What Does an M&A Advisor Charge?

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Investor Brent Beshore, founder and CEO of adventur.es, a Midwestern-based permanent equity firm, recently published a book called "The Messy Marketplace: Selling Your Business in a World of Imperfect Buyers." The book helps sellers, buyers, and advisors better navigate the messy process that is selling a small to midsize private company.

Great M&A advisors are rare and highly valuable, hence they get paid well. You will need a lead transaction attorney and a lead outside accountant. If you're used to spending a minimal amount on low-stakes legal issues, transaction fees can be a shocker. Don't look at them as a zero-sum. Often a great advisor will charge you a lot and save you money.

All told, expect roughly 3 to 15 percent of the transaction proceeds to be spent in the process, with a minimum spend of $25,000. That's a wide range and necessarily so based on the levels of complexity, size of transaction, industry dynamics, and buyer choice. Generally, the larger the transaction, the higher the numerical cost, but the lower the fees as a percentage of the transaction.

To work on your behalf (known as a "sell-side engagement"), an intermediary can be engaged under a retainer fee, a success fee, or a combination of the two methods.

Retainer fees, also known as work fees, typically start at $50,000 and go up depending on the size of potential transaction. Some retainer models involve a monthly installment ($3,000 to $15,000), while others are arranged for a term at a flat fee.

Success fees usually represent a percentage of a completed transaction. The details matter in success fee arrangements, as some will require you to pay the full value of all consideration in the transaction to them at close (including cash, debt, equity rolled over, seller note, earn-out). Make sure you understand what proceeds are included and when payment is due.

The success fee percentages can be structured in several ways. On smaller deals, the success fee may be a flat percentage — usually 6 to 12% — of the transaction. On large deals (over $50 million), that flat percentage can drop to as low as 1.5%. The workload required by an intermediary to close a deal does not differ tremendously based on the size of the transaction, and actually can be less work for larger companies considering the increased access to resources.

If you engage an intermediary, you will be expected to pay at least a portion of their fee at closing. If an intermediary engages you under the guise that the buyer will ultimately cover your fee, I recommend choosing another intermediary. At best, you will frustrate the buyer and cause trust issues. At worst, the investor will walk when the "game" becomes apparent.

Investors also sometimes engage intermediaries (known as a "buy-side engagement"). The fee structures are similar and their marching orders are to go find potential sellers that are not actively trying to sell their business. There's a good chance you've been contacted by one before. Buy-side intermediaries should not be charging you anything to introduce the potential buyer, as their fees are already covered. To do so is playing both sides, and is unethical.