



# Water Street Insights

Success Matters

WATER STREET ADVISORS

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## Who Will Be Your Partner?

In elementary school, I remember learning Square Dancing during gym class. I am not sure whether it is still taught today, but it was way back then, maybe partially because shows on television and in movie theaters about the wild west, starring cowboys and cowgirls, were very popular during that time. In a square dance, 8 dancers arranged as 4 couples execute a series of moves that are called out by a caller to music. It is interesting and fun because through the course of the moves, you dance with all the partners in the square through trading off one partner for another, and by the end of the dance you wind up back with your original partner.

In selling a business, the owner ideally should try a brief dance with all the eligible “partners” before choosing their final partner. We, as the M&A advisor, act as the ‘caller’ in this dance guiding the business owner to suitable partners and ferreting out unsuitable ones. But what do some of these partners look like? Here are the primary types of potential buyers for your business. Each has its own reasons for joining the dance.

**The Synergistic Buyer:** This is a company in the same industry as yours, and it could be a competitor, or even a customer or vendor looking to expand up or down their supply chain. They are looking to grow their business, whether through geographic expansion, or expanding their customer list, or through adding products or services that you, the seller offer. They can acquire your company and reduce some of the expenses by eliminating redundant operations, such as bookkeeping or human resource management, as they already have these support functions in place. For this reason, they often can offer a higher price. They are typically already familiar with your industry, but also are the most likely to eliminate employees post-closing.

**The Financial Buyer:** This is a buyer that has investment dollars ready to put to work to grow your business. The most common financial buyers today are Private Equity funds, which come in many different forms. Some take an active management role in the business by installing industry veterans in leadership roles, and some are more passive investors, choosing to run the companies they acquire through board participation. Understanding their management style and investment time horizon (most funds offer their investors a 5-year investment window) is important, especially if the seller plans to remain involved in the business after the sale. For smaller transactions, it is helpful if the Private Equity firm has a ‘platform’ or existing company in the industry of the company that is being sold, in which case the purchase ends up being much like that of a Synergistic Buyer.

**The Individual Buyer:** This is a person who is looking to purchase a business for themselves. The individual buyer may or may not have experience in your industry or have experience purchasing and running a business. Often, individual buyers require bank financing to fund the purchase, and this additional step combined with not having experience closing a deal sometimes can cause delays or problems bringing a transaction to closing. Not all individuals are inexperienced however, and some have the expertise, experience, and resources to complete the transaction expeditiously.

So, when you are about to Do-si-do with your partner and sign their Letter of Intent, it is always helpful to know their reason for joining the dance. We at Water Street Advisors can help with that.

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