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The Tables Have Turned - It's Officially a Seller's Market
by Richard E. Jackim

Private equity firms have raised so much capital over the last 12 months that they are vigorously competing with one another for opportunities to put their money to work. Business owners, who previously would have had to go hat-in-hand to investors, instead find themselves inundated with unsolicited offers for their companies. Companies with solid balance sheets, good management and strong growth prospects are able to tailor deals to their liking, and get solid valuations.

According to *Private Equity Analyst*, a newsletter that covers the private equity and venture capital industry, private equity groups raised $53.9 billion in 2004, more than double the $26.4 billion raised in 2003.

"All this money out there means business owners might be able to get a better value for their company or sell less of it or both" says Patrick Haden, a partner with Riordan, Lewis & Haden, a private equity firm in Los Angeles. "And it allows owners to choose the firm they want to work with, the firm that can help them the most".

Before the wave of private equity fund raising, strategic buyers would often be in a position to pay up to 25% more than private equity buyers because of the synergies and economies of scale that they brought to the table. But now, flush with cash, private equity groups are largely matching the offers of strategic buyers and sometimes exceeding them.

Because of the amount of capital chasing middle market companies, private equity groups are finding it increasingly difficult to pinpoint good deals. According to Troy Noard, a managing director at Frontenac, a private equity firm in Chicago, "during the last six months, private equity firms have gotten very proactive about contacting business owners directly rather than waiting for investment bankers to bring them deals."

From the owner's perspective this is both good and bad. It's good because owners are now beginning to realize they have options. It's bad because private equity groups are trying to by-pass the controlled auction process that investment bankers run so that they don't have to compete against other buyers in order to win the deal. This doesn't allow the business owner to maximize the value of this company through an auction and, because the owner is only talking with one buyer, it shifts the negotiating power to the private equity.

Having multiple suitors to choose from also allows business owners to negotiate from a position of strength, greatly influencing the price, terms, and structure of the final deal. If a prospective buyer isn't able to meet the owner's key terms, the owner can walk away confidently knowing that he or she will be able to find a viable alternative.

For business owners this "Seller's Market" means that they can take their time to investigate which private equity firm would be the best fit for them and their company. Many private equity groups actually want the former owner to stay involved in the company and retain a meaningful stake so that he is invested in the company's future performance. As long as the business is on the right track, they will often ask the business owner to stay on, if not as the CEO, then in whatever role the owner prefers, such as sales, operations, or as a consultant.

If you own a company with revenues of between $5 million and $150 million, this is a unique time to consider your options. Valuations are at a four year high, capital gains rates are at a 40 year low, and institutional buyers are aggressively looking to make acquisitions. That makes this a unique time to consider selling your business.

If you would like to learn more about how The Christman Group can help you successfully exit your business, please contact Richard Jackim at 847-303-6554 or The Christman Group office in your area.

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