

## **In a Distressed M & A Environment, Stick to the ABC\$**

By Dan Maloney CPA CFP CM&AA

**The Great Recession Hits All Companies.** The credit crisis continues to reverberate through the merger & acquisition (M&A) market, despite the government's attempts to calm the storm. From both buyers' and bankers' viewpoints, caution reigns supreme and deals get approved coincident with expectations for future economic conditions. The scarcity of credit is contributing substantially to a decrease in purchase price multiples. In addition, transaction terms and structures are seeing a wave of interesting creativity. That's good news for bankruptcy attorneys, since the rising credit default rates have continued to drive the increase in distressed M&A and bankruptcies. For sellers, that's bad news! All companies are now under a bigger microscope. Sellers can no longer rest on past achievements. No more looking in the rearview mirror.

What's a seller to do? First, start looking through the windshield. Go back to the ABC's of business planning. Dress up the business and make it look good. Even so, with all the inventory of available businesses building up, expect to be treated like the ugly duckling as buyers search for the elegant swan. (Maybe the best option for now is to just "Duck" as the traditional warning suggests.) That leads to what should now be the seller's strategy, i.e., be recognized as the soon-to-be swan.

**Expectations should be reset.** The expectation that the business will be sold "for a bundle" so the seller can live happily ever after may truly be a fairy tale for the near future. Even if the business commands a strong price, the chances of the deal happening quickly may be much lower than previously thought. Buyers are more demanding, banks are more diligent in underwriting, and the combination of the two is resulting in delays, false starts and failed transactions.

Seller and Buyer expectations cross a large chasm. A new expectation to ponder is that opportunistic buyers will focus on strategic acquisitions at depressed values and opportunities to increase market share and acquire "crown jewels." While buyers seek to "bottom feed" and mine the treasures, sellers with debt maturing are seeking alternatives to distressed sales, such as refinancing and recapitalization. Until the pendulum swings back to the pre-recession economy, the seller's expectation of retiring to a beach house and yacht may be temporarily transformed into renting a cottage with a fishing pier.

**Wall Street now intersects Main Street.** In the global economy that didn't exist when baby boomer entrepreneurs launched their companies, finding a profitable niche that can be exploited over the long term is much more difficult. Because niches have shrunk, buyers have increased their due diligence efforts. The investigation that used to

be expected with large company deals is becoming common place on main street businesses. The questions being asked in due diligence are similar. It's just that the investigation may not be as extensive when acquiring lower middle market and main street companies.

**It Takes More Time to Sell Your Company.** Start three to five years early. Get organized. Clean up the financial records. Make sure tax returns will withstand a vigorous audit. Prepare projections that demonstrate that the future can replicate or improve upon the best years of the past. The past only counts if it can be relied on as a predictor of the future. Review your organization chart and succession plan and address any future holes in key management positions that may cause concern. If you don't have a succession plan, begin preparing one. Develop "dashboards" so the business can be easily monitored and the prolonged bumps in the road may be avoided. Create benchmarks so the business can easily be compared to the competition and industry norms. Consider adding regular valuations to the benchmarking process. Develop more niches; become a niche-aholic. Get back to the basics and make the business easy to understand. Make it easy for the potential suitor to decide to dig deeper and advance to the letter of intent and due diligence stage. This is basic business school stuff, but understand that addressing the fundamentals is even more important today.

**Don't Swim at Night.** If needing to sell and the deal can't be postponed, sellers should expect to swim with the sharks and expect them to be in a feeding frenzy. The key question for 2010 is when the trends that defined the Great Recession will be offset by increased availability of credit and the recovery of the financial markets and economy in general. While the outlook for increased M&A activity remains uncertain, it appears that distressed M&A is here to stay. For successful healthy companies, sticking to the ABC\$ will help you pocket more \$dollars.

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