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Local advisers focus on value in M&A buyer's market

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JOURNAL STAFF

Most middle-market business brokers and merger professionals believe a buyer's market has taken hold in negotiating mergers and acquisitions (M&A), according to a number of surveys. The difficult economy, weak stock market, tight credit conditions, and the large number of business owners at or near retirement age are all contributing factors, experts say.

Amid-year 2008 survey by the Palatine, Ill.-based Association for Corporate Growth (ACG) and Thomson Reuters (NYSE: TRD), a New York City-based business research firm, found 68 percent of respondents saying it's a buyer's market. Only 11 percent called it a seller's market, and 21 percent indicated they're not sure. In June 2007, 75 percent said it a seller's market, 13 percent a buyer's market, and 12 percent were unsure.

But three Central New York brokers say their concern isn't about whether it's a buyer's or seller's market, but rather, just guiding the sale properly and providing value.

Like the ACG/Thomson Reuters poll, most national surveys on small-business transactions point to a buyer's market, says David Trust, vice president and a principal at Syracuse Business Advisors, LLC. But the current environment for large mergers and acquisitions is also weak due to the slowing economy, credit crunch, and stock-market declines, he adds.

Trust notes that lower valuations could drive deal activity, especially corporate buyers with solid balance sheets that are looking at mid-market strategic acquisitions. These buyers can still fund deals and have a long-term view of their investment.

Trust says his M&A division — a boutique investment banking firm called HVAC Mergers Group — focuses on these types of deals for heating, ventilation, and air conditioning companies. And he expects a "banner" year in 2009.

The HVAC Mergers Group only ac-

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■ DAVID TRUST
vice president
Syracuse Business
Advisors, LLC



cepts engagements in which the expected deal value is \$10 million to \$50 million, says Trust.

Syracuse Business Advisors closed seven deals in 2008 and currently has two M&A engagements and 14 small-business sales listings. Trust isn't sure how many deals he'll close this year.

Another Central New York business broker believes potential buyers may be holding on to their cash for the time being

"I would say, if anything, it's quizzical," says Herbert Cohen, a business broker with Pyramid Brokerage Co. in Binghamton who works with small to medium-sized businesses around upstate New York. His average deal is below \$5 million, he says.

Cohen says companies with a strong financial position — ones that the economy is not hurting badly — may not be in a spending mood.

"That has created a slowness in the market," he says, while noting his own deal volume is up and believes he has good listings.

Edward Telling, president of The Telling Group, Ltd. of Cortland, says he usually works with businesses that are in the upper quartile of businesses, as determined by the Risk Management Association (RMA), a Philadelphia-based firm that helps banking and other institutions identify and manage the impacts of credit risk, operational risk, and market risk on their businesses and customers.

RMA publishes annual studies that include comparative data that comes directly from the financial statements

of small and medium-size business customers of RMA's member institutions, according to the firm's Web site.

The performance quartiles are based on the ratios when a company's balance sheet and a profit-loss statement are compared, Telling says.

The upper quartile usually never has a buyer's or a seller's market, says Telling, who is currently working with 11 clients.

"Out of nine deals in the market, there's activity on seven of them," Telling says, adding that he expects that the two company sales he plans to launch soon will receive immediate attention, as both are \$20 million revenue deals.

Telling works with clients who sell their businesses for between \$3 million and \$50 million. Most of these clients are at or near retirement.

Each business broker or M&A adviser *The Business Journal* spoke with says business sales take time and are not to be rushed. Telling and Trust say they won't cut prices to expedite a deal. Business owners should work with someone to prepare the business for sale and to defend the price, adds Cohen.

Sellers are often hesitant about making their sale public because they usually don't want their suppliers, employees, or customers to know. Those situations call for creativity in listing the business. "It's intelligent, well-organized marketing," Cohen says.

As for advice each broker has for anyone preparing to sell a business.

"Get started early," says Telling, noting that some business owners will heed the advice and others will not.

Trust advises sellers to gather all relevant facts important to a buyer, justify the financial projections, and clearly demonstrate future prospects, such as opportunities for revenue and margin expansion.

He also advises his clients not to hide anything.

"Surprises kill deals," Trust says. □

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