



Finding the Right Buyer for Your Company

You've decided to sell your business and may now be wondering who might be your best buyer. As you may undoubtedly have to finance a portion of the sales price (i.e. take a "balance of sale" or an "earn-out") you will also want to consider your likelihood of collecting that amount.

This newsletter summarizes the different types of potential buyers, their basic characteristics and motivations and the related implications for you in terms of risk to a successful closing.

Strategic Buyers that normally operate in the same or related field as you and may be either looking to expand their market reach and/or product line or eliminate a competitor. Their initiative may be internal and/or due to pressure from their suppliers, clients or advisors. Strategic buyers typically know your sector as well as you and usually have the most to gain from an acquisition; one can assume they can afford to pay the most for your business. They probably have an established track record making it easier for you to evaluate the risk of closing a deal with them. Such buyers will typically be there for the long-term, however their intention may be to shut your business and consolidate it into their operations

Financial Buyers, such as private equity investors, are in the business of acquiring companies at the best price possible and improving their value and profitability in order to sell them at a greater price. Financial buyers have high-level business expertise and will typically maximize financial leverage and cut costs and possibly combine your business to another in order to generate sufficient profits to cover debt service. Financial buyers will look towards realizing a gain via a public offering or a sale of the business within a five to seven-year time horizon. In most cases, verifying a financial buyer's track record, investment strategy and management style is relatively easy.

Family Offices are relative newcomers as business acquirers. Contrary to private equity players who obtain their funding from groups of institutional and wealthy investors, family offices invest on behalf of high net worth private families. Family Offices may have some industry expertise, have a longer investment horizon, tend to be more conservative with leverage and do not typically take an active role in day-to-day management. Such buyers are looking for a constant revenue stream. Due to their private nature it may be slightly more difficult to verify history and management style.

Individuals either alone or in a group are also active acquirers of small to mid-sized companies. These may be individuals who have sold successful ventures, recently retired professionals or executives looking for a new challenge, or even young entrepreneurs. Most will have management abilities but will have little or no knowledge of your industry. Verifying backgrounds and capabilities may be challenging. Financing will also prove challenging and may require you having to finance a greater portion of the sales price than for the previously mentioned groups.

Prior to committing to a prospective buyer you should investigate the following:

- Who exactly is your buyer (background, reputation, etc.)?
- How many transactions has this buyer attempted in the past?
- How did past transactions turn out?
- Where is the money coming from?
- Can you have access to the buyer's financial statements?
- Who is going to spearhead the process?
- Is there a financial institution or partner involved in the decision process?
- Has the buyer begun to invest money in the process?
- Has he hired the right professionals such as Investment bankers, lawyers, accountants, tax advisors, etc.?

Answers to the above may prevent you from needlessly wasting time and money. Your investment banker will prove instrumental in finding the answers to these questions.

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Management / Employees are natural buyers for someone looking to exit their business. All too often overlooked as potential acquirers, your employees have a vested interest in the business and, as they already know your business intimately, the level of due diligence will be lower than most. Selling to employees poses two important challenges: Financing may be difficult for them to obtain (less so if the business has hard assets) and you may have to consider financing a larger portion of the sale price, at more generous terms, to get the deal done. The other challenge facing the owner will be wrestling with the emotional detachment required in the valuation and negotiation of the deal terms. How well you know and trust your employees to run the business without you will play into your overall risk assessment of closing a deal.

Family Members are often logical buyers in family-controlled businesses but such transactions can give rise to challenging family dynamic issues especially with regards to pricing, deal terms and favoring one sibling over another. As with employees, financial resources may prove challenging and require you to finance a larger portion of the transaction.

In our experience, both acquirer and vendor have to invest considerable time to get to know one another and establish a level of trust in order to share information and withstand the discomforts of due diligence and negotiations. Non-monetary issues have to be discussed early in the process.

In our opinion, deal structures must be kept simple, momentum must not be lost, cultural differences must be considered, flexibility is paramount, and house-cleaning issues should have been settled prior to beginning the sales process. Finally, a little humility goes a long way and leaving egos at the door is strongly advised.

Recent Transactions



BB High Performance Brake Pads Inc.
Establishment of a new powder metallurgy manufacturing facility.

The undersigned acted as financial advisor to the project.



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Huttoxia S.A.
(France)
and its subsidiary
Huttoxia Canada Inc.

have secured financing for their first Canadian Village, located in Sutton, Quebec

The undersigned acted as financial advisor to Huttoxia in the negotiating and financing of this Transaction.



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