VOLUME FOUR

# Synergy™ INSIGHTS

# Selling A Business vs. Merely Putting It Up For Sale


A PUBLICATION OF
Taylor Companies

# Synergy Insights™

VOLUME FOUR

## SELLING A BUSINESS VS. MERELY PUTTING IT UP FOR SALE



A PUBLICATION OF Taylor Companies

# LETTER FROM THE PUBLISHER & EDITOR-IN-CHIEF

**Ralph C. Taylor II** **Warren H. Bellis**

In the last volume of *Synergy Insights* we presented a detailed discussion of our synergy based approach to acquisition strategy formulation, target sourcing, and approach to targets. The 90+% acquisition success rate that we have experienced across more than three decades encouraged us to present the approach as a new paradigm in mergers and acquisitions compared to the industry-wide standard approach that has resulted in only 25-50% success.

In this issue of *Synergy Insights*, and in keeping with the theme of extraordinary results owing to conscientious application of the principles of synergy, we discuss our sell-side methodology which has resulted in our historically obtaining 65% more money on average for the businesses we have sold. We have often been told that in comparison to the way divestitures are typically done, we proactively sell a business rather than merely put it up for sale.

Ralph C. Taylor II
Chairman and CEO
Taylor Companies

Warren H. Bellis
Co-Chairman
Taylor Companies

# SELLING A BUSINESS

# vs.

# MERELY PUTTING IT UP FOR SALE

Maximization of proceeds is an outcome commonly desired in the sale of a business. As the title of this volume of Synergy Insights implies, there are two different ways to sell a business – one in which this objective is pursued more proactively and the other in which the pursuit is more passive. Logically, proactive efforts would be more likely to maximize price than would a more passive approach. While the difference between proactive and passive approaches could amount to nothing more than the degree of conscientiousness employed, the intent of this article is to focus instead on the divestiture process or methodology which, by design, results in a higher price. The methodology designed specifically to maximize these achievements is the one ideally suited to proactively sell a business versus merely putting it up for sale.

# MAXIMIZING PRICE

## The Proper Intent

Even before discussing the role of methodology in maximizing the price in a divestiture, it is important to note that the chances of proactively maximizing price will likely be substantially reduced if, at the onset, there is not a serious intent to get the most money for the business being sold. This may seem almost too obvious to mention, however, there are circumstances that could keep price maximization from being a principal goal of a divestiture. There may be such an acute need to sell a business quickly, whereby maximizing the price becomes a secondary consideration. Also, there could be a preconception that the characteristics of the business to be sold are such that achievement of a high price is unlikely, and therefore not worth any extraordinary efforts in that regard.

Especially as relates to the focus of this article, an even more significant circumstance preventing intent to maximize price is the absence of a methodology specifically engineered to get the most money. Simply stated, one is less likely to pursue a specific outcome if he knows he lacks a process capable of reliably producing the outcome. As relates to divestitures, merely selling a business is probably a more consistently tenable goal for firms that lack a proven methodology for maximizing price. However, for the firm that does possess a methodology capable of repeatedly obtaining the highest price, actually intending to get the most money is a key first step and an ongoing pervasive requirement in the sale process.

## Appropriate Methodology

Implicit in the discussion so far is the belief that there is a methodology more likely to garner high prices or at least that there are key characteristics of processes with such a capability. Also implied is that it is possible for some firms to possess such a methodology and others not. The possession of such a methodology should in any event be discernible in a firm's historical track record as relates to prices obtained for actual businesses sold, as is the case with Washington, DC based Taylor Companies, who has averaged getting 65% more for the businesses they have divested than private equity paid for the same kinds of businesses during the same timeframes. Not only does Taylor maintain a strong intent to maximize price in its divestitures, but also employs a methodology specifically designed to repeatedly get the most money for businesses being sold. The key characteristics of this process include from beginning to end:

A. Thorough synergy based analysis of the seller's business to identify the categories of buyers and the corresponding potential buyers who are theoretically likely to achieve greatest synergy and who therefore can afford to pay the highest prices.
   i. The possible synergies pursuable through a divestiture exist to the extent that the seller possesses weaknesses or strengths that can be counterbalanced by a buyer's corresponding strengths or weaknesses.
   ii. The synergies available to potential buyers have additional economic value over and above the stand-alone value of the business being sold.
   iii. By understanding what synergies are achievable and proactively identifying the potential buyers to whom the synergies would be meaningful, step A of the approach focuses on ensuring that there is a concentration of buyer's in the process who can afford to pay more than the stand-alone value of the business being sold.

