Reprint

"Definition of a 'Good' Buyer"

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Serving the Electric Wire and Cable Processor
WIRING HARNESS NEWS®
Voice of the industry
P.O. Box 527 • RICHMOND, ILLINOIS 60071

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By Loren Smith

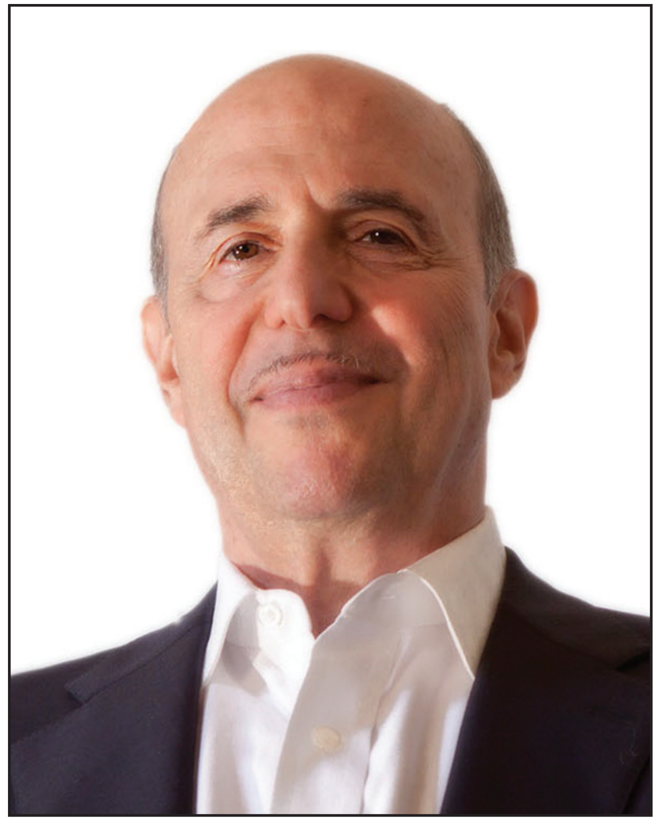
When I am asked if there is such a thing as a "good" buyer, my answer is "Absolutely." But rather than try to describe the characteristics of a good buyer, let's look at a few examples.

The first comes from my sale of my own company. After our first meeting with a private equity (PI) firm that had expressed interest, it was clear that the PI CEO fully appreciated the value of our customer relationships. Even though two customers accounted for over 80% of our revenue, the CEO's interest was not dampened--while other prospective buyers, seeing the level of customer concentration as too risky, either ran the other way or wanted a deeply discounted sale price.

In the end, the PI firm acquired us at a full multiple based on the CEO's perception that our customer concentration was not a negative. Instead, he understood that many years of performance had demonstrated the solidity of those two key relationships. In the years following, his judgment was rewarded, and our company provided his firm an exceptional return on its investment.

A second illustration grows out of a deal I was handling as a consultant in which an all-but-sold company experienced a sharp drop in revenue just before closing. For most buyers, the turn of events would have killed the deal--particularly given the cause: sudden softness with the company's major customer. My buyer, however, had the wisdom and temperament to maintain his focus on the company's top and bottom line. Confident in the company's fundamental strengths, he never wavered from his original letter of intent.

My third example of a good buyer involves another circumstance that would have derailed most sales. We were nearing completion of due diligence when the founder of a Midwest harness company announced to my buyer that he was moving to Florida and intended to work no more than three days a week. I assumed this would surely quash the deal, but my buyer believed the owner of this business had the management skills and systems in place to effectively run his company at a distance and part-time to boot. The deal closed, and performance in the several years since has been phenomenal.



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What did the three buyers have in common? They all recognized the underlying value in these companies and had the savvy and calm to put into perspective factors that would have been deal killers for most other buyers. These buyers were good!

Identifying "good" buyers on the front end of the sale process is central to what I do for my clients, but it's just as critical to identify a "bad" buyer. My next column will provide a "bad" buyer case study.

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