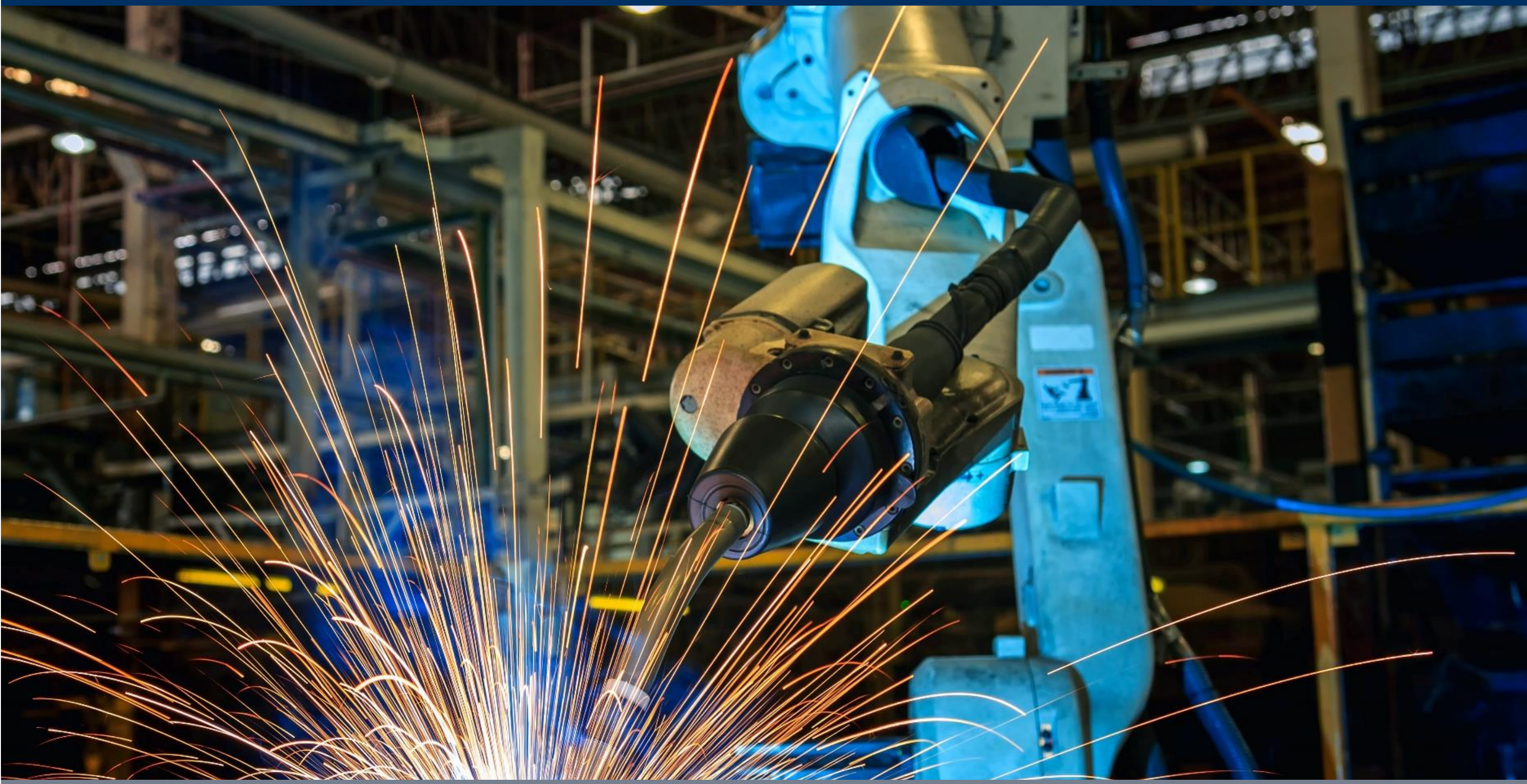
Why Hire an Investment Banker



Morgan Stanley

The Meridian Point Group at Morgan Stanley

Introduction

For many founders and closely held business owners, selling a company is the largest and most complex financial transaction of their lives. A company that took decades to build may be sold in a process that takes mere months, yet the outcome will have longstanding consequences. Retirement lifestyle, family legacy, generational wealth and philanthropic endeavors will all be impacted.

