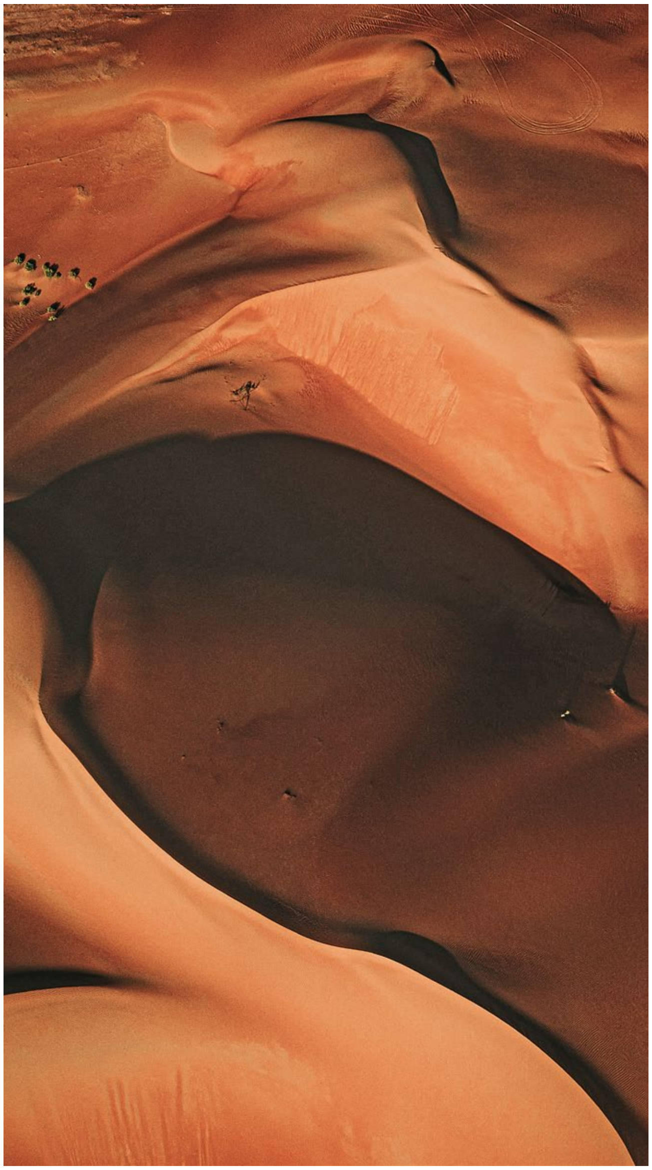
WHY YOU NEED AN M&A SPECIALIST NOT AN INDUSTRY SPECIALIST

MY BEST BUYER IS WITHIN MY INDUSTRY.

If the only people buying are those in the industry, then the only people who should be selling are those who are desperate. Without any competition from financial buyers, and other companies trying to enter the industry or vertically integrate, competitors lack the incentive to pay the record-high multiples that are all over the press. Absent outside influences, companies in any industry will trade in the traditional ranges of 3 to 5 or 4 to 6, depending on the industry.

There are very few industries over the last five years that have not benefitted from pressure applied by outside buyers. But where that has not been the case, the current market conditions have allowed Benchmark to create synthetic pressure. How do we do this?

- First, we know enough financial buyers with broad enough mandates—and the willingness that allows them to jump from one industry to another when they see an opportunity.
- Second, we have enough resources—and the willingness to use them—to explain the opportunity to buyers in adjacent or synergistic industries.



Buyers operating in "hot" markets have the option to pay six to nine times or follow our lead and exploit the "cool" market, which to date has been populated only by acquirers from within the industry. Bringing in two to three solid, interested outside buyers is often enough to create the competitive tension necessary to raise the multiple by 40 to 50 percent above historic norms in a "cool" market. While we cannot guarantee getting those two to three solid interested outside buyers, we can attest that we usually do. And if we do not, the client is in no worse a position than they would have been with the industry broker who would have taken them to the same industry buyers that we do.

I NEED AN INDUSTRY SPECIALIST.

This is actually a dated concept. The Internet has broken the one hold that industry brokers had on their markets: the ability to find and establish contact with trade buyers. Companies like Benchmark spend as much as six-figures per year to access well maintained and detailed online databases such as Capital IQ, Pitchbook, Hoovers, and Merlin Scott. These not only provide the names, points of contact, and approximate size of almost every large company and financial buyer in the world, but many also provide each potential buyer's acquisition history and criteria.

