

Six Steps for Selling a Med-Tech Business in a Down Economy

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Many startup med-tech companies today find themselves evaluating a premature sale as a result of the current down economy and the scarcity of capital that comes with it.

If your med-tech business is in that situation, you should preserve enough cash and time to walk through the disciplines of appropriately positioning your business for sale to maximize sale proceeds.

For a med-tech company, the key positioning factor is usually the existing stage of development for the product(s) and the business. If products are in the earlier stages of a med-tech lifecycle, it's best to position the business as a technology or licensing sale.

If in the middle stage, the positioning may be as a product line sale. And for businesses in later stages, the positioning may be as a business unit or division of a larger med-tech acquirer.

In any case, below are six critical steps, in order of prioritization, that are important for maximizing sale proceeds:

1. Assemble your team

First, identify and select an investment banker who can help you assess your business and think through the positioning question with you. Investment bankers who have experience and contacts within the med-tech industry are of course the best option. In addition to your IP attorney, who is probably already on your team, you will also want a solid M&A attorney and a financial/tax advisor who also has M&A experience.

2. Intellectual property

As a med-tech business you probably have already invested significantly in building and protecting your IP. However, you may have not asked yourself or your IP counsel the question, "What can we do in the very short term to make our IP position stronger and maximize sale proceeds?" Obviously the quality of your intellectual property will be an important factor in determining the value for a buyer. So if you have limited cash remaining, invest an appropriate amount on this step.

3. Business plan

Even though external economic conditions are driving a sale of the business, it is important to update your business plan just as you would do to attract additional capital. Prospective buyers will better understand the value of your business if they see it first in the context of a stand-alone business plan. In other words, a business plan that clearly identifies the future opportunities can help leverage against the risk of low-ball offers — ideally by helping to attract multiple buyers.

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4. Building the transition bridge

You will need to identify the employees that would likely be critical to a potential buyer for a successful ownership transition and integration. Your goal should be to ensure that these employees are willing and motivated to support the sale of the business. Key employees may be motivated by loyalty or other non-economic factors, but in the end economics will be important to them. You may need to consider “equity-like” compensation packages. Your advisors should be able to help you think through the design of the package and how to build it into the deal with a buyer. And if that key person happens to be you, you may need to identify a separate advisor who can represent your personal interests in the process.

5. Preparation for due diligence

You should rely on your advisory team to check your readiness for due diligence in all key areas—finance, legal, IP, and operations. Depending upon the size of your company and the likely deal size, this could be a matter of conference calls, meetings, and key document review, or it could involve actual due diligence by your advisor team. This is often referred to as ‘reverse’ due diligence where your advisors conduct due diligence steps much like an actual buyer would before closing a transaction. A key component of the financial due diligence for middle or later stage companies is audited financial statements. If you do not have audited financial statements for the previous two years, you should consider engaging an audit firm for that purpose. For larger buyers acquiring later stage medical device companies, audited financial statements will be important to reducing their assessment of the risk of a transaction. In fact their assessment of risk may cause them to pass on evaluating your business for purchase if an audit has not been completed.

6. Sale process

To conduct a successful sale process it is critical that you start the process well before you run out of cash and time. Success is also dependent on assembling your transaction team at the start of the sale process so they can assist with the preparation and design a transaction process. Generally this means, with the leadership of the investment banker, you will be able identify and engage the most qualified buyers in a well organized process that leads to sale of the business at or near your targeted value.

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