Yet, when it comes time to monetize this enormous achievement, many business owners take a do-it-yourself approach. This inclination often stems from a desire to save on transaction fees or a belief that their intimate knowledge of the industry is sufficient to navigate a sale.

This is a dangerous choice. For strategic buyers and private equity sponsors negotiating deals *is their day job*, while most owners only sell once. It's the equivalent of a basketball factory owner believing his knowledge of the sport gives him an advantage playing one-on-one against an NBA player. He is banking on his general knowledge, but the professional player has spent years perfecting his game. This lopsided asymmetry in experience, information, and negotiating power is one of the central reasons that engaging a sell-side investment banker *before* initiating a sale process may materially improve outcomes.

Academic research and real-world evidence converge on a core conclusion: sell-side advisors may increase valuation and improve deal outcomes, particularly for private-company sellers, by reducing information friction, expanding the buyer set, and strengthening bargaining power.[1]

In this context, "investment banker" or "sell-side advisor" means a professional who helps business owners identify buyers, market the company, negotiate deal terms, and eventually execute on the sale of the underlying business. These professionals could be part of small firms, or large "bulge-bracket" firms, and they serve every industry. Many entrepreneurs are surprised to learn that many boutique investment banks work with companies that have as little as $3 million in EBITDA.

This paper will explore the three areas where investment bankers add value: Business Valuation, Deal Terms, and Operational Continuity.

[1] Agrawal, A., Cooper, T., Lian, Q., & Wang, Q. (2023, January 24). *Does hiring M&A advisers matter for private sellers?* (SSRN Working Paper No. 2400531). SSRN.

Business Valuation

Frequent studies have shown that the addition of a qualified investment banker results in higher prices paid for small and medium enterprises. This is a result of early-stage positioning and the creation of a market making process that could improve multiples.

Myth: "My business isn't big enough to hire an investment banker."

Reality: Your business is big enough to benefit from an investment banker.

Several experienced, professional investment banking boutiques will engage with the right company with cash flow as low as $3 million/year.

Positioning and Narrative

The value of a business is not only discovered; it must be framed and defended. Bankers translate the story of your business into language buyers underwrite: adjusted EBITDA, quality of earnings, customer concentration risk, retention dynamics, unit economics, and credible growth drivers.

This positioning takes place at the start of the process and requires significant work. Standard sell-side processes include preparing the following[2]:

- A "teaser" to initiate interest
- A Confidential Information Memorandum (CIM) to present the business in depth
- A complex financial model and extensive management presentation materials
- A staged data room and diligence plan.

These materials do more than market the company, they reduce uncertainty. In finance, uncertainty lowers prices and reduces potential buyers' willingness to engage. Positioning the company is, in part, a structured effort to reduce the buyer's perceived risk while preventing the buyer from using diligence to "re-trade" price later.

Consultants at McKinsey & Company have noted that investment bankers frequently increase transaction value by better defining costs, preparing analyses, and tailoring the business story for different categories of buyers. In one documented case, for example, more detailed preparation allowed a seller to attract several unexpected buyers.[3]

Running a Process

A sophisticated sell-side process is not simply about finding someone to buy the business. It is about creating competitive tension so that price and

[2] Rosenbaum, J., & Pearl, J. (2013). *Investment banking (2nd ed.): Chapter 6, sell-side M&A* [PDF]. Intralinks.
[3] McKinsey & Company. (2022). *McKinsey on Finance, Number 80: 20th anniversary edition: Reflections on sustainable, inclusive growth* [PDF].

terms reflect the *market's willingness to pay*, not the negotiating skills of a single buyer.

Sell-side processes are commonly structured as auctions. These can be broad, limited, or tightly targeted. The investment banker controls outreach, staging, and deadlines in an effort to force buyers to compete.[4] Even if the seller receives an unsolicited inbound offer, having an investment banker allows the seller to "take control" by running a structured process rather than negotiating one-on-one.

