



THE DOUBLE LEHMAN FORMULA

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The Double Lehman Formula

M&A advisors need to fix a fee for selling a business and many will use the Lehman formula or some derivative of it. The Lehman formula is so called as it was developed by the Lehman brothers in the 1960's for charging their corporate clients. The original formula was as follows :

- 5% of the first million dollars of transaction value
- 4% of the second million
- 3% of the third million
- 2% of the fourth million
- 1% of everything thereafter

If you do the maths the fee for the first \$5 million of a transaction is \$150 thousand and then 1% on anything in addition to the \$5 million. So for example on a transaction of \$100 million, there would be a fee of \$150 000 on \$5 million plus 1% fee on \$95 million which is \$950,000.

Since this formula was derived there has been quite a lot of inflation and the fees charged have become more complicated. These days fees are not based entirely on the end transaction, but there are also upfront fees and hourly fees to cover other expenses incurred during the process



The Lehman formula is very profitable for the M&A advisors when they are working on a big deal. These deals become very competitive. Each one is highly unique and the fees are suited to fit with the target of the deal. Large deals can take huge amounts of time, typically 1 – 2 years, to complete. In these cases it is necessary for the M&A advisors to rely heavily on the upfront and hourly fees to be able to complete the process. On the other hand, deals that are smaller will have a larger percentage charge, say 10 - 12%, but take small upfront or hourly fees, if any. These deals may take a few months to complete

In between these two extremes are the mid market deals. These can take a similar length of time to the larger deals and can be just as complex, however high fees are not feasible for a mid market company. The Lehman formula is not suitable for the M&A firms and neither is the 10 – 12% tenable for the business selling.

Given these factors a new formula has been established, often used as a basis for mid market clients, which is an adaption of the Lehman formula. This is the Double Lehman formula, this helps to tie over the discrepancy between the smaller transactions of less than \$1 million with those over \$100 million.



The Double Lehman formula is as follows :

- 10% of the first million dollars of transaction value
- 8% of the second million
- 6% of the third million
- 4% of the fourth million
- 2% of everything thereafter

In this scenario the first \$5 million of a transaction incurs a fee of \$300 thousand, totalling 6% altogether. So for example the fee for a transaction of \$20 million would be \$300 thousand plus 2% of \$15 million, which comes to \$300 thousand. This comes to a total of \$600 thousand, which is 3% of the total transaction.

The Lehman formula and its adaption as the Double Lehman formula are today more common in mid – market deals. The formula is often used as a basis, or starting point from which each individual deal will have its own adaptations, either within the formula for the various thresholds or with additional upfront or hourly fees. Of course the formula can be adapted across currencies also.



In summary, the Lehman formula was originally created some time ago, but has been adapted to keep up with inflation to become the Double Lehman formula. This formula is a good basis from which discussions can start regarding the fees of M&A advisors, but is often adapted to suit the particular type of deal or business that is involved. Other fees may be added, particularly in deals that will take a longer time, to pay for the expenses needed to complete the process. The M&A firms together with their clients need to work out fees that will usually use a combination of the percentage of the transaction price and ongoing expenses to come up with an agreement that is satisfactory to both parties.



Our M&A Process

TARGET APPRAISAL	APPROACH	DUE DILIGENCE	NEGOTIATION & CLOSE	POST MERGER INTEGRATION (PMI)
Key Areas				
<ul style="list-style-type: none"> ▪ Target & market analysis; ▪ Initial assessment of synergies & value drivers; ▪ Indicative valuation; ▪ Go or No-Go decision; ▪ Preparation of transaction documents (NDA – Non-disclosure Agreement/LOI-Letter of Intent); ▪ Select Transaction team; ▪ Appoint advisors; ▪ Consider funding ability. 	<ul style="list-style-type: none"> ▪ Initial approach letter; ▪ Signing of NDA; ▪ Prepare & share initial information requests; ▪ Formulation of LOI (Letter of Intent) & possible negotiations; ▪ Initial meeting and Q&A; ▪ Circulate information on the Target to the Transaction team. 	<ul style="list-style-type: none"> ▪ Set scope of due diligence; ▪ Set up VDR (virtual data room); ▪ Coordinating of due diligence, further meetings and Q&A sessions; ▪ Consider points relevant to the Post-Merger (PMI) phase; 	<ul style="list-style-type: none"> ▪ Revisit indicative valuation & prepare detailed valuation based on due diligence findings; ▪ SPA negotiations with the seller; ▪ Development of final structure (share/asset deal) and final valuation; ▪ Approvals; ▪ Signing of SPA & Close. 	<ul style="list-style-type: none"> ▪ Consider the extent of integration; ▪ Development of 100 Day PMI Plan; ▪ Consider short & long term objectives; ▪ Estimate requirements to capture synergies; ▪ Determine resource needs & optimal allocation.
Parties Involved				
<ul style="list-style-type: none"> ▪ CFO; ▪ Head of M&A; ▪ Accountants; ▪ Corporate finance advisors; ▪ Consultants. 	<ul style="list-style-type: none"> ▪ Senior management; ▪ CEO, CFO, CTO; ▪ Strategy director; ▪ Head of M&A; ▪ Head of Business Development; ▪ Consultants. 		<ul style="list-style-type: none"> ▪ Company general counsel; ▪ Lawyers; ▪ Senior management. 	<ul style="list-style-type: none"> ▪ Company general counsel; ▪ Lawyers; ▪ Senior management/HR.

An overhead view of a business meeting around a wooden table. Several people in business attire have their hands stacked in a circle in the center of the table. The table is cluttered with various items: a laptop, a calculator, a coffee cup, a glass, a pen, a notebook, and some documents. One document is titled 'INFORMATION'. The background is dark, making the wooden table and the white text stand out.

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