What's Your Company Worth?

The Pros and Cons of Each Class of Purchaser

D Y N A S T Y
Mergers & Acquisitions Consultants Inc.

Four Classes of Purchasers

- Management Buy-Out (MBO)
- Strategic Buyers (Competitors)
- Financial Buyers (Venture Capital)
- Entrepreneurial Buyers

Management Buy-Outs: Pros

- Comfortable - High level of mutual trust
- High “nostalgic” value to Vendor
- High knowledge of the business and industry
- Attractive to financiers (particularly Mezzanine Financing community)

Management Buy-Outs: Cons

- Management Group may not have $$$$
- Often must rely on Mezzanine Financing
  - Higher ratio (higher risk)
  - Higher interest rate (profits must be maintained)
  - High Vendor Financing component (subordinated behind bank)

Management Buy-Outs: Cons (Continued)

- High potential for confidentiality breach
- No operational synergies
  - May not be the highest price

Management Buy-Outs: Cons (Continued)

- Management is distracted
- If the deal falls apart:
  - Disappointment
  - Frustration
  - Resentment
  - Key Managers know confidential financial information

Strategic Buyers: Pros

- Often highest price paid
  - Particularly if there are operational synergies
- Often best terms
  - Particularly if the buyer is a large company and has access to capital markets

Strategic Buyers: Pros (Continued)

- Allows the Company to grow quickly to the next level
  - Good opportunity for existing staff
  - High future "intrinsic" value for the Vendor

Strategic Buyers: Cons

- Best Purchaser: Can be your worst enemy!
- Risk of confidentiality breach can be catastrophic
- May require longer Management Agreement

Strategic Buyers: Cons (Continued)

- Company must be decent size
  - Not attractive where revenues <$ 5 million
  - Most attractive where revenues > $20 million
- David versus Goliath
  - Typically large companies have their own M&A specialists and advisors which can be intimidating

Strategic Buyers: Cons (Continued)

- May require rationalization of some upper management and premises
  - Difficult for some vendors to have key staff terminated
  - Who terminates the staff?
  - Who pays for the severance and lease cancellation?

Financial Buyer: Pros

- Low risk of confidentiality breach
- Typically high staff retention
- Typically less Vendor Financing than an MBO
- Greater appetite for business and industry risk

Financial Buyer: Cons

- Industry must be "sexy"
  - Bread & butter manufacturing transactions need not apply!
- Typically long Management Agreements
- No operational synergies
  - May not be the highest price

Entrepreneurial Buyer: Pros

- Low risk of confidentiality breach
- Typically high staff retention
- Typically less Vendor Financing than an MBO
- Typically more “personal” than a Strategic Buyer

Entrepreneurial Buyer: Cons

- Difficult to locate
  - Typically requires an M&A Advisor
- Often limited to transactions <$5 million in value
  - Access to private capital severely restricted above that level

Entrepreneurial Buyer: Cons (Continued)

- Low knowledge of the business
  - Will require a degree of training
- Typically more Vendor Financing than a Strategic Buyer

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