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# **Merger and Acquisition Services for the Wire Harness Industry**

As featured in the  
July/August 2012 issue



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*Wiring Harness News*



*Following is an interview Wiring Harness News recently had with Loren M. Smith, CEO of Blue Valley Capital about merger and acquisition services for the wire harness industry.*

**WHN:** When an entrepreneur is thinking about selling his or her business, what questions are you most frequently asked?

**Smith:** Why should I pay you, or anyone else, to sell my business for me?

The answer is the price you'll get, pure and simple. A good broker will generate in a price materially above what you could achieve on your own. The difference between the price a good broker brings to the table, and what you could do on your own, will far exceed his fee

**WHN:** What if an owner is approached by someone who looks to be a good buyer, offering a really good price?

**Smith:** This is the very worst way to sell a business. In the absence of a competitive process, you have no way of knowing if the price and terms are best for you. While the party contacting you might be well intentioned, and in fact a good fit for your business, the price he offers could be a fraction of your value.

**WHN:** How is price determined?

**Smith:** Price is a multiple of EBITDA; (Earnings Before Interest, Taxes, Depreciation, and Amortization). Some factors that effect this multiple are; size (your revenue), customer concentration (percent of business with very few customers), your market (industry served), strength of customer relationships, and, your management team. Size: gen-



**Loren M. Smith, CEO  
Blue Valley Capital**

erally a \$10M company will demand a higher multiple than a \$2M company. Customer Concentration: this could be a negative, but not necessarily, it depends on who your customers are and the nature of your relationship with your customers. Market: Some markets have greater growth potential and stronger margins than others. Strength of customer relationships: To what degree do your customers depend on you for design input, for short lead "drop ins", for quick turn revisions changes, what share of their business do you have, how long have you been their vendor, how hard would it be for them to re source? Management team: A team that provides a buyer with confidence that past performance will continue, and one which the buyer believes has the potential of taking the business to the next level, will always have a positive effect on multiple.

**WHN:** What information do prospective buyers need to see?

**Smith:** You only get one chance for a first impression; a sales document is your first impression. Unless a professional is able to create a document that accurately paints a por-

trait of your business, you will spend a lot of painful time explaining to a prospective buyers why it is your business should command the price you are asking. The broker that paints this picture should have some knowledge of the wire harness industry so that he gets it right, without your having to take the time to educate him. Explaining customer relationships and interactions over the history of the business is key. Most entrepreneurs are so busy fostering these customer bonds that they sometimes underestimate the importance of what they have built outside the numbers and the bricks and mortar of the business. Typically buyers want to see a 3 or 5-year financial history, as well as a forecast for the next few years. A good broker will be able to put your company's financials in a matrix that enables the reader to quickly understand the numbers, without much need for clarification.

**WHN:** Is it possible for an owner to stay involved after he sells his company?

**Smith:** Absolutely. A transaction that keeps you and your team in place, after the sale is always possible. A good broker can find you a buyer to provide you with liquidity, who will finance your growth, and who will not play a day to day role in your company, if that is your preference. The right broker for you should have relationships with wire harness companies, contract manufacturers, private equity firms, venture capital firms, and angel investors whose investment decisions are based solely on backing management teams with solid track records, and compelling business plans. (This is by far our most common transaction; I sold my own business that way)

**WHN:** Will the sale process interfere with management's ability to run their business?

**Smith:** Any good broker should be willing to explain their process in such a way that you are satisfied it will not interfere with management's ability to operate normally. They should be able to gather the required information and make initial contact with buyers with a minimal time commitment from you and your team.

**WHN:** Can you tell an owner up front who the likely buyers for his business might be?

**Smith:** Unfortunately it is not possible to predict who the most likely buyer might be, because it's not possible to know the challenges and/or opportunities prospective buyers might have on their plate. A good brokers' process should start with the widest range of possible buyers, including; wire harness manufacturers, contract manufacturers, angel investors, private equity, and venture capital firms. Initial contact should be anonymous, i.e. your name and location need not be revealed until a prospective buyer is qualified by the broker, and approved by you. An experienced broker will almost always have a potential buyer for you as a "fit", but it is my practice to always leave my preconceptions at the door, since more than any other single factor, a buyer's appetite for a deal your size at that point in time is what will drive a successful sale.

**WHN:** How long does it take to sell a business?

**Smith:** The time to sell a business ranges from 3 to 12 months, with an average of 4 to 6 months.

**WHN:** How does Blue Valley Capital differentiate itself from its competitors?

**Smith:** As CEO of Blue Valley, I make certain we have a "no surprises" policy on every deal. Consequently, Blue Valley's highly successful track record is truly unique among business brokers. We are scrupulously detail-oriented in assessing a business, and focus on a limited number of deals at any one time to ensure a steady path to closing. I am extremely proud of the fact that the great majority of Blue Valley's transactions today are referred from previous parties in previous transactions. Having been both a seller and buyer of numerous wire harness companies, and, having owned, operated, and sold a successful wire harness company, I think I understand the process pretty well, and, I think I understand the thought process of buyers, sellers, and owners; I very rarely get surprised.

If you have further questions for Loren please email: [lms@blvcapital.com](mailto:lms@blvcapital.com) or visit [www.bluevalleycapital.com](http://www.bluevalleycapital.com)