B. Vetting of each identified theoretical buyer's actual synergies and intent to acquire a business like the one being divested, through discrete direct contact with knowledgeable individuals located within each buyer.

   i. Any particular business to be divested can offer many synergy creating opportunities to potential buyers, which means there can theoretically be a large number of potential synergistic buyers for the business being sold.

   ii. However, experience shows that not every theoretically synergistic buyer will be interested in bidding on the deal. Therefore, to avoid wasted time and effort, the theoretically synergistic buyers identified in step A are contacted without revealing the seller's identity, to narrow down the list to only those that have confirmed their interest. In this way, a very well qualified and highly motivated group of synergistic buyers is marshaled forward into the sale process. Having such highly motivated parties in the process fosters confidentiality since they will be spurred by serious intent rather than being merely curious, and will be driven to prevent leaks that the business is for sale for fear of suffering broader competition in the bidding process.

   iii. Each buyer's M&A function is interviewed in such a way that the identity of the seller cannot be determined. During each interview, confirmation is gained that the buyer:

      a. Is interested in acquisitions of the same general type as the business being sold.
      b. Is interested in obtaining the synergies that were theorized to be present for that buyer.
      c. Will do an acquisition at least as large as the business being sold including a reasonable premium.
      d. Will in principle pay a premium for synergy in a deal.
      e. Is ready to proceed in the current time frame.

C. Further vetting of each buyer's synergies with the ultimate key decision maker of each buyer.
   i. A confidante of each buyer's ultimate key decision maker (KDM) confidentially informs the KDM that the deal is available. The KDM is contacted and the synergies are vetted with him/her to verify that the vision of the M&A function and the KDM are aligned. At this stage additional synergies may be identified that are unique to the KDM's perspective.
   ii. The relationship between the confidante who introduces the deal and the KDM is one characterized by trust and respect. Indication by the confidante to the KDM that the deal is highly confidential sets the tone from the buyer's ultimate seat of authority that utmost confidentiality must be maintained throughout the buyer's consideration of the opportunity.
   iii. Initially involving the KDM instead of allowing awareness of the deal to gradually rise to the board level, as would occur with initial contact directly to the buyer's M&A department, garners maximum attention on the deal as it is referred by the KDM to the M&A staff. Additionally, the channel to the KDM has been established and remains open in the event attention on the deal needs to be escalated to a higher level of intensity.

D. Provision to each vetted buyer of an information memorandum that compellingly portrays the vetted synergies pertinent to that buyer.
   i. Based on the synergy vetting accomplished in steps B and C, a confidential offering memorandum is provided to each buyer seriously interested in pursuing the deal.
   ii. The intent is to provide the buyers with the information necessary to understand the business being sold, as well as highlight the features of the fit between the seller and buyer that will create extra economic value beyond the divestiture's stand-alone value.

iii. Each memorandum is customized so that it clearly communicates each buyer's unique synergies to those individuals who will be reviewing the opportunity on behalf of the buyer.

iv. A dual confidentiality agreement is signed by each buyer to first obtain the name of the business being sold, and to secondly obtain the memorandum. Use of a two stage agreement underscores the need for confidentiality.