This increases value because competition changes buyer behavior. Buyers submit more aggressive bids when they believe they are in a contest with credible alternatives. A banker's job is to make that contest real by maintaining a buyer list, managing access to information, and enforcing a timeline.[5]

Economists Jeremy Bulow and Paul Klemperer concluded that competitive auctions generally produce better outcomes for sellers, and showed that adding even one additional qualified bidder often creates more value than relying solely on negotiating skill.[6]

Research published by Fairfield University surveyed 85 owners who sold companies valued between $10 million and $250 million. Rather than "identifying buyers" as the most valuable investment banking service, owners overwhelmingly cited managing the overall sale process, creating competitive bidding, negotiating terms, and keeping the transaction on track as the areas where bankers delivered the greatest value. Most respondents concluded that hiring an investment banker was worthwhile and that they would do so again.[7]

Myth: "I already have an offer. I don't need someone to help me find a buyer."

Reality: Your banker can help drive value even if you have an offer.

It's not just about finding an offer; it's about the process of finding the right buyer at the right price, and then making sure the deal gets closed.

Better Final Outcomes

Many business owners are masterful negotiators within their specific domains. A logistics founder knows how to negotiate fleet pricing; a software founder knows how to price enterprise contracts. However, these owners rarely possess deep experience negotiating indemnification caps, working capital pegs, survival periods, or earn-out structures. Institutional buyers, particularly private equity firms and corporate development teams, buy companies for a living. They employ dedicated professionals who

[4] Wall Street Prep. (n.d.). *Sell side M&A | Auction process + timeline example*. Wall Street Prep.
[5] Sell Side Handbook. (2017, October 9). *M&A process walkthrough*.
[6] Bulow, J., & Klemperer, P. (1994, January). *Auctions vs. negotiations* (NBER Working Paper No. 4608). National Bureau of Economic Research.
[7] McDonald, M. B., IV. (2016, September). *The value of middle market investment bankers* [PDF]. Fairfield University.

participate in dozens of transactions annually. This creates a material imbalance of expertise.

This matters because private companies often face:

- Greater information asymmetry: less public disclosure and fewer comparable data points
- Lower baseline bargaining power
- A smaller natural buyer universe unless actively cultivated[8]

In other words, the conditions that make private-company sales difficult are precisely the conditions under which an advisor's intermediation can be most valuable.

As mentioned earlier, academic research from Harvard has shown that, after accounting for selection effects, sellers who utilized an investment banker received an average valuation premium of approximately 25% compared to unrepresented sellers.[8] Other comprehensive studies agree:

- Data compiled by Northern Trust's Business Advisory Services group evaluated thousands of middle-market transactions and determined that companies engaging an investment banker achieved an average EBITDA multiple that was 1.5 times higher than those going it alone. For a business generating $5 million in EBITDA, this single metric translates to an additional $7.5 million in enterprise value.[9]
- In the Fairfield University Survey mentioned earlier, 84% reported that the final sale price met or exceeded the initial target valuation established by their investment banking team.[10]

Myth: "I can't afford to pay investment banker fees"

Reality: Statistics show that investment bankers can drive more value than their fees.

Recent studies have shown that sellers who used an investment banker received an average valuation premium of approximately 25% versus going it alone.

[8] Agrawal, A., Cooper, T., Lian, Q., & Wang, Q. (2014, May 13). *Does hiring M&A advisers matter for private sellers?* Harvard Law School Forum on Corporate Governance.
[9] Crewe. (n.d.). *Should you use an investment banker?* Crewe Insights.
[10] McDonald, M. B., IV. (2016, September). *The value of middle market investment bankers* [PDF]. Fairfield University.

Deal Terms

Business owners frequently focus on headline valuation, but when it comes to selling a business that took years to build, the details matter. Buyers have become more astute and sophisticated, and will attempt to skew the transaction in their favor by either adding limitations or removing protections from the final deal. The best investment bankers will help sellers optimize across several important deal terms:

Payout Structure: Bankers help sellers evaluate and negotiate the tradeoffs among cash, earnouts, and rollover equity. Buyers often propose earnouts when they perceive forecasting risk or want downside protection. Bankers push for a higher cash component, tighten earnout definitions so they are less manipulable, and negotiate covenants that prevent the buyer from starving the business of resources post-close. When it comes to rollover equity, bankers help sellers compare offers on an apples-to-apples basis by translating different rollover percentages and implied valuations into expected outcomes under realistic exit scenarios.

