

The Case for Hiring an Investment Bank: Adding Value to Your Value Proposition

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You’ve probably heard the term “investment banker” at some point, but unless you are in the financial services industry or hold a specific role that may have occasion or need to interact with bankers, then you may not have a very good idea of what they actually do, or more importantly, what it is that they can do for you. You may even have a vision of someone, likely via “Hollywood”, who is ambitious, driven, and more often than not, of varying degrees of morally ambiguous character, works on Wall Street in a high-stakes, high-stress, winner-take-all environment, where there is a constant race against time and tremendous pressure to make deals and take big profits. While the above description may fit a handful of bankers in the real world, the vast majority of investment bankers do not fit the above profile.

Investment banks are financial institutions that – depending on their size – provide a range of services, from helping to raise capital, to facilitating private placements, mergers, acquisitions and divestitures, to corporate restructuring, to issuing and selling various types of securities, managing mutual funds and providing brokerage services, to offering various types of advisory services. Chiefly, investment banks act as intermediaries between individual companies and the markets, helping to match buyers and sellers of securities – or even entire companies.

The fact is, the vast majority of entrepreneurs and corporate professionals don’t ever have the need to

interact with an investment banker, as the events that precipitate the need for one are exceedingly rare. In the case of raising capital, for example, according to data compiled by Fundable, only 0.91 percent of startups are funded by angel investors, while a measly 0.05 percent are funded by institutional venture capital. Accordingly, not many people know that there are different types of investment banks, and each with its own set of product/service offerings and unique set of capabilities.

While investment banks can typically provide a wide variety of services to client companies, many investment bankers tend to specialize within particular industries, geographies, or types of transactions, such as capital raises, IPOs, special purpose acquisition companies (or “SPACs”) or the strategic sales of assets or companies. Investment banks can also operate on either the “buy side” or “sell side” of an M&A transaction, and in the case of larger transactions, there will certainly be at least one bank on each side of the transaction, and sometimes there may be multiple. On the buy side, clients are often private equity (or “financial sponsor”) firms or established F2000 companies (“strategics”) looking to make acquisitions known as “bolt-on” or “tuck-in” acquisitions. On the sell side, investment banks are often advising business owners or management teams on what will likely be a once-in-a-lifetime transaction involving the sale of their company.

The focus for the rest of this article, however, is on the most common activities of investment banks in the “middle market”, i.e., raising capital and advising and executing on mergers and acquisitions, as the need for professional strategic and financial advice is arguably greater for small and medium sized businesses, wherein the management team may not have had any prior, relevant experience, and similarly, these types of companies may lack enterprise level financial and accounting systems.

So why would / should I hire an investment bank?

Principally, there are numerous compelling reasons, both qualitative and quantitative, why you might want to consider hiring an investment bank, and this next section will discuss a few of the most prominent reasons. Further, as business owner(s) or management teams, you must be cognizant of your own business’ limited resources, the considerable time required to manage a transaction process, and the ongoing need to be simultaneously running said business.

Align your offering with the market

Before you and your company get in front of potential investors, strategic partners, and/or acquirers, it will most certainly benefit you to align with current market conditions, i.e., it is critical that your company’s profile and externally facing content (e.g., business and revenue models, pitch deck, marketing materials, company financials, etc.) align with the prevailing investment or acquisition criteria, trends and considerations. And, more often than not, your content and messaging will greatly benefit from the review, refinement and revitalization that only someone with a purview and perspective across the market and space within which you and your company operate, will have.

Think of this as an extension of the “product-market fit” concept, but for a much more discerning, discriminating and selective group (i.e., venture capital and private equity investors, corporate and/or business development professionals, CEOs, CFOs, investment committees, etc.).

And, as it is the business of investment bankers to act as intermediaries between individual companies and the markets, any investment banker that you speak with should have an experiential view on the current trends and requirements of your market – and consequently, of the strengths, weaknesses of and any deficiencies in your offering. Investment bankers necessarily must become experts in framing businesses to highlight a company’s strengths and minimize its deficiencies. With multiple deals in their rearview mirror, bankers know what information buyers and investors are particularly keen to see and are able to anticipate the standard questions that typically come up during due diligence. This expertise allows sellers to get ahead of any potential issues and form a concise story around trends and those same potential issues within a company’s data, documentation and/or processes. You only get one chance to make a first impression with a potential investor/partner/buyer, so you want to do everything possible to appropriately and beneficially frame your company’s products, metrics and value proposition.

This is where an experienced, “specialist” (as opposed to “generalist”) investment banker can really help your cause, as industry experience, at the end of the day, whether financial, operational, or ideally both, is one of the characteristics of your banker that is essential to reducing the risk and/or increasing the probability of ultimate success, i.e., successfully “closing” a transaction. Another is their sector-specific knowledge (e.g., transactional, technological, geographical, regulatory, compliance, business and payment models, etc.), and a third is their “rolodex”, or their vast network of relationships (i.e., potential funding sources (e.g., angel, HNW individuals, family offices, venture capital and growth equity firms, financial “sponsors” (private equity firms that typically provide equity funding via minority or majority investment)) and “strategics” (i.e., those companies, very often members of the F2000, that are seen as leaders in their respective segments). Without that industry experience or the fundamental understanding of some of the nuances, complexities and players inherent in a specific industry, your banker most likely will just not be as effective or efficient in working on your behalf.

