CenterPoint™ M&A Update

Thinking About Selling Your Entire Business . . . Think Again

Most business owners who are considering the sale of their company believe that they already know who the best buyers are. Typically these buyers include larger competitors, suppliers, customers or companies in related industries. In the world of mergers and acquisitions, these types of buyers are known as "Strategic Buyers" because they have a strategic interest in acquiring the seller.

What Is A Private Equity Group?

When marketing their business for sale, most sellers overlook the importance of financial buyers called Private Equity Groups (PEGs). PEGs are investment firms that make equity or debt investments in privately held companies. Their financial backing comes from several sources including pension funds, insurance companies, financial institutions, etc. The PEG raises a "fund" of committed capital to invest in companies that meet the criteria outlined in the fund's charter. PEGs commonly make an initial "platform" acquisition in an industry, and then grow the business through the addition of capital and add-on acquisitions. PEGs have in excess of $250 billion of buying power and are aggressively seeking acquisitions.

PEGs Pay High Prices

In recent years, PEGs have proven that they can pay as high a price as strategic buyers, while at the same time structure transactions that are much more favorable to the seller. *Many Private Equity Groups must use their cash to acquire businesses in the next 18 months or they risk losing their fund, which means they are more aggressive than ever.* Since PEGs are investors, not operators, they rely on existing management to continue to operate the company. This is an ideal situation for an owner who is interested in divesting a majority interest in the company, while at the same time maintaining operating control and participating in the continued growth of the business. This also means that current employees will play an important role in the company after the transaction is completed.

PEGs Will Do Partial Buyouts

PEGs will acquire anywhere from 35% - 100% of a company. In a very simple scenario, here is how a partial buyout works. Consider a company that has a value of $10 million. The PEG would pay the owner $8 million for an 80% interest in the company, while the seller would maintain a minority 20% stake. In addition to providing a liquidity event for the owner in the amount of $8 million plus an ongoing salary, the owner would continue to run the company, participate in the increase in the value of the business through his/her minority holding, and be released from personal guarantees.

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Transaction structures such as this provide significant benefits to both the PEG and seller because each brings something to the transaction that the other is lacking. The PEG brings money which allows the owner to diversify his personal wealth and secure his financial future, while the owner provides continuity of management with an incentive to perform.

When contemplating exit strategies, an owner should consider all options in order to structure the best transaction, which should include contacting both strategic buyers ***and*** Private Equity Groups.

CenterPoint M&A Advisors provides merger & acquisition advisory services, debt and equity placement and business valuations for middle market businesses ($5 - $75 million). The principals of CenterPoint use their 20 years of combined experience to aggressively negotiate the most favorable price and terms for our clients. ***Please call Chris Bandouveris or Scott Berejikian at (818) 593-7907 to discuss your situation on a confidential basis.***