REVENUE SYNERGIES

Aero has well-established relationships with all of the major aerospace engine OEMs and currently has exposure to nearly all of the major next generation engine platforms. Aero's strong relationships and position in the next generation engine programs with the OEMs would complement and strengthen GKN's existing relationships with the OEMs. The strengthened customer relationships could provide GKN with the opportunity to increase its sales of both Aero and GKN products to these customers. In addition, due to the highly complementary nature of the GKN and Aero product portfolios, the combination will provide GKN with a larger and more balanced product offering – civil/military, composite/metallic and front/rear engine sections – as well as world-class design and engineering capabilities to offer customers. The resulting entity will be a major player in the aerospace engine component sector with a diversified and broad range of products and services allowing it to provide the OEMs with a more complete solution.

This capability would be attractive to the OEMs as they are looking to push more product responsibility on the vendors, including design and engineering, to allow them to streamline the procurement process by dealing with fewer vendors. The combined companies would possess the ability to offer a more complete product portfolio to existing customers as well as new customers.

Aero would also provide GKN with world-class engineering and design capabilities as well as proprietary technologies and manufacturing processes that could enhance GKN's current capabilities. GKN would gain Aero's proprietary production technology and R&D capabilities driven by its "Make It Light" program and also includes state-of-the-art titanium machining skills, world-class welding technology, cutting-edge welding simulation experience, and experience with composites. Aero's capabilities in developing lightweight solutions for aircraft engine structures and rotors

Taylor Companies

Highly complementary products resulting in a more balanced product offering

Synergy 14
Combination of Aero's and GKN's products could result in increased sales

Synergy 5b
Aero and GKN would share technology and manufacturing process know-how

TAYLOR COMPANIES — CONFIDENTIAL PAGE 26

E. A management presentation to each buyer that further vets his synergies and establishes the channels of communication necessary for buyer and seller to collaboratively finish studying the synergies achievable on the deal.

i. During each management presentation and subsequent dinner the seller's staff engages their counterparts in the buyer's company in Q&A and discussions regarding the synergies and estimated values. Further refinement of the understanding of the synergies is accomplished and values begin to be computed.

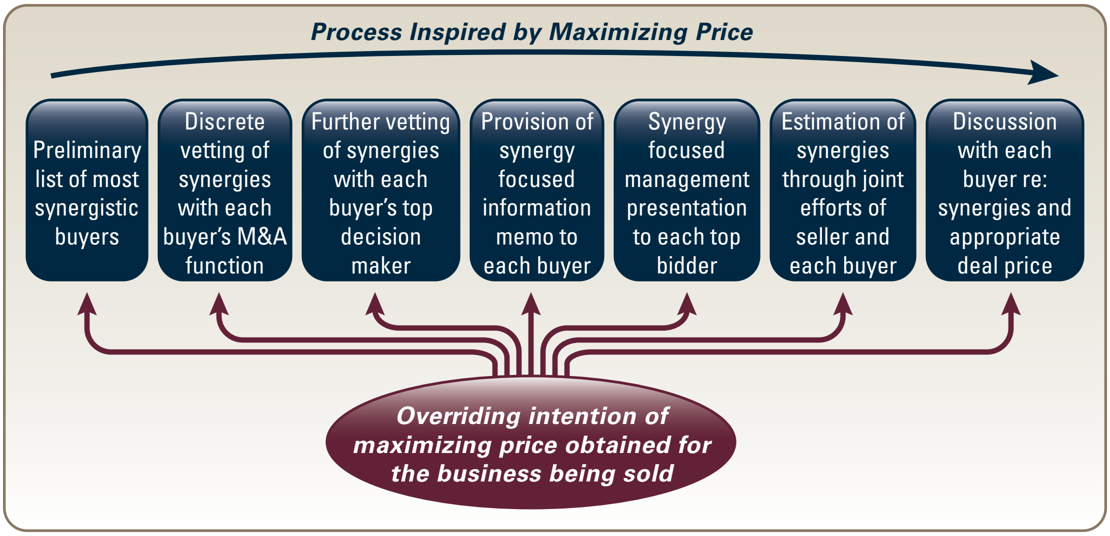
ii. The discipline heads of both seller and buyer begin to establish the channels of communication and rapport that will support estimation of the value of each buyer's synergies on the deal.

