



***Strategic Acquisitions Of Low to Mid-Market Businesses
Is Now A Good Time To Buy & What Are Some Considerations?***

A CenterPoint Business Advisors White Paper

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October 9, 2009

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Favorable Buy-Side Opportunities

Generally speaking, recessionary business cycles represent times of: reduced valuations, ample labor supply, and lower operating costs—certainly all variables that can provide a favorable scenario to consider when acquiring an established small business or existing company.

For an **individual buyer**, this can represent an opportunity to fulfill lifestyle or entrepreneurial ambitions, or more basically, to replace a vanished or soon-to-be lost corporate job. For a **strategic or corporate acquirer**, business acquisitions meet longer-term objectives including strategic growth, favorable uses of capital, and investment objectives.

Displaced Executives and Middle Managers Look To Buy Businesses



An increasing number of executive buyers are looking for an established and profitable business to enable them to support their families and continue with their intended lifestyle. These

buyers typically represent displaced executives and middle managers in firms of all sizes throughout all industries. Recent company layoffs have increased the ranks of the unemployed, and there are also a significant number of people that still have jobs, but perceive a diminished level of job security, and feel vulnerable to future workforce reductions. People in both these groups are looking for a viable alternative to corporate employment.

Initial Considerations

What are some considerations for those looking, or soon-to-be looking, for a business? Anyone looking to buy a business needs to conduct a self-assessment of their family situation, professional background, financial condition, and future goals. Also, while only one spouse may actually manage and operate a business, the whole family will be affected by the demands and time commitment required, so both

spouses must be involved in the decision making stages of buying a business.

Conduct a Self-Appraisal

Business seekers must do a critical appraisal of their business experience, assessing their professional skill set and core competencies:

- Do they have the necessary financial background to understand financial statements and analyze cash flow?
- Can they manage employees, as well as interacting with customers?
- Do they have strategic vision to see where they would like to take the company, and determine what it will take to get there?
- Are they able to wear many functional hats and multi-task, realizing small companies do not have the support staff found at the corporate level?
- How risk averse are they—can they sleep at night with the inevitable pressures of owning one's own business?

Another key area of self-assessment involves looking at the family financial situation. How much money can they invest to buy a business, as well as to sustain it with working capital for a reasonable period of time? What level of cash flow do they need from the business in order to meet current and future family financial obligations? How good is their personal credit history and score—as this will be a key factor to determine their ability to borrow money from a commercial lender.

Some displaced executives try to start their own business from the ground up. While this can be done successfully, sometimes with fewer resources required, this is usually a higher risk proposition. Most small business seekers find that buying an established business has distinct advantages of existing: brand and business model; employees; customers; and cash flow. These attributes set apart buying an established business from a start-up.

Looking for a business is a time-consuming and arduous task, which is best done on a full-time basis. There are major small business sites on the Internet, including www.bizquest.com and www.bizbuysell.com that have businesses for sale, as well as informational resources for the first time business buyer.

Additionally, many prospective buyers seek the assistance and expertise of a business advisor or intermediary, who typically represents the business owner or seller, although there are those that can represent the buyer and work on their side of the deal.

The Quiet Market for Target Acquisitions

Keep in mind that most established businesses are not advertised or listed for sale anywhere, and represent what is known as the quiet or shadow market. Many business owners are too busy or choose not to put their companies on the market, even though they will ultimately exit their business, and may just be putting off the inevitable. Some business owners first consider the idea of selling only when they are presented with a qualified buyer and legitimate offer.

A business advisor representing a buyer can conduct a targeted business search, based upon their specific set of acquisition criteria. The advisor can “package” a business buyer’s qualifications and expertise, develop a realistic financing framework, and then proactively identify and contact business owners to gauge their interest in selling. They work with buyer clients through the purchase agreement process, advise them during the due diligence phase, and assist toward reaching the closing and business transfer.

As more displaced executives and middle managers seek to control their own destiny, buying a business has become a viable option and an objective to strongly consider. With converging market forces of business valuations trending down, plus many business owners reaching retirement age, business buyers are now finding opportunities in the small business sector too good to overlook.



Each of these entities have unique needs and objectives, however, many of them value the methods and process of identifying and engaging target companies in a confidential, cost effective, timely, and results-oriented manner. Strategic acquirers look to business advisors including intermediaries, investment bankers, and M&A facilitators to provide the confidential industry and market scanning radar to initiate a targeted search for the right company.

Astute business advisors combine both art and science to a process that begins with the establishment of target criteria, proceeds with scouting and engagement of identified targets, continues with valuation work, negotiating efforts, due diligence, and then can conclude with financing guidance and transitional assistance, all of which is a time and resource consuming process for a buyer.

Value & Benefits of an Advisory Team

Depending on the size and acquisition experience of a strategic acquirer, some or all of the above services are highly valuable. Above all, an acquirer requires a trusted advisory team that can take on and deliver in areas that they cannot or do not have current time or staff to conduct. For example, **acquirers almost always need a screen or an advanced team** to scout out potential targets, not only for confidentiality reasons, but to prevent smaller targets from being “scared away” from what might have been a successful and profitable deal. Advisors can “test the waters” by approaching targets and speaking with senior management or board of director members without revealing any information regarding the interested suitor.

Advisors can also gain valuable competitive intelligence regarding a target related to strategic, financial, operational, and organizational topics. This provides highly useful insight for the buying party to consider and assess, before any acquisition intentions need to be revealed.

An advanced advisory team usually **uncovered target companies that may not be known in advance** to an interested buyer, or often, one that is not even considered to be on the market for sale.

During the target search process, in concert with interacting with acquisitions advisors, strategic acquirers will gain multiple benefits including:

- Independent analysis
- Competitive intelligence
- Strategic insight
- Enhanced industry knowledge

This proves to be of mission critical importance when it comes time to make the crucial financial and strategic decisions that will very likely determine the course of long-term success, mediocrity, or failure in a company's future.

Strategic acquirers find that teaming with an acquisition advisor can yield:

- Time & resource efficiencies
- Cost savings
- Project management expertise
- Excellent ROI



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CenterPoint assists business owners with a customized service approach including comprehensive exit planning, business valuation, value building consulting and business intermediary services; additionally, CenterPoint provides strategic acquisition services for business buyers.

With offices in Franconia, NH and Lexington, MA CenterPoint services clients throughout the New England states and beyond.



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