Post Sale Adjustments: Investment bankers help establish defensible normalized working capital targets, coordinate with accounting advisors so the definition of working capital is consistent and accurate, and negotiate the timing of the closing statement, dispute resolution methods, and limits on buyer discretion.

Representations and Warranties: Bankers improve outcomes by negotiating indemnity caps, deductibles, survival periods, and escrow size and duration. They also help sellers evaluate whether representation & warranty insurance is appropriate. Even when lawyers draft the language, bankers often drive the commercial negotiation: they know what is "market" for the deal size and buyer type, and they can use competitive tension to push buyers toward seller-friendly risk allocation.

Non-Competes and Employment Agreements: Bankers help make sure non-competes are reasonable. They also try to prevent below-market compensation, excessive time commitments, or performance conditions.

Closing Certainty: Bankers help by preferring buyers with credible financing and a track record of closing. They can also negotiate tighter conditions and timelines while keeping backup bidders warm so the buyer knows the seller has alternatives.

A banker's role is to create leverage so the seller can negotiate not only price but also *risk allocation*. In practice, the competitive process helps to improve terms because buyers must offer more seller-friendly structures to win.

Operational Continuity

There is a critical risk owners downplay when they enter the sale process: operational distraction. Managing an intensive corporate sale process is equivalent to taking on a second full-time executive position. An owner who attempts to manage the sale alone – buyer outreach, financial modeling, document preparation, diligence calls, etc. – invariably takes their eye off running the company.

One of the most vital roles of an investment banker is to save you time and make your life easier. When an owner is distracted, operational performance frequently dips. If revenues or margins decline during the months required to close a deal, the buyer gains immense leverage to slash the purchase price or walk away entirely. An investment banker acts as a vital shield against these risks. By absorbing the administrative, analytical, and tactical burdens of the transaction, the banker seeks to ensure that management remains focused on hitting their quarterly financial projections. A company that demonstrates strong, uninterrupted financial performance throughout the closing process signals stability, reinforcing the premium valuation that justified the auction in the first place.

Furthermore, data from M&A research platforms indicates that approximately 25% of all corporate transactions fail to close after an initial agreement is reached.[11] The leading causes of "deal death" include buyer fatigue, changing macroeconomic conditions, and gridlock over working capital adjustments. An investment banker significantly reduces this execution risk by keeping backup bidders engaged in the pipeline, ensuring that if the lead buyer falters, the threat of replacement keeps them at the negotiating table.

Myth: "I have enough time to do this myself."

Reality: You can't take on a second full time job and do both of them well.

The demands of buyers will outstrip your ability to perform both of your jobs well. Letting employees know about the sale creates fear and uncertainty that is not necessary before closing is certain.

Confidentiality Considerations

Owners often underestimate how disruptive a sale process can be. If the possibility of a sale gets out amongst the stakeholders of the business too early, employees may leave, customers may hesitate, and competitors may exploit uncertainty. A banker-led process is designed to control information flow. They do so by using anonymous outreach ("blind" teasers), non-disclosure agreements, staged disclosures, and limiting sensitive information to later rounds.

[11] Glacier Lake Partners. (2025, November 15). *When a deal falls apart: What to do after a failed M&A process*.

This is not merely operational hygiene; it is economic. If performance deteriorates during the process, buyers can reduce price, demand earnouts, or walk away. Keeping the entire process quiet can be difficult if the owner is responsible for every step of the sale process. Investment bankers bring confidentiality discipline that can help preserve the very cash flows being valued.

Process Execution and Management

A sale process is a multi-month project with dozens of parallel workstreams: buyer Q&A, diligence requests, management meetings, legal drafting, financing coordination, and timeline enforcement. Middle market sell-side processes are often quoted in the 6–9 month range, but can often run longer depending on complexity and regulatory approvals.[12]

In addition to the practical tasks of financial modeling, earnings analysis, and document generation, an investment banker acts as a quarterback. They will coordinate communication between parties, maintain momentum, and prevent the buyer from slowing the process to gain a negotiating advantage. Bankers are responsible for replying to buyers' requests for information and to be a resource to the seller along the way.

Finally, bankers become a "transaction buffer." As the negotiations proceed, they will handle rejections and aggressive legal posturing in a calculated manner. Owners often have their identity tied up in the business, and can respond to questions or complaints emotionally.   Bankers serve as objective, professional intermediaries, preserving the negotiations and the owner's post-sale relationship with the buyer.

