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May 2017 - In This Issue:

**COMMON WAYS TO LEAVE YOUR BUSINESS**

**INDUSTRY KNOWLEDGE**

**DISCOVERING OUR COACHES**

**WHAT IS MY BUSINESS WORTH**

## DISCOVERING YOUR COACHES

I read an article recently about words, which pointed out there are words we use every day and think nothing of what those words might mean or how we have come to use them. The article urged readers to pick out a word, research it to discover its various meanings, and then see what it has to teach you about yourself. Well, I decided to do just that, and the word I chose to research was "coach." Here's what I discovered.

The word "coach" first appeared in the English language in the 1500s, and it was used to describe a carriage drawn by a horse that was used to convey a person from one place to another. Apparently this was the only way the word was used until the 1880s, when the word took on new meanings. In the last years of the nineteenth century the word coach started to be used in the athletic sense, but it still had a

## MIDDLE MARKET BUYERS

There are two types of middle market buyers - strategic buyers and financial buyers. Before explaining further, let's review the concept of middle market businesses.

First, it is important to realize that businesses owned by most readers of this newsletter, if successfully sold, will be acquired by individual buyers. Usually, individual buyers can be found for businesses with valuations up to \$3,000,000.

*Typically, middle market businesses are defined as those with a minimum valuation of about \$5,000,000 +*

Depending on specific circumstances, businesses valued over \$3,000,000 but less than \$5,000,000 might have some potential to be acquired by either an individual buyer or middle market buyers. To garner the attention of middle market buyers, a business usually needs to have earnings in the area of \$1,000,000 in EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization).

## Strategic Buyers

Strategic buyers are larger, privately owned or public companies that acquire a smaller business for strategic or synergistic reasons (or both). Examples of the larger company's strategic reasons could include: the desire to expand geographically; acquiring new product lines to sell to an existing customer base; or acquiring new customers who would be interested in the larger company's existing products. Synergistic reasons could include increasing revenues while also achieving operational efficiencies through cost cutting and consolidation of overhead expenses. Strategic buyers might also benefit by eliminating competition through an acquisition.

### **Strategic buyers may pay a premium for an acquisition**

Because the strategic buyer obtains synergistic benefits that other types of buyers do not experience, you may be able to sell the business at a bit of a premium. However, achieving that goal is a function of the amount of competition created to drive up the bidding process. That's why middle market businesses are usually sold utilizing a controlled auction process. In a multi-step process, merger and acquisition (M&A) intermediaries try to identify and target companies that might benefit from synergies with your business. The intermediaries initiate contact confidentially and attempt to garner interest from multiple buyers in a multi-step bid process. When it works as designed, you can choose the most suitable bidder for your needs.

similar meaning of moving a person from one place to another. In this case, the new use of the word meant to move a person from one level of ability to a new level of ability. Thus a coach moves an athlete from one skill level to another, from one level of play to another.

As I continued to research that word, it dawned on me that the word "coach" could be applied to so many different areas of life beyond athletics. In terms of our health, how many doctors and other health practitioners have coached us from illness to health? How many teachers have transported us from ignorance to knowledge and wisdom? Think of the many ways your parents or spouse, children and grandchildren have coached you to new experiences and new places. Our friends have a great ability to coach us as well. In the same way, Jesus is our coach who can lead us out of darkness into light, from despair to hope, from death to life.

When I had finished researching that simple word, I came away with some rather profound and unexpected insights. I discovered how incredibly blessed I have been throughout my life to have so many wonderful coaches who have helped to make me the person I am today.

Why not take some time today to do a little research of your own? Who have been your coaches throughout the years? How have you been carried to new places and new insights by the coaches God has put into your life?

## **WHAT IS MY BUSINESS WORTH**

## **Financial Buyers**

Financial buyers are primarily composed of private equity groups (PEGs) and private investment groups (PIGs). These groups have accumulated investment funds from wealthy individuals and institutional investors who are looking for high returns through investment in middle market businesses with significant growth potential. They prefer businesses with a consistent history of solid earnings, frequently want strong management teams and are risk averse to issues like customer concentration.

### **Financial buyers require a larger return on investment (ROI)**

Financial buyers are primarily driven by the desire for a large ROI. They may acquire 100% of the business or only acquire a majority interest, leaving you with a minority interest. Depending on the specifics of the situation, they may want you to continue to manage the company on a daily basis. To achieve their ROI goals, financial buyers have an exit strategy in mind from day one. Their exit time frame can be from 3 - 10 years, but is often in the 5 - 7 year time frame. They want to buy at a reasonable price and significantly increase the value of the business during their holding period. Although they will usually pay a fair price, without synergistic opportunities, they cannot afford to pay a premium like strategic buyers might offer.

## **M&A intermediaries will confidentially contact both strategic and financial buyers**

If you are a middle market business owner, when you decide to sell, M&A intermediaries will confidentially initiate contact with both strategic and financial buyers. If you are fortunate enough to garner interest from strategic buyers (never a guarantee), it helps to have financial buyers expressing interest as well to establish the floor for bidding/negotiations with strategic buyers.

## **PEGs with already-acquired portfolio companies**

Another type of cross-breed buyer is the PEG with an already-acquired portfolio company which might be similar to your business. The PEG might then be interested in your business for strategic reasons, as an add-on to their existing portfolio company. In this case the PEG may consider an add-on company with a valuation under \$3,000,000, less than usually considered for a middle market acquisition.

## **Roll-up consolidators**

Have you heard of roll-up consolidators? To some extent, consolidators are another type of strategic buyer. Consolidators look to acquire numerous small businesses in the same industry in a variety of geographic markets to consolidate, or "roll up," the acquired firms into one larger entity. The goals

it will cost you absolutely nothing and there is no obligation in giving us a call or an email to request a simple valuation of your business. Relying on a professional that understands your industry is important. It is also wise to work with someone who is aware of current trends; and that is working with both buyers and sellers daily. This approach insures you plan for and receive the maximum return on the transfer of your business.

are usually to gain economies of scale, centralize and reduce administrative overhead, enable an ability to handle larger customers, improve operations in the smaller acquired companies and develop national name recognition. In this type of acquisition, as opposed to receiving cash at closing, sellers are often provided stock ownership in the larger acquiring entity. Be careful! As a small business owner, it's best to collect as much cash at closing as possible. The history of roll-ups is strewn with significant drops in consolidators' stock values, resulting in very unhappy business sellers.

## Bargain-basement industry buyers

Another group of potentially unattractive middle market buyers are industry buyers who are only interested in bargain-basement deals. They are not looking to make an acquisition for strategic reasons. These are buyers who are bottom-feeders and will not pay a fair price. If you fail to adequately plan for the sale of your middle-market business or work with an inexperienced M&A intermediary, you might find yourself talking with one of these types of buyers. Unless they are your buyer of last resort, which is what they want to be, for confidentiality reasons it is best to avoid them.

### Next Issue

### Customers, Suppliers and Competitors as Buyer Prospects

### CONTACT US

### INDUSTRY KNOWLEDGE & ACCESS TO BUYERS NATIONWIDE

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We partner with our clients to deliver solutions that help solve their most complicated needs prior to, during, and at the conclusion of the selling process. Our services are designed specifically to help small/medium size businesses and at a small business price. We go beyond the norm to develop new insights, prepare, market and drive results in the sale, thus insuring you receive the most value at closing. [Learn More](#)



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