As with so many things, the Internet has broken down personal-relationship-based deal making. Sell-side brokers are not the only users of these online databases. Quality buyers use them as well. Just as sellers want access to multiple buyers, buyers want broad access to target companies. They no longer sit back and rely on the two or three sell-side specialists in their industry to come to them with opportunities. They are proactive. They seek choice.

Today, any sophisticated M&A firm with a proven track record can get their clients in front of all the same decision makers as the old industry specialist. Where the industry specialist is likely to rely exclusively on its Rolodex, a sophisticated firm is going to use its contacts and its access to pricey online databases to extend the reach of the seller's marketing efforts.

We see time and again that buyers from outside the industry pay higher multiples than do the "usual suspects." The first time buyers in the industry come in is for one of two reasons:

- They are in an overheated market and are looking for more reasonable pricing (which to the seller in a cool market will amount to a premium).
- They have a unique itch that needs to be scratched.

ANYONE LACKING EXPERTISE IN MY INDUSTRY CAN'T POSSIBLY GET THE BEST PRICE FOR MY BUSINESS.

When you visit a doctor to have your knee examined, did you select him because he was a marathon runner or because he graduated first in his medical school class from Yale? Nobody tells their doctor that they can't possibly give them the best joint treatment because they've never raced competitively. How many car salespeople are mechanical engineers or former racecar drivers? In contrast, someone who sells dozens of cars per week of all different shapes and sizes is probably a pretty good salesperson.

A business broker's job is to manage the sale process—not manage your business. You already know how to run your business. You already know how to explain what makes it competitive in your industry. You already know how to handle the risks your company faces. You will get a chance to explain these points to your broker and your interested buyers. Buyers don't want to hear the same story from the same point of view from two different people. They want the broker to talk in broker-speak and for you to talk passionately about your company and what sets it apart.

To the extent there are secrets about your industry that drive up price, either one of more of the following is true:

- You know them and will share them.
- The M&A firm, despite not focusing exclusively on your industry, knows them from their past deals.
- The sophisticated firm will do research during the pre-marketing phase.
- In a well-run, broad process, buyers themselves will reveal them.
- All else aside, the competitive tension created in a proven process may result in even an unseen, undiscovered value driver being taken into account.

AN INDUSTRY SPECIALIST MIGHT NOT BE BETTER THAN A SOPHISTICATED GENERALIST BUT ITS AT LEAST AS GOOD.

A sophisticated generalist closing 100 deals a year is probably doing as many deals in your industry as any industry specialist. They probably have a better system for cataloguing the lessons learned, and they likely have a broader geographic reach of buyers already "in your industry."

Any industry that develops in isolation remains in a rut. This is true of brokerage firms in that industry as well. If all a broker sees is deals in the widget industry, they aren't seeing the innovations that are springing up in M&A deals in other industries. This might include things such as the use of reps and warranties insurance, the use of preferred stock instead of seller notes, or the creation of tax savings via the latest "tax election" options.

Online databases with buyer info and recent deal stats are expensive. Can an boutique industry specialist closing three to six deals a year pay as much as $50,000 per year for a truly good database? Will they be spending more than $100,000 a year for the full range of databases that a sophisticated M&A firm would use?

In order to get a solid deal flow, industry specialists tend to focus on smaller deals. This provides a more regular cash flow to their business and staff. There are far more sub-$5 million deals than $5 million-plus deals. While they may have a large array of tombstones collected over the years, most of those are likely to be very small deals. While small deals are good deals too, they tend to be simple and less innovative with fewer ways to squeeze value out of the deal for the seller—“cookie-cutter” in essence. Innovations in M&A start with publicly traded companies and work their way down to the lower middle markets. Many of them never make it to the lower markets. A broker with experience in the lower price ranges is far less likely to be up to speed on the latest deal structures and terms that can mean a world of difference to a seller.

A sophisticated broker, even one doing 100+ deals a year, is highly unlikely to have sold more than two businesses to any particular buyer over the years. On the other hand, an industry specialist deals with a much smaller buyer pool has repeat buyers. At what point do “repeat buyers” become “repeat customers”? If the broker’s main strength is their relationship with buyers, how willing are they going be to fight for you if the deal gets heated? How many times will you sell your business compared to how many times they will be bringing alternative versions of your business to their buyer?

When it comes down to it, the key value drivers of a sell-side M&A firm are:

- The ability to create competitive tension.
- The ability to work the offers up.
- The ability to get the deal closed if that is what you, as the seller, decide you want.

These are the key things an M&A firm needs to be experienced with. Closing deals month after month, dealing with a wide variety of buyers, and being exposed to a wide variety of companies, clients, and challenges on a regular basis are the means of delivering a premium service as a broker.

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