

Selling Your Business at Fair Market Value

The Importance of Strategic Acquirers

With 1,100 Canadians turning 60 every day, many owners of medium sized businesses are now looking to sell for retirement purposes. In today's economy, the words '**Cash is King**' are more relevant than ever before. Having facilitated more than 50 divestitures since the mid 90's, we have found that attracting strategic acquirers has repeatedly proven an important factor in securing fair market value for business owners.

The importance of appealing to strategic acquirers was reinforced, once again, with our company's sale of the SISU brand of vitamin/supplement products to NBTY Inc. New York. As publicly announced, the SISU brand was sold for aggregate consideration of \$10 million. Over the last twenty-five years, significant equity had been established with the SISU brand in the Canadian marketplace. Over the course of the divestiture process we received substantial interest and offers from 'financial' buyers (parties with no presence within the OTC healthcare industry). It was no coincidence, however that the top three offers were all from large established strategic players in the industry. These buyers were all well positioned to leverage the SISU brand assets, hence their internal valuation numbers were higher than others, reconfirming that valuations vary according to the infrastructure of prospective acquirers.

While post purchase synergies will vary according to the prospective buyer (sales/distribution capabilities, underutilized manufacturing capabilities etc.) these synergies serve to increase buyer interest and enterprise value from the buyer's perspective. Owners should recognize that most valuations are done on the basis of stand alone financials and, as such, do not reflect these synergies thereby potentially reducing the value of their enterprise.

Even with confidentiality agreements in place, many owners are justifiably concerned about approaching direct or indirect competitors. These risks can never be totally eliminated but they can be reduced through careful screening and staged management of the flow of information. Maintaining reasonable transaction pace also helps facilitate and orderly change of ownership with minimal disruption to the operation. Sellers should remember that qualified buyers share their interest in maintaining strong performance on the business they plan to acquire.

The fundamental health of the business and a properly managed divestiture process both help secure bids at fair market value. I cannot overemphasize however the importance of establishing a solid synergistic fit with a strategic acquirer. If owners can come to terms with approaching buyers within their industry, their upside can be in the millions.

by Carson O'Neill

Carson O'Neill is the Founder/Principal of Rincroft Consultants Inc. divestiture advisors for medium sized businesses. Prior to founding Rincroft, Carson spent 20 years in management, including 5 years as Vice President Marketing & Sales and member of the Management Board for Johnson & Johnson, Canada and 3 years as CEO of Koala Beverages, a publicly held consumer products company.



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