

## Beware of Knights on White Horses

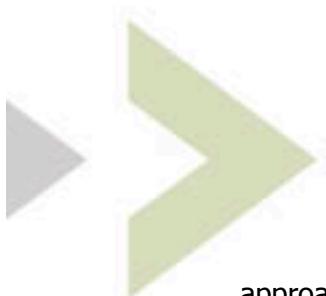
The last several years have been very good to business sellers. Private Equity Groups raised record amounts of capital, Strategic Buyers amassed cash on their balance sheets, credit markets loosened, and interest rates held at historic lows. Buyers had a tremendous amount of capital at their disposal for acquisitions. Combined with the longest bull market in history, record low unemployment and strong consumer confidence, this created a highly competitive environment among buyers looking to acquire strong performing companies. This competition led to record setting valuation multiples for business sellers along with significant frustration for many buyers struggling to compete on price and terms.

All of this changed in March 2020. The global COVID-19 pandemic led to the end of the 11-year bull market on Wall Street, a global economic shutdown, and unprecedented levels of uncertainty. Much of the M&A market has hit the “pause” button during this crisis, waiting until there is visibility over what our new normal looks like. However, out of crisis can come opportunity, depending on who you are. At times of sudden uncertainty, buyers will tend to fall into one of 3 camps:

- Those who put their pencils down on all M&A activity and focus their resources on protecting what they have
- Those who will slow and proceed with caution on M&A activity but who won’t make any commitments until conditions stabilize
- Those who are pressing forward and actively seeking acquisitions during this time

That last group tends to see times like this as a time of opportunity. A sudden shift in the markets as we are experiencing now creates significant uncertainty and, since most other buyers are pulling out of the market, the level of competition that active buyers will face will be significantly reduced. There will be many companies that, although operationally healthy, are not capitalized well enough to weather the sudden economic downturn. Business owners’ feelings of fear and uncertainty may very well lead to rash decision making.

We anticipate that during this time of crisis, many buyers will be actively approaching business owners. While a buyer who comes knocking on the door may seem like a godsend, it’s important that the owner recognize this outreach for what it is, a buyer looking for a good deal. There is nothing inherently wrong with this but it’s critical to



approach these situations with as much information and leverage as possible in order to maximize a lifetime of hard work.

This is why SEA introduced our Outsourced M&A process five years ago. All too often, we learned of business owners that had been approached by a "prospective buyer", only to be left at the altar time and time again. When an opportunity seems too good to be true, it almost always is. Consider the following example. Believe it or not, it's a true story:

A competitor contacts a business owner saying that he is interested in buying the business. Both parties agree on a price, with the stipulation that the buyer works in the business to get to know it better before closing. The Seller agrees since the deal seems attractive on the surface and the Buyer is an industry insider. The Buyer works the business for a period time as a consultant to "get to know the business".

Subsequently, the Buyer approaches the owner about a reduced price while alienating the work force. The Owner does not agree to the reduced price, Buyer walks away, sues for the 'consulting' time, agitates the workforce, and puts the 'word on the street' that the business is faltering. The owner is left to pick up the pieces and try to rebuild the business.

SEA can help business owners understand their alternatives, evaluate any unsolicited offers they receive, develop and orchestrate the delivery of any confidential materials to potential suitors, and potentially bring additional buyers into a rapid, competitive process designed to give the business owner options and perspective. Most importantly, we bring a process which helps the Seller to retain control and leverage during the negotiations. "The one who controls the process has the leverage."

If you have received an unsolicited offer or been approached by an interested buyer, please connect with an SEA Managing Director to understand how to evaluate your options and see if we might be able to help. We know what you've been through to build your Company, our job is to make sure you get paid for it.