As relevant examples or “proof points” across the healthcare and life sciences industries, one can imagine that a “specialist” banker’s perspective and subsequent engagement strategy and tactics would be considerably different from that of a “generalist” banker, if they had themselves accomplished any of the following representative industry milestones:

- Have they been a C-level executive in the industry?
- Have they developed software, hardware, devices or therapeutics in the industry?
- Have they taken a product through the clinical development process?

- Have they secured an FDA clearance or approval?
- Have they launched a product in the industry? If so, who were the customers?
- Have they created and managed partnerships in the industry?
- Do they have the requisite experience to understand the complexities and interactions between regulatory authorities, those who “pay for” healthcare (i.e., “payers”), manufacturers, pharmacies, PBMs, providers, employers and consumers as patients (and vice versa)?

Tell your company’s story

Industry experience is particularly important in co-crafting and positioning the storyline of a client company, especially in a capital raise or “sell side” engagement. Do you know what is going to maximally resonate with investors or acquirers under the current market conditions? You may think you do, but are you willing to bet your company’s future success or even survival on that knowledge? While you are busy running – and hopefully, growing – your company, investment bankers are continually managing a torrent of current trends and transactional data, specific to their specialization, likely from a host of both public and proprietary databases and platforms that typically only certain types of financial professionals have access to, either because of need or cost or both. And so, who better to help tell your story, than someone who understands your space from the “macro” level (e.g., the current macroeconomic conditions, the impact of interest rates, “bull” and “bear” markets, industry/institutional investor “dry powder” (or investor capital that has yet to be deployed), current lending trends, etc.), to the segment, region, companies and competitors, specific offering or opportunity, right down to your company’s unique value proposition – and the levers that determine, influence and impact that value on an ongoing basis. Even better, the right banker for you will understand the dynamics of your space so well, that they will easily be able to suggest and provide multiple, proven ways to enhance your value proposition. At the end of the day, investment bankers are highly specialized salespeople. In short, how well can they understand and subsequently position (and hopefully, sell) your offering, in the context of your company’s current and future operating environment?

In addition to the above, having a credible, experienced “third party” to tell your story, typically provides much more credence and sometimes even “buzz” around your offering, than were you to go it alone. Further, engaging a reputable investment bank sends a strong and pointed message to all the parties involved that there is a genuine commitment by the seller to explore the transaction opportunity in earnest (as they are having to pay for those services) and that there is professional and (hopefully) proven, representation, which helps to increase the likelihood of a successful closing, in and of itself.

Serve as your trusted advisor

Akin to Mario Puzo's "consigliere" role in *The Godfather*, your investment banker will ideally provide you with invaluable insights and perspective, will constantly work on your behalf (much of it, behind the scenes, e.g., the substantial outreach, scheduling and preparing for the many required meetings over the course of an engagement, setting up and managing a data room, managing the overall process timing across the various, progressively more intense stages of the process, etc.), will be an efficient and effective business and corporate development "right hand", and will be both a tactician and strategist, par excellence. Practical, real-world examples of the utility of the trusted advisor role might cover who might be suitable for outreach with regard to potential investors/partners/acquirers (i.e., a targeted approach versus a "shotgun" approach), what kinds of financing options your company may have at any given point in time or across the various stages of its maturity, what business combinations might prove most viable or financeable, how best to structure a given transaction, reviewing, weighing, responding to and negotiating indications of interest, term sheets, and definitive agreements, along with many more relevant tasks and use cases. In summary, your trusted banker/advisor should be in the best position to de-risk and close the transaction – the true value of expertise, across its many forms, across investment banking and "deal making" in general.

A few parting thoughts

If financial markets were 'textbook perfect' and entirely symmetric with regard to the availability and flow of information, you most likely wouldn't need any help figuring out how to value your business' worth or in finding the optimal buyer for it. Unfortunately, real markets suffer from significant information asymmetry, as sellers struggle to find the right buyers and buyers struggle to find the right price. Nobody has perfect information or foolproof intuition or judgment.

And as there's no public stock market in the "middle market", publicly-available insights about recent deals and current valuations or comparables for privately-held companies are few, hard to find, and are often incomplete. Most management teams and owners only undertake one or at most a few transactions across their entire careers, and thus have no realistic expectation of knowing how much their company is worth without professional, third-party guidance. But the "right" investment banker for you with the appropriate experience can not only tell you what your company is worth, they can also utilize their expertise to establish and run an appropriate, bespoke transaction process that will serve to reduce risk and maximally benefit you and your company's future potential, valuation or even sale price – and they should be equally willing and able to coach, support, assure and "handhold" as might be required, while doing so.

Photo: phive2015, Getty Images



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Karl Hess is a Managing Director with Outcome Capital and leads its digital health and HealthTech practices. Having interacted extensively with hundreds of digital health companies over the years, as well as with dozens of their healthcare and life sciences investors, customers and partners, Karl has become known as a leading subject matter expert on the topics of successful digital health business models, commercialization, investment and technologies. With a healthcare and life sciences career spanning pharmaceuticals and biotech to medical devices and software (SaMD), digital health tools and digital therapeutics to health optimization and population health management platform technologies to entire care delivery ecosystems, Karl has helped design, develop and commercialize dozens of innovative products and services across the healthcare and life sciences industries, representing hundreds of millions of dollars in incremental revenues and more than \$20B in value-unlocking transactions.

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