

When A Seller Becomes A Buyer



Timing is a key consideration for M&A. No seller should be compelled to pursue a transaction unless she is truly ready. Selling a business requires ample preparation so that positioning is optimal and valuation can be maximized.

In some cases, a company would be better off keeping the business for a little while longer, growing revenue and improving margins prior to pursuing a sale.

- Generally, growth can be achieved by either organic growth or inorganic growth (i.e. acquisitions). Like the popular private equity playbook of roll-ups through strategic add-on acquisitions, a privately held company whose current valuation is not where

the owner wants it to be may want to consider making an acquisition before selling the business.

- Given time, integrating the acquisition while realizing revenue and cost synergies would be ideal. However, this is not always necessary as some may hesitate to pursue this strategy given the risk of integration. If an LOI is signed, an astute investment banker can pro forma the opportunity on a combined basis in a manner which clearly highlights the benefits of the acquisition. While 1+1 may not equal four since buyers may not give the seller the full benefit of all the proposed synergies, 1+1 will at least equal three if presented properly using reasonable assumptions. At the same time, with scale the multiple can expand.
- Let's say for example, a company with \$6 million in EBITDA is told the business is worth 7x or \$42 million, which does not meet the owner's objectives. Then that company locks in an acquisition of a \$3 million EBITDA business for 5.5x or \$16.5 million. Assuming reasonable synergies of \$1.5 million would lead to pro forma combined EBITDA of \$10.5 million. In most cases, that business can then be sold for about 8x. The resulting valuation would therefore be \$84 million as compared to the base valuation of \$58.5 million (\$42mm+\$16.5mm), representing an increase of 44%. Not bad.
- This assumes the two companies are sold together as one on a pro forma basis. To realize even more synergies, the acquisition would have to be integrated and seasoned for a bit. That would mean infusing some cash equity to get that deal closed but not that much since it should be able to be completed with mostly debt financing.

This strategy is especially relevant during uncertain times when there may be more motivated sellers open to opportunities. So the next time you're told, "now is the perfect time to sell", take a step back and consider the options. Maybe being a buyer first would make more sense