Mergers & Aquisitions,
Financing, Business Advisory Services

What Have We Learned From our Past Transactions?

Since Cafa’s beginnings in the mid-80’s we handled hundreds of acquisitions and dispositions, sourced billions in financing, and advised upon countless restructurings and turnarounds. We've seen an incredible variety of deals and have met a fascinating variety of entrepreneurs, lenders, and investors.
We would like to share some of what we call our "Cafa Down-to-Earth Wisdom" on some selected topics:

Acquisitions
Acquisitions do not always yield anticipated returns; here are some elements to be considered:

- Embark on a transaction with specific goals in mind;
- Acquisitions meant to reduce costs and remove excess capacity or acquisitions cost below replacement cost are more likely to be accretive;
- Doing several successive smaller deals is sometimes better than betting everything on one large deal; most organizations get better with practice;
- Never pay more than what you can afford to lose;
- Fix yourself a "walk-away price" and stick with it;
- You will never do enough due diligence;
- Do not "fall in love" with the deal or the assets;
- Cash is king but earn-outs are a great way to bridge valuation gaps; however they rarely achieve their intended goals;
- Quickly identify the vendor's non-monetary issues;
- Stick at what you are good at; stay close to your core business;
- If your justification for the deal is based on changes you intend to bring, make sure everyone, including yourself, sticks to the plan and executes those changes quickly after the closing; and,
- Most importantly, plan carefully for the day after you become the owner.

What have we learned?
Simply put, do your homework prior to committing to a transaction, be conservative in projecting synergies, incentivize properly, have a clear understanding of how value will be created and plan for it accordingly, realize the importance of acting swiftly on implementing changes and buy good businesses.

Selling a Business
If you want to optimize your proceeds from a sale, you should consider the following:

- Timing is everything; if the financial environment is not optimal there is no point in trying to shop a transaction;
- Buyers are interested in, and will pay for, upside; ironically, that means the best time to sell a business is probably when you least want to sell it;
- Make sure your price expectations are realistic;
- Be realistic with projections you provide; the sales process can take several months and failure to meet projections during this period will lower the value or worse, drive away the purchaser;
- Sell your business for cash; only take as much in balance of sale or of the purchaser's shares, as you are willing to lose.

Financing

Credit and financing availability comes and goes:

- When funding is cheap and plentiful, take it; market conditions change continuously,
- No matter how desperate the situation, there is always someone out there willing to lend or invest; it's only a question of cost,
- You have to be determined and persistent in order to find the best deal possible,
- Credit applications are like resumes, you have 60 seconds and half a page of text to make that critical first impression; and,
- Keep a constant dialogue with your lenders even if you have bad results.

What have we learned?

Invest in the preparation of a professional and objective presentation document that accurately explains your business and reflects your vision and "soul". Too many deals are lost because the lender didn't properly understand what you do and how you make money doing it.

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What Have We Learned From our Past Transactions? (cont'd)

Selling a Business (cont'd)

- The less your business appears to rely on one customer, one supplier, one employee (you?), the greater its value; it's all about perceived risk;
- Keep the momentum going in the negotiation;
- Prequalify potential purchasers; make sure they have the means to complete the transaction; look at their track record with previous transactions; and
- Keep it simple; most transactions fit on one page.

What have we learned?
Invest in a good sales document and put your house in order before embarking on a sales process.

Financial Partners
Getting money from a financial partner comes with constraints:

- The task of managing and building the company will always fall back to the operating partner;
- Having a financial partner on board will change the way you have to manage your company;
- Their best exit is an IPO or a sale;
- Their worst exit is a buyback; and,
- In any partnership, the relationship must come to an end sooner or later; be prepared.

What have we learned?
Have your plan ready and make sure you share the same objectives as your partner. Be selective when you choose a partner as to the outcome; investigate your future.

Restructurings
When an industry is in trouble chances are everyone is going to be affected:

- The first one to tackle the problems upfront will usually make the best deal for all stakeholders and come out a winner;
- Followers seldom do as well.

What have we learned?
Don't wait for the bankers to call; tackle the problem upfront and be proactive.

Conclusion

Over the years, a common element to almost all of the transactions we've witnessed has been the impact of the human factor on a transaction, especially its effect on the efficiency of communication between buyer and seller, borrower and lender. Many times we feel the most valuable role we can play is that of "emotional buffer" between the parties, filtering the distractions and keeping everyone focused on the deal.

Regardless of what your project is, Cafa is there to support you.

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