done by their firm and their cousins and uncles. Pretty soon, it is impossible for a seller to distinguish between any of the “experienced” investment bankers who present to him their credentials.

What happens next is that sellers switch to a lesser filter of “who knows my company and my industry the best?” The investment banking world knows this, and this is where the industry has developed a good deal of unwarranted hubris. It used to be that a company relied upon a generalist investment banker for sage advice and guidance. Now, that same company is driven toward relationships with industry specialists. During the 1990s, investment banks stocked up on high priced research analysts that could demonstrate their expertise in individual industry segments. In truth, the industry analyst was often a Liberal Arts major who knew trends and financial statistics from the last five major public companies he had visited. He did not know much about how the average middle market company operates, and, once the company was signed as a client, the analyst was rarely seen again. Having an analyst in a related field might mean that some industry knowledge transferred over to the bankers, but the quality of that institutional knowledge varied greatly from bank to bank, and still does. The equity analyst was often used as a marketing tool in the 1990s. This led to a slew of ill-advised IPO and M&A deals as well as perceived and real conflicts of interests and ultimately to the current mandated disconnect that exists on Wall Street between Research and Investment Banking. With the dissolution of the old Wall Street model, the fundamental challenge for sellers remains that of finding an appropriate and experienced banking team for a particular deal and stage of transaction.

What’s a Seller to Do?

In the best of all worlds, every company would find a senior banker with lots of deal experience and notches in his gun in the applicable sub-segment of his industry. Beware of any banker who brags about how many of the buying corporations he knows and how many contacts he has in the industry. Key people at the potential buying corporations are always changing. Nobody knows all of the players in an industry. A banker who bases his expertise on who he knows can actually be counter-productive, because he tends to play favorites instead of running a disciplined sales process. A buying corporation makes an acquisition by obtaining the consensus of a full team of experts from operations, finance, technology and the executive suite---and only after thorough analysis of the target. An M&A transaction never occurs based on the recommendation of a banker. Acquirers don’t buy the banker; they buy a company, its management team, and its future prospects in the market. An excellent banker’s chief skill is his ability to create and drive meetings between his client and the maximum number of qualified, potential buyers. A good banker has to understand the buyers, have convincing initial sales skills, have exceptional arguments and back-up material describing his client, and project an air of confidence and fairness that convinces all buyers that they are being treated intelligently and fairly. This level of effort gets even the toughest deals off the ground.

In lieu of finding the perfect combination of experienced banker and direct industry experience, sellers should err on the side of engaging an experienced banker. It’s like a football coach - hire someone who has proven success at your level if you want to maximize your chances of winning. Otherwise, you run the risk of watching someone experiment on your time or train on your dollar.
Chessiecap – The New Model for Successful Transactions

We created Chessiecap to deliver investment banking and operating expertise and experience to middle market companies that need to execute the right, high-value transactions. Here’s how:

1. Our **Prepare, Deliver, & Transact** model is unique; we bring together experienced bankers and world-class technologists and strategists to maximize operating performance and then deliver the best possible transactions for our clients.
2. All of our practicing technologists have **worked in multiple technology market segments** and **continue to solve difficult product management and technology problems every day**. No investment bank will know more about how your products and technology operate and serve your customers.
3. Our strategy team has **contributed to the success of dozens of funding, M&A, and spin-out transactions - collectively valued at over $300 million**. Our research, our preparation, and our positioning of our clients are geared toward leaving as little as possible to chance in the M&A process.
4. Finally, our investment bankers are **incredibly process driven**. Our daily mission is to **drive meetings and trust between buyers and sellers**. Plus, no team of mid-market investment bankers in the Mid-Atlantic region can match our **$4.5 billion of M&A, IPO, and private placement experience** - all executed on behalf of growth and middle market companies.

About Douglas M. Schmidt

Mr. Schmidt has been an active member of the Mid-Atlantic financial community for over 14 years and is one of the most experienced middle market professionals in the region. As an investment banker with Ferris, Baker Watts and Legg Mason Wood Walker and as an investor with Grotech Capital Group, Mr. Schmidt has participated in the past decade’s exceptional growth of technology companies in the region. He has helped to finance technology companies, such as BTG, Nichols Research Corp., Advanced Communications Systems, Complete Business Solutions, MAXIMUS, PEC Solutions, and Cysive. In addition, over the last two decades, he has led dozens of private and public market merger and acquisition transactions, including the sales of Cordant, Questech, Business Impact Systems, Synectics Corp., and SHERIKON. Mr. Schmidt began his investment banking career in the 1980s with First Chicago and then Drexel Burnham Lambert in New York, where he was a merger and acquisition specialist. As an investment banker for mid-market technology companies, Mr. Schmidt has executed close to $3 billion in M&A, private placement, and IPO transactions. Mr. Schmidt is a longstanding member and former director of the Mid-Atlantic Venture Association (MAVA), past chairman of the Greater Baltimore Technology Council, and an active member of the Northern Virginia Technology Council’s capital formation committee. He is a frequent speaker in the region on a variety of topics, including financing, entrepreneurship, and M&A. Mr. Schmidt holds an AB from Harvard College and an MPPM from the Yale School of Management.

About Chessiecap

Chessiecap, Inc. is a team of transaction professionals that leverages exceptional investment banking, strategy, and technology expertise to drive premium value transactions. Our **Prepare, Deliver, & Transact** methodology strengthens growth and middle market companies and accelerates their access to capital markets. For more information, visit [www.chessiecap.com](http://www.chessiecap.com).

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