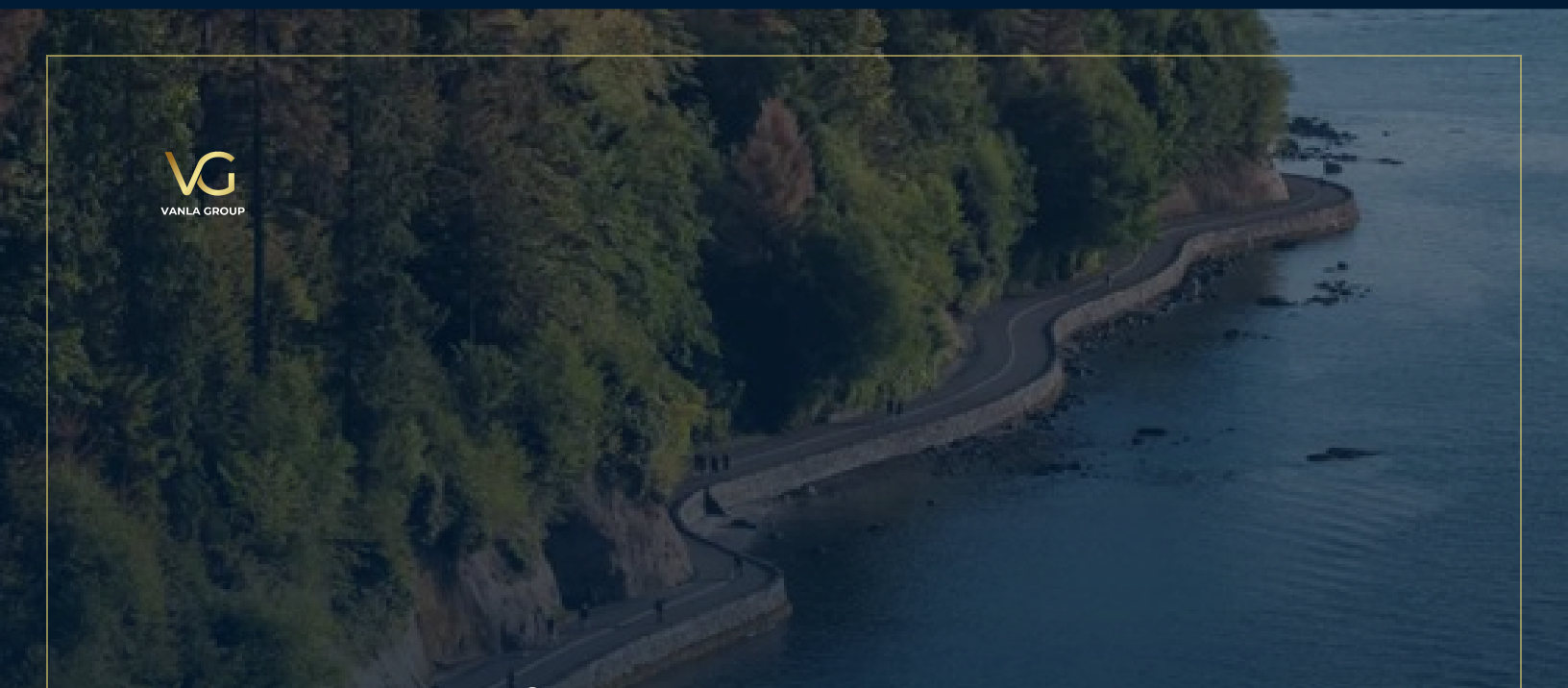


VANLA GROUP

# Evaluating an Unsolicited Offer

A letter from a buyer is a data point, not a market. This framework shows how to read it, and what a competitive process typically adds.

For owners of companies doing $1M or more in revenue who have received an approach

Prepared by the Vanla Group team from transactions we have advised on. General guidance, not legal or tax advice.

A letter from a private equity firm or a larger company in your industry deserves a careful read. It also deserves context, because a single approach, however flattering, is a data point rather than a market. This framework covers why the letter was sent, how to read it, who else would buy, whether to sell part or all, and how one letter compares to a competitive process.

## Why the letter arrived, and what they are buying

Private equity firms raise funds with a defined life and must deploy them. Many have sourcing teams that contact large numbers of owners, because a company bought directly from an owner, without competition, is usually bought at a better price than one bought through a process. Your letter was probably one of many sent that month to companies that fit a thesis: an industry, a revenue band, a geography. The interest may be sincere. It is still the start of their process, not the result of a careful valuation of yours.

A private equity buyer is purchasing either a platform or an add on. A platform anchors a new investment and absorbs smaller acquisitions before the whole is sold again; an add on is one of those smaller acquisitions. A platform buyer wants your management team and will pay for depth; an add on buyer may already have a team and will pay for your customers and capacity, with less interest in your structure.

A strategic buyer, a company in or near your industry, writes for different reasons. They have identified something specific: a territory, a customer relationship, a capability that would take years to build, or a competitor they would rather own than fight. They are buying what the combination produces, which can be worth more than your business earns on its own.

## Reading the letter

Most unsolicited letters are short and warm, and leave out more than they include. Read for four things.

