
A Better Market for Business Sellers at the Close of 2009

by Bill Beattie

Because of Keiter Stephens Advisors' vantage point facilitating foodservice distribution mergers and acquisitions — we've represented more transactions in the past 3 years than any other advisor — we've been asked to present our perspective on transaction activity in 2009.

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What's On Buyers' Minds

From all accounts, it's been a wild ride this year. In the first 9 months of the year, with the economy bullying every company to some extent:

- Almost every distributor focused on driving efficiencies to improve their bottom line.
- The larger corporate and regional players moved away from acquisitions and held onto their cash positions largely due to a concern that deal financing would not be available.
- Weakened consumer demand worked its way through operators and reduced revenues for distributors
- Deflation on key commodities reduced the top line for most distributors.

More recently, we've seen the tide beginning to change.

In recent months, we've seen a resurgence in buying activity as the economy bottoms out and (everyone hopes) starts to recover.

We attribute the change in attitudes and loosening of purse strings to:

- Most distributors have now adjusted their expense structure and "right-sized" to the new realities, and
- The larger players that want to again grow revenues tell us organic growth will be difficult and they are much more open to buying stand-alone distributors or fold-in operations.

Here's what we hear from the national and super-regional distributors who are looking to grow through acquisition:

Less Concern about Availability of Credit to Finance Deals

Unlike a year ago, the national and regional distributors are going into the New Year with fewer concerns about the credit crunch. It's simply not a surprise to anyone anymore that bankers have tightened the controls in 2008 and 2009 and that they have shown a lot more caution. But lately we have seen some banks loosening up a bit to bring back business they lost over the past year – to the benefit of potential buyers.

Emphasis on Their Own Profitability

The downturn has made every distributor understand that no one is immune to financial hardship – and we see a renewed focus among buyers on core business basics: improving selling and driving efficiency. They are looking to improve their overall profitability by increasing sales and purchasing leverage, as well as geographic reach, and they've concluded that "buy" is better for their bottom line than "build".

Push for Strategic Growth Opportunities

Like last year, buyers are looking for opportunities to grow strategically – and they understand that now is the time to expand. They are looking at all kinds of distributor businesses – healthy and well-capitalized or distressed – and they are better educated about how to value each type of opportunity because of the wealth of examples over the past few years. They are also developing strategies to fill in geographic and segment niches.

What's Still on Sellers' Minds

Unlike buyers' mindsets, which have changed significantly over the past year, potential seller concerns and interests are constant – so below I'll repeat what I wrote a year ago at this time:

- I've heard that valuations are still lower than in years past – can I get a fair price for my business?
- What's going to happen to my people?
- Will I be able to continue to work for the buyer following the sale?
- How long should I ride out a financial storm before I decide to sell my business?
- Will I move too early, or could it be too late already?
- Can the buyer use my facility or will I have to try and sell that to someone else?

Last, and sometimes most importantly:

- If I'm not Joe Smith, president and owner of my distribution company, who am I?

One of the things we often hear from owners is their desire to secure employment for their workforce. In many cases, we find that the seller's workforce is in a more secure position after the company is sold because of the acquirer's financial strength. This is particularly true when the distribution center is included in the transaction and the buyer operates the acquired company on a decentralized basis. Many owners (and employees) of independent distributors often have the silent concern: "it's going to be tougher to make it as an independent; we just might be more secure if we were part of a larger organization."

This and most other concerns can best be addressed by developing a series of realistic and well thought through business and personal goals. Most prudent owners seek objective and unbiased advice from a team of advisors. This often includes their accountant, attorney, and, we believe more critical than ever in these times, an experienced transaction advisor.

Be Proactive and Act Early

We advise distributors to take action early and be decisive. If sales are dropping, if margins are increasingly pressured, if cash flow is squeezed, or if you're spotting other warning signs – we advise you to take corrective action to restore the health of your business, and we also recommend that you have a contingency plan ready so that you protect your financial future. Nobody wants to be forced into an unfavorable transaction. If you find you do need to sell your business, proper planning, with trained advisors, can help prepare you to realize an optimal valuation instead of a fire sale price.

Final Thoughts for Those Considering a Sale

Today's increase in mergers and acquisitions activity in our industry comes from strong companies that continue to grow their footprint. Foodservice distributor owners who fully understand their value are prepared in advance for any kind of potential offer scenarios and are best positioned to reap value sowed into their business. (Please see our column on Realizing the Value of Your Business: http://www.ksadvisorsllc.com/fin_Report_September.htm)

Whether you are a potential buyer or seller, or simply building the overall strength of your business – it is incumbent on you to know the value of your business. Next month's column will outline steps every distributor should take to capitalize on your value as 2010 gets underway. To get started early, give me a call! We all know that when facing challenging situations, talking with an impartial, experienced third party can help.

- Bill Beattie

Keiter Stephens Advisors (www.ksadvisorsllc.com) is the foodservice distribution finance and consulting subsidiary of Keiter, Stephens, Hurst, Gary & Shreaves. They have worked with over 50 privately-held distributors across the country. KSA services include:

- Mergers and Acquisitions: guiding the sales and acquisitions of foodservice distributorships and regional sales territories
- Profitability Improvement on both the vendor and customer sides
- Custom Strategic Services, including transition planning for family-owned distributors and driving management consensus with KSA's 3-1-1 Planning Process
- Custom Finance Solutions, including finance strategy development, distribution center expansion analysis, lease or buy decisions on real estate and equipment, and cost segregation studies.