

# Water Street Insights

Success Matters



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JULY 2020 | SHOWING UP

One of the basic ingredients that we all have been taught at one time or another is that a big contributor to your success in business and in other areas of life is simply showing up. Being timely, prompt, and following through with your promises can all fall under the heading of 'showing up'. In these current times, showing up has taken on a new meaning. Technology and the rapid and needed adoption of it by many forced to work from home during this time has made it somewhat easier to show up. Some may think that showing up in person will become a thing of the past. I recently read about a new cooking robot being introduced and rolled out in White Castle kitchens called Flippy the French Fry Robot (although I am not sure whether I would want to be working next to a robot called 'Flippy' when it is handling a basket of hot food from the deep fryer). Flippy always will show up for work, ready to flip fries and burgers and Flippy will not take vacations or call in sick. Will they need a human being to show up to cook in the future?

Showing up in business dealings can also have other meanings. In mergers and acquisitions, we at Water Street Advisors believe one way to show up is to always be as transparent as possible when it comes to communicating financial information and other important metrics that can help a buyer assess the value of the business being sold. Financial statements that reconcile from one year to the next, cash flow (EBITDA or Sellers Discretionary Income), add backs that can be verified, and accountant prepared financial statements that can be tied back to internally prepared financial reports all help to tell the story of the company in a way that does not result in surprises or roadblocks for the buyer.

Transparency can work in the other direction as well. The seller wants to know that the buyer is capable of completing the transaction and has the financial wherewithal to follow through, especially if seller financing is to be part of the proposed deal structure. In that case, the seller wants to know that the buyer has assets and liquidity to make good on any promise to pay if the company that the buyer now owns runs into financial hardship. The seller also wants to know that the buyer has the ability to manage the company they are buying. The buyer can allay these fears by providing personal or corporate financial information, or by providing references.

As the transaction nears closing, showing up means delivering on the promises made. We had a situation recently where a buyer was far along in the process with the seller and was performing due diligence on the company. The buyer had a change of heart and decided not to purchase the company which came as a surprise to the seller and his team. It was not due to any change in the company's financial status, the company has performed better than expected in this environment and it met the tests of the accountants performing due diligence. The reason given is that the buyer's investors had changed their mind on the investment due to the uncertainty of how the pandemic will affect long-term company performance. While the reasons are somewhat understandable, much cost and lost time could have been avoided had the investors communicated these concerns earlier in the process. The buyer in this case did not show up in the end when it really mattered.

Water Street Advisors can help you navigate these situations. We pride ourselves on always showing up.

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