F. Focused work by the appropriate individuals from both seller and buyer to quantify the values of the vetted synergies.
   i. During the interval between the management presentations and second round of bids, key individuals from both the buyer and seller work together to achieve mutually agreed to estimations of each buyer's synergies.
   ii. The friendly push and pull between buyer and seller results in estimates that are ultimately credible to all parties.
   iii. The buyers are motivated to participate in the synergy vetting and estimation process as a means of thoroughly understanding their synergies and thereby maximizing their chances of winning the deal.
   iv. Compared to commonly found divestiture processes in which the intent is to limit the degree of information made available to potential buyers, the intent here is to provide as much as is necessary for the buyer to fully vet the synergies. This increases the buyer's ability to pay more without overpaying for the deal, minimizes his risk on the deal, and avoids contribution to the high worldwide post acquisition failure rate.

G. Education of the most synergistic buyers as to the vetted magnitude of their synergies on the acquisition, and counseling each as to how much of the synergies they will need to pay for in order to win the deal while not overpaying.
   i. The key decision maker of each finalist buyer is presented with a breakdown of his/her synergies on the deal including the depth of analysis performed on the estimations by the seller as well as the KDM's own staff.
   ii. The KDM is advised of how much of the synergies will need to be paid for to remain competitive in the bidding.
   iii. Each other finalist bidder is similarly advised and as the bids thus upwardly migrate, the buyers are kept informed of any further bid increases that will be required to stay in the running.

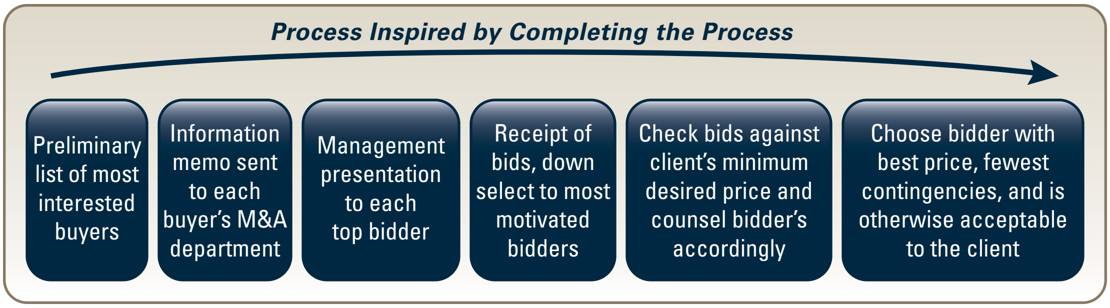
## The Key to Maximizing the Price

By reviewing the preceding key process steps A through G one can glean that the key to maximizing price is in both the individual steps as well as the style of process itself. Each step follows sequentially from the step before, however, in aggregate the methodology is not a merely linear process. Rather, as the following schematic depicts, each sequential step is inspired by the primary goal of maximizing price, and so while the process of selling the business ensues, there is never a lapse of intent or of corresponding purposeful actions aimed at getting the most money for the business being sold.




## Pitfalls in Merely Getting the Business Sold

It is easy to imagine that the preceding methodology designed to maintain focus on maximizing price should more effectively achieve the goal than would be likely with the following pictured process, the primary intent of which is to merely get the business sold.




A methodology such as the preceding is not proactively focused on maximizing price. Either may still occur but more as a matter of coincidence than design. Some of the factors which make this process less well suited to achieving highest price include:

- The buyer list does not intentionally concentrate on the most synergistic acquirers who can therefore afford to pay the most and still not overpay.
- The buyer list does not include only buyers with serious intent. Instead the process can include many merely curious parties who may not have a vested interest in keeping the deal secret.
- The buyer list is much broader than only those with a confirmed stated interest in pursuing the deal. Therefore, the potential exists for wasted time and effort, as well as distraction from running a process focused on maximizing price and confidentiality.
- Introduction of the deal initially to the buyer's M&A function which is simultaneously reviewing numerous other transactions means the deal must vie for attention and work its way to the ultimate decision maker, rather than starting there and easily gravitating into the M&A function. Additionally, lack of initial introduction of the deal to the buyer's KDM deprives the process of a clear message from the ultimate seat of authority regarding maintenance of utmost confidentiality.