- **Price.** Is there a number, a range, or a phrase like a premium valuation? If there is a number, is it enterprise value or equity value, and is it cash free and debt free? A range of 8x to 10x EBITDA with no definition of EBITDA is an invitation to talk, not an offer.
- **Structure.** How much is cash at closing, and how much is deferred, contingent or paid in the buyer's own equity? Private equity letters frequently assume you will roll a portion of your proceeds into the new company. That can be attractive, and it is not cash.
- **Exclusivity.** Does the letter ask you to stop talking to others, and for how long? Granting exclusivity to the only buyer you have spoken to is often the most expensive decision at this stage: it converts a data point into your only option.

- **What is missing.** A serious letter says how the buyer would finance the purchase, your role and your team's, their timeline, and their prior acquisitions. A letter that says none of this is a sourcing letter, and the right response is a conversation on your terms.

Two further questions come before any reply. What is the business worth today, on a buyer's recast of earnings rather than your own? Without that, the letter's number has no reference point. And do you want to sell, in whole or in part, in the next year or two? If not, a polite acknowledgement and a note of the firm's name is enough. If yes or maybe, the letter has told you the market is open; the question becomes how to use that.

## Strategic versus private equity: who pays more, and why

The conventional answer is that strategic buyers pay more, because they can count on savings and revenue gains from combining the businesses. That is often true and it is not reliable.

A strategic buyer pays for synergy when the synergy is real and when they are made to. Left alone, a strategic acquirer prices your standalone earnings and keeps the value of the combination for its own shareholders. With a financial buyer bidding alongside, it has to decide how much of that value to share, and that is when it pays more. The trade offs on the strategic side are integration: your brand may disappear, your team may be consolidated, your systems replaced. For some owners that is acceptable; for others, legacy and people weigh as much as price.

A private equity buyer pays for growth and for a management team that can deliver it. They tend to leave the business intact, invest in it, and ask you or your senior people to stay and run it, often with equity. Their price is bounded by the return their fund needs, but where funds are competing to build platforms in a sector, multiples can exceed what any strategic would pay. The trade off is a second owner: a private equity firm will sell the company again, usually within several years, and what follows depends on who buys it.

Which type pays more depends on your sector, your size and what each buyer sees. The only way to know is to have both at the table. That is the practical argument for a process, and why our network of 8,100+ buyers includes strategic acquirers, private equity groups, family offices and individuals rather than a single category.

## Recapitalization versus full sale

An unsolicited approach, especially from private equity, often opens a path owners have not considered: selling a majority of the company now and keeping 20 to 40% for a second transaction later.

In a recapitalization you sell, say, 70% of the business, take most of the proceeds in cash, retain 30% as equity, and usually continue to run it with the buyer's capital behind you. Several years later the buyer sells the whole company and your stake with it. If the plan works, the second payment can be comparable to the first, or larger.

The appeal is diversification: meaningful money off the table while keeping a share of the upside you still believe in. The risks are concrete. Your retained stake is a minority position in a company you no longer control, subject to the buyer's leverage, management fees, and decisions about when and to whom to sell. The governance terms, which define your rights as a minority holder, are set at the first transaction and matter as much as the price.

A full sale is simpler: one price, one closing, a transition period, and a clean exit. It fits owners who are ready to be done, or who do not want their net worth tied to one company for another five years. We model both against an owner's own numbers, and we would rather an owner choose the simpler path knowingly than the richer looking one by default.

## One letter versus three offers

Take a hypothetical company with $4M of adjusted EBITDA. A private equity letter arrives suggesting approximately 7x EBITDA, or $28M, with a request for exclusivity to confirm the number.

Now run the same company through a competitive process over 60 days. The original fund offers $26M, because its recast of EBITDA came in at $3.7M after its own view of the add backs. A second fund, building a platform in the sector, offers $29M with 25% rollover equity. A strategic buyer in an adjacent market, who was never going to send a letter but responded to our approach, offers $31M in cash with 60 days of exclusivity. The numbers are hypothetical; the shape is familiar from our work. The letter was an opening position, it moved down once the buyer was alone with the details, and the best offer came from a buyer who would never have approached you unprompted.

Price is only part of the difference. In a process, each buyer knows the others exist, so exclusivity periods shorten, earnouts shrink, and a buyer who attempts a retrade in diligence does so knowing the underbidders are weeks away. A single buyer in exclusivity faces none of those pressures.

The trade offs are time and attention: a few weeks of preparation and your participation in management meetings. Most of our clients receive a letter of intent within 60 days of going to market, and most transactions close within 6 to 9 months. The $28M heavy industry engineering company in Texas that we closed drew several qualified offers and closed above asking.

One offer is a price. Several offers are a market. The letter on your desk is useful because it tells you the market exists. The question is whether to let one participant in it set your price.

# What to do next

If you have a letter in hand, one of our advisors will read it with you and tell you plainly what it says and what it leaves out.

**Talk to an advisor**

# The team behind this guide

Vanla Group is an M&A advisory firm and business brokerage for owners selling companies. We are paid a success fee at closing, with no retainer and no upfront fees.



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HR and PR Director



**Nik Avendano**
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**$182M+**
Closed, US and Canada

**8,100+**
Buyers in our network

**6 to 9**
Months to close, typical

Questions about your own business? An advisor will talk them through with you.