[12] Transaction Services Training. (2026, May 14). *The sell-side M&A process: Timeline, phases and key milestones*.

Bonus Topic 1: How to Find a Banker

Finding an investment banker does require time and effort, but there are ways to make the process as efficient as possible.

Start with personal connections. Ask your wealth advisor, corporate attorney, or accountant for names of investment bankers that they have worked with. If you know other entrepreneurs who have used a banker, ask about their experience and whether they would recommend the banker.

Meet with a handful of bankers face-to-face. These men and women will be part of your life for several months, so look for personality fit.

Screen the names for key qualifications. A banker should have a clear track record of closed sell-side transactions in your size range, industry, and complexity level. Ask for specific examples of deals similar to yours, and confirm that the banker personally led those deals.

Finally, owners should confirm the day-to-day team. Ask who will build the model and CIM, who will run buyer calls, who will manage the data room, and how many live deals the team is running at once. The best outcomes typically come from bankers who combine senior judgment with strong execution capacity.

Myth: "It's too hard to find a good banker."

Reality: Finding the right one will make it all worthwhile.

Choosing the right banking partner for your transaction will take time and effort, but the right partner can more than compensate for the effort by making your life easier and bring more value to the table.

Bonus Topic 2: Engage Early

Hiring an investment banker *before* launching a process matters because many value drivers require lead time:

- Cleaning up financial statements and add-backs,
- Addressing customer concentration or contract assignability,
- Strengthening management depth,
- Resolving legal/tax issues that become diligence red flags,
- Preparing a credible forecast and growth narrative.

Some sell-side process guides explicitly recommend engaging an advisor months in advance to optimize readiness and positioning. Even when the owner ultimately chooses a targeted buyer approach, early preparation should prevent value leakage and reduce the probability of a late-stage re-trade.

Bonus Topic 3: What are Business Brokers?

While both investment bankers and business brokers help business owners sell companies, they typically operate in different segments of the market and bring different levels of process, resources, and transaction expertise.

Business brokers most often focus on small, owner-operated businesses and tend to run a more standardized, listing-style sale process. Their approach may rely heavily on marketing the opportunity to a broad set of potential buyers and facilitating introductions, with less emphasis on deep financial analysis, tailored positioning, or complex deal structuring.

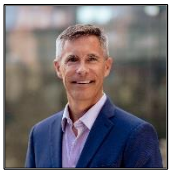
Investment bankers generally advise on larger, more complex transactions—often involving sophisticated buyers such as private equity firms and strategic acquirers. An investment banker's role is to run a competitive, highly managed process designed to maximize value and reduce execution risk.

In short, a broker often helps **find a buyer**, while an investment banker is engaged to **optimize the outcome**, not only on headline price, but also on terms, certainty of close, and the overall risk profile of the transaction.

Conclusion

For most business owners, the question is not whether they can find a buyer, but whether they can create the conditions for the *best* buyer and the *best* combination of price, terms, and certainty. A sell-side investment banker helps do exactly that by shaping the information environment, expanding and managing the buyer universe, and enforcing a structured process that reduces re-trades and execution slippage. In the middle market, these advantages can be decisive: the same mechanics that drive outcomes in large public-company deals also determine whether a founder realizes full value for a privately held enterprise. In that sense, hiring an investment banker is less a discretionary expense than a risk-management and value-maximization decision.

Don't pursue the most significant transaction of your life alone. Whether you have an offer or not, the right investment banker can help put you in charge of the process, save you time and headache, and drive additional value for you and your family.



Matthew Smith, CEPA™, QPFC™
Financial Advisor, Executive Director, Alternatives Investment Director
The Meridian Point Group at Morgan Stanley
2121 N. Pearl St., 5th Floor, Dallas, Texas 75201
(214) 661-7068
matthew.j.smith@morganstanley.com
https://advisor.morganstanley.com/meridian-point-group

Disclaimers

This material has been prepared for informational purposes only. It does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Morgan Stanley Smith Barney LLC ("Morgan Stanley") recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a Morgan Stanley Financial Advisor. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Past performance is no guarantee of future results.