- Use of a more generic information memorandum focused primarily on the operational aspects of the business focuses attention away from the buyer's synergies, which exclusively are the elements upon which price maximization can be justified.
- Lack of continual vetting of the synergies leaves the seller in the dark as to what the most strategic motivations of the buyers might be.
- The seller's intent is typically to limit the flow of information to the buyer, making it difficult for the buyer to study the synergies enough to overcome his fears of overpaying, and comfortably make a well vetted synergistic offer.
- Because the necessary information regarding synergies is not available, the buyer and seller cannot effectively work together and derive a mutually agreeable understanding of what each buyer's synergies are worth. Therefore, the seller and his M&A advisor have no objective basis for asking for a price higher than what the top bidder is of his own accord offering.

## The Vetting of Sell-Side M&A Advisors

Since it seems that the results from a process are correlated with the specifics of the methodology employed, it should be possible to examine a service provider's divestiture process, look for the presence of the steps without which price optimization and maintenance of confidentiality would only be by coincidence, and determine the approach's suitability for maximizing price and secrecy. Additionally, the track record created by a capable methodology must certainly reveal confirmation that the process is effective. This kind of scrutiny may well be the most integral aspect of the vetting process for selecting an M&A advisor in instances where key objectives include obtaining highest price and maintaining utmost confidentiality.

## In Closing

While in any given sale process speed of completion might be ranked more highly than maximization of price or maintenance of confidentiality, these latter objectives should not be forgone if either or both are of prime importance. It is possible to reliably maximize price and maintain confidentiality while selling a business. However, the methodology employed must be specifically suited to achieving those results and the intent to maximize price must be relentless. The evidence of suitability will be found through close examination of the specific steps of the process itself and in the track record of premiums obtained through use of the methodology. Such vetting will reveal whether in fact the process is suited to proactively selling a business versus merely putting it up for sale.

## IN THE NEXT VOLUME

In future issues we will discuss specific aspects of synergy's application to acquisition strategy formulation and target identification, valuation of targeted acquisitions, and achievement of highest prices for divested businesses.

## WE WELCOME READER FEEDBACK

We are interested in your feedback and examples of synergy applied in acquisitions and divestitures with which you may have been involved. To share examples, or if you have questions, comments, or are interested in seeing a specific subject discussed, please contact us at:

*Synergy Insights*
Attn: Warren Bellis
1667 K Street NW, Suite 200
Washington, DC 20006
United States of America
+1 202 955 1330
SynergyInsights@tay.com
www.tay.com

Taylor Companies

*Taylor Companies' mission is to generate wealth and fulfillment for our clients, associates, and shareholders by building trusted relationships worldwide with those who share strategic vision and integrity. Taylor will continue to be the best in our industry at confidentially and strategically producing optimal results, and through our ongoing success, support those organizations that enrich humanity.*

Synergy INSIGHTS™

1667 K Street NW, Suite 200
Washington, DC 20006
United States of America
+1 202 955 1330
www.tay.com

## *Synergy Insights* Staff

Publisher . . . . . . . . . Ralph C. Taylor II
Editor-in-Chief . . . . . . Warren H. Bellis
Art Director . . . . . . . . .Ryan A. Byrnes
Copy Editor . . . . . . . . .Kathy G. Peters



*Securities are offered by Taylor Financial Services, LLC, member FINRA/SIPC. Taylor Financial Services, LLC and Taylor Companies, Inc. are affiliated entities.*

Synergy™ INSIGHTS

1667 K Street NW, Suite 200
Washington, DC 20006
United States of America
+1 202 955 1330 • www.tay.com