Wire Harness Business & Strategy

Why Pay An M&A Fee?

by:
Loren M. Smith, CEO
Blue Valley Capital LLC
211 South Ninth
Marysville, KS 66508, USA
lms@blvcapital.com
www.bluevalleycapital.com
www.linkedin.com/in/lorensmith

Why should I pay you a fee to sell my company? This question is commonly asked by owners of wire harness companies who are weighing retaining an M&A firm like mine to help them sell their company versus navigating the process on their own. If you are guessing my response—that the M&A firm's fee will customarily be far exceeded by the increase in sale price—you'd be correct. But can you also explain why that is so often the case? A couple of examples of recent transactions should illustrate the wisdom of engaging expert help in the sale of your wire harness company.

Exhibit A: A large West Coast wire harness company owned by its founder

As often occurs, this successful company had been approached many times over the years by prospective buyers. Then, when the founder finally started contemplating retirement, he almost accepted one of those unsolicited offers to buy his company, but turned to us at the last minute for a second opinion.

We told him that, while he was considering a seemingly excellent offer from a solid buyer, it was highly unlikely the offer fully reflected the value of his company. Unsolicited offers from random buyers rarely reflect a company's true worth because that worth can consist of far more factors than a mere evaluation of the numbers would indicate. Without the knowledgeable, intensive effort required to identify a company's positive attributes and potential, it's not possible to develop a full picture of a company. Moreover, the absence of a competitive process always results in a discount to a company's true value. Armed with this recognition, the owner gave us a tight window to see if we could bring more to the table. After putting together a comprehensive document highlighting the company's many strong points and high potential, we contacted a number of industry people we knew along with a breadth of companies that might have an interest in acquiring this type of harness company.

In the end, we were able to provide the owner with a letter of intent 25% above (US$9 million more) than the offer the owner had been close to accepting for his company. In addition, we then guided a vigorous and challenging due diligence process culminating in the closing. After the dust settled, our fee wound up representing less than 10% of the difference between what the owner had been close to accepting and the deal we were able to develop for him.

Exhibit B: Three times the cash at closing

Perhaps because this owner felt rushed into selling his company once he had rather suddenly decided to retire for health reasons, he was close to accepting an offer from a buyer he had known for many years. The offer consisted of two parts: 25% of the sale price as a cash payment and 75% to be paid over time as a percent of the company's revenue. Fortunately, however, the owner consulted with us before agreeing to what appeared to be a reasonable offer.

Primarily because of our contacts, we were able to bring an all-cash buyer to the table providing the owner with three times more cash at closing, removing the uncertainty implicit in the offer he had almost accepted.

Why bigger isn't always better

One final point about maximizing the value of M&A firms: On occasion, it pays to compare the extensive resources of a large M&A firm with the personal attention, nimbleness and industry knowledge of a firm like ours. We often see this advantage when a seller has already written a check for a valuation by a large firm, but then gets curious about the kind of appraisal we might produce. Fairly routinely, we can substantiate a higher valuation than the large firm has determined in its 50-page document.

Recently, for example, we were able to bring a deal to the table that was almost twice as high as the deal a company had received from a much larger, higher profile firm. And the fee—again—amounted to less than 10 percent of the additional dollars the seller was able to secure with our input.

All of this is not to say that our firm is superior to every other firm. What I am saying is that it behooves sellers to consult with an M&A firm like ours before making a deal on their own, or going with a much larger firm. **WHCC**

Author & Company Profile...Loren M Smith is CEO and sole shareholder of **Blue Valley Capital LLC**, a position he has held since 2001. From 1976 to 2001, he was CEO and majority shareholder of **MWC**, a manufacturer of electrical wire harness assemblies. During that period, by acquiring and integrating a number of mid-market wire harness manufacturers, MWC became the world's leading supplier of electrical wire harness assemblies serving the construction equipment industry. Loren eventually sold MWC to a private equity group.
As CEO of MWC and Blue Valley Capital, Loren has spearheaded the sale and purchase of dozens of mid-market (US$2M-US$200M) manufacturing companies.
Early in his career, he was with **Texas Instruments (TI)**, rising to general manager of TI's connector division. Smith earned a BS degree from **Miami University** in Oxford, OH, USA, and an MBA from **Northeastern University** in Boston, MA, USA. **www.bluevalleycapital.com**