

Reprint

Does the Sale Process Require a “Book”?

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By Loren Smith

Many prospective sellers have asked me if they need to spend the time and money to put together an information memorandum--a book--to sell their company. This is a core question because creating a book is, of course, optional, and it does entail some expense and a chunk of time.

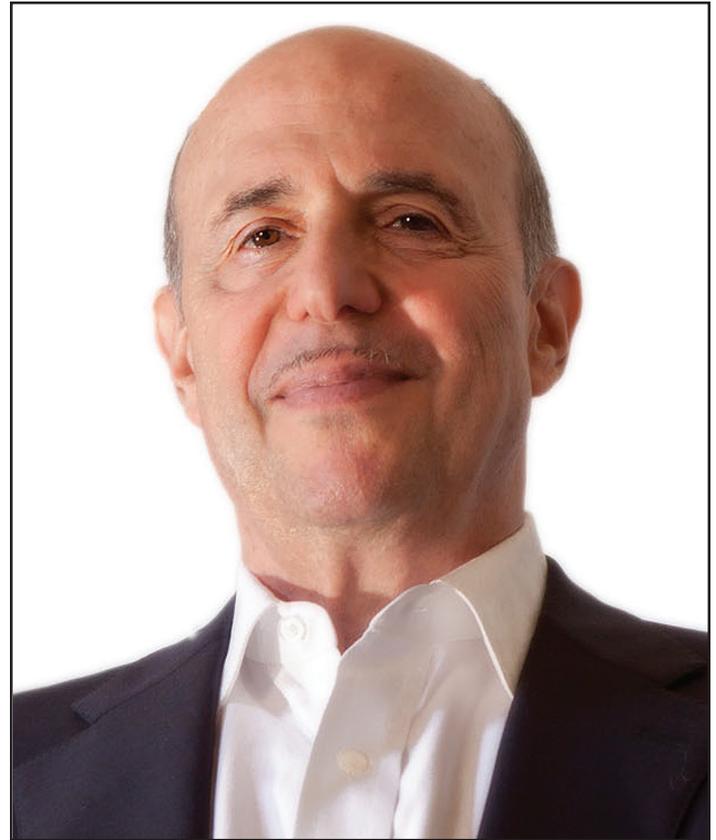
If you are guessing that I recommend making the investment, you are correct, and here's a case study to illustrate why.

We were retained to sell a \$30M wire harness business after the owner received an unsolicited offer to buy her company. When we told the owner we thought we could substantially improve on the deal she had received, she bought time by telling the buyer she'd consider his offer after giving us 60 days to see what we could bring to the table.

We then needed a full month to produce a comprehensive, persuasive book because the seller and her staff needed most of that time to compile all the information we had requested. That gave us only about three weeks to share the completed information with the prospective buyers we had lined up, which, in turn left us only one week to either bring an attractive letter of intent (LOI) to the table or lose the sale to the original buyer.

After gauging the level of interest and other attributes of the potential buyers who had entered the picture, we selected our best candidate. But by now that buyer had an extremely tight window to submit an LOI. He responded that was he was prepared to do that, but he first wanted to see the plant and meet with management. Down to the wire now, we were unable to schedule a visit within the limited time frame and forced to give the buyer the choice of providing an LOI without a visit or walking away.

Faced with a tough choice, our buyer decided to give the seller an LOI--one that was considerably better than the one she had in hand. Fortunately, the contents of our information memorandum and the many discussions he had engaged in with me had saved the day.



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So just what did the buyer find in the book that enabled him to make such a critical decision without seeing the plant or meeting the owner? Certainly the financial background and forecast, customer listings and plant photos were helpful, but those items alone probably would not persuade a prospective buyer to take the plunge on submitting an LOI.

The clincher was likely the picture we painted of what a new owner might do with this business. Potential buyers want to know how they can grow a business, so we drilled into each market the company serves and provided detail on how the new owner might leverage the company's current footholds to expand its share in those markets.

One more point: Even an exceptionally promising book needs to transmit something beyond favorable data. Credibility. I am very grateful that the extensive relationships I've formed in my years in the wire harness industry provide me with the credibility to validate the book's content.

Most harness businesses have far more value than one can glean from several pages of data. We have found that the time and effort required to put together a "book" reaps significant dividends.

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