Business Sellers – How to Tilt the Odds in Your Favor

It has been a Seller's market for the last few years when it comes to cashing out of a privately held lower middle market businesses (transaction values between $2 and $50 million). Several factors have led to this increase in activity. In fact, 87% of sellers' motivation to sell can be tied to the top 3 reasons shown in the chart below: retirement, recapitalizing the company or getting an unsolicited offer or the fear or risk of proposed regulatory changes.

Why Do Seller's Sell?	
Retirement	48%
Recap/Unsolicited Offer	24%
Proposed Regulatory Changes	15%
Burn Out	11%
Other, Relocation, Health	2%

Source: Compilation of 21 quarters ending March 31, 2018 of The Market Pulse Survey, by the Pepperdine Private Capital Markets Project and the Graziadio School of Business and Management at Pepperdine University.

From the same Market Pulse Survey report we can find data that shows who has been doing the buying over the past 21 quarters.

Who Are the Buyers?	
Strategic - Existing Company	38%
Private Equity - Platform	25%
Private Equity - Add on	21%
Individual - Previously Owned	8%
Other	8%

For lower middle market companies with a transaction values in the $2 to $50 million dollar range, the data suggests that there is an 84% probability that the buyer will be an existing company or a private equity group.

Data shows that EBITDA multiples are easing in certain industry sectors and, according to DealStats multiples may have peaked overall in the 3rd Quarter of 2017. From our perspective at Upton Financial Group, we continued to see strong interest from midsize companies and private equity groups that are motivated to invest in companies that will allow them to grow their businesses. These motivated buyers have both compelling strategic and synergistic reasons to make these investments.

As a prospective seller, how to do you tilt the odds of getting a great deal in your favor, especially when going up against seasoned and experienced buyers? There is only one way: your deal team needs to create a competitive market for your business.

The following table shows the recent Indication of Interest results from running a competitive process for a $5-$6MM EBITDA company in the Professional and Technical Services sector.

Buyer	EBITDA Multiple	EBITDA Period	Structure	Financing	Interests Purchased	Management Team (Key)
A	7.7	Trailing 12 Months	Stock	70% Cash, Seller Note, + Earnout	100%	Stay In Place
B	8.0	Most Recent Year End	Stock	Cash	100%	Stay In Place
C	8.5	Prior Year Buyer Adj.	Stock	Cash	85%, Seller 15%	Stay In Place
D	7.2	Most Recent Year End	Asset	Cash	100%	Stay In Place
E	9.0	Most Recent Year End	Stock	Cash	100%	Stay or Leave
F	8.6	Proforma, Current Year	Stock	Cash	100%	Stay In Place
G	N/A	Seller Rejected Buyer Offer - No Counter				
H	N/A	Seller Rejected Buyer Offer - No Counter				

California Office: 131-A Stony Circle, Suite 500 • Santa Rosa, CA 95401 • (707) 523-9651
Arizona Office: 7373 E Doubletree Ranch Rd, Ste 200 • Scottsdale, AZ 85258 • (480) 666-5556

www.uptonco.com • Connect with us at info@uptonco.com

Real Estate transactions completed through Upton Advisors, LLC, an Arizona Real Estate Brokerage firm.

According to the recent Q3 2018 DealStats analysis, the median EBITDA multiple for transactions in this sector was 6.7X. As one can easily see from the chart above, there is a lot more to assessing value than just the EBITDA multiple - it really is about a combination of many factors in the transaction that all add up to maximize value.

A few observations from the results:

- The offers received show that value is clearly in the eyes (checkbook) of the buyer and that there is a wide gap in how different buyers see and value the same business.
- How Deal Structure, Financing and Management is viewed by a prospective buyer will all affect the value outcome to the seller.
- Clearly, one buyer is very likely no buyer.

Now for the rest of the story: Buyer F won out, even though on the surface their offer was 4/10ths of a multiple less than Buyer E. Why? Because Buyer F was willing to base their offer on current year proforma earnings, which showed strong growth over the prior year. Buyer E was willing to pay a higher multiple, but only on the prior year's earnings. Similar reasoning would apply to Buyer A who, at a 7.7 multiple on trailing 12 months earnings, beat out Buyer C at 8.5 times because Buyer C adjusted prior years' earnings downward to reflect their perceived risk. Bottomline, Buyer C was not a good fit buyer for this deal, especially considering the other offers received.

Rank by Total Consideration	Buyer	Type Buyer
1	F	Strategic - Platform
2	E	Strategic - Add on
3	A	Private Equity - Platform
4	B	Private Equity - Platform
5	D	Private Equity - Add on
6	C	Private Equity - Platform
7	G	PE backed Industry Executive
8	H	Strategic - Add on

When the time comes, the real question for you as a potential seller is: "Would you like to test the market and have multiple offers from which to choose and negotiate? Or are you OK working with the one unsolicited offer wondering what else could be out there for you?"

At Upton Financial Group we specialize in running a highly competitive and confidential process to maximize value for our clients. Our proposition is straight forward:

- **If we present your business in its best light**
- **To a select pool of highly qualified buyers**
- **The offers received will be amongst the highest value the market will pay for your business.**

Walt Lipski welcomes the opportunity to have an initial complimentary exploratory call or meeting to learn more about your transition goals and objectives. All discussions will remain strictly confidential.

Walt Lipski
Upton Financial Group
wlipski@uptonco.com
(480) 666-5556

www.waltlipski.com