



CONTEMPLATING ALTERNATIVES

PLANNING AHEAD TO MAXIMIZE SALES PROCEEDS

BY CURT TATHAM

Strategic players in the distribution sector have become increasingly more acquisitive in recent months. Acquisitions have been completed or contemplated as distributors strive to broaden existing product offerings, expand geographic footprints, access new end markets and perhaps realize cost savings related to consolidation of distribution centers.

The uptick in M&A activity is likely being driven by several factors:

- an acknowledgement among stakeholders that their businesses have made strides toward stabilization or, in some cases, returned to growth
- broader optimism regarding the economic recovery
- a recovery in the stock prices of public companies and stronger balance sheets among many of the

- larger industry participants
- improved financing markets
- the completion of internally focused operational efficiency initiatives
- a perception that seller valuation expectations have perhaps begun to migrate toward levels that acquirers would view as more reasonable
- the need for public companies in particular to deliver growth in excess of what might be relatively meager stand-alone growth in 2010

This combination of factors is leading our firm to an increasing number of discussions with owners of privately owned businesses that are considering selling their company for reasons including wealth diversification, estate planning, generational succession issues, owner "fatigue" and the pending year-end increase in capital gains tax rates.

If you are an owner contemplating the possible sale of your company, there are several initiatives to help prepare your company for sale, which ultimately maximize the value of your business when the time comes.

Think like an acquirer – Identify and proactively manage potential concerns and "battleground" topics.

Create and follow a written revenue growth and profit improvement strategy – Specific opportunities should be quantified, ranked by priority and measured by tracking systems to provide regular feedback and measurement against written goals. Following a plan allows potential acquirers to credit the owner for executing a growth strategy (vs. realizing "accidental success"), and provides credibility for future growth forecasts.

PUBLIC COMPANY VALUATION STATS

Company Name	Market Cap	Enterprise Value	Enterprise Value/LTM EBITDA as of:				Stock Price	% of 52 Week High
			10/31/09	12/31/09	2/12/10	3/31/10		
Airgas Inc.	\$5,263	\$6,908	7.5x	8.0x	10.2x	10.4x	\$63.62	96.3%
Anixter International Inc.	1,581	2,299	9.0x	9.3x	8.9x	9.3x	46.85	95.9%
Applied Industrial Technologies Inc.	1,053	1,025	7.8x	8.5x	8.6x	10.0x	24.85	98.6%
Barnes Group Inc.	1,069	1,405	9.6x	10.0x	9.6x	11.5x	19.45	96.5%
DXP Enterprises Inc.	165	279	5.8x	6.8x	6.3x	18.5x	12.77	77.9%
Fastenal Co.	7,075	6,886	13.5x	16.4x	17.8x	20.4x	47.99	97.6%
Houston Wire & Cable Company	205	224	10.1x	14.4x	14.6x	15.6x	11.58	78.5%
Interline Brands Inc.	627	838	8.3x	9.5x	9.4x	10.0x	19.14	95.7%
Kaman Corp.	645	690	7.9x	9.6x	10.5x	9.9x	25.01	94.9%
Lawson Products Inc.	132	123	10.4x	11.9x	11.0x	16.3x	15.47	75.8%
MSC Industrial Direct Co. Inc.	3,203	3,133	11.5x	12.7x	13.3x	15.1x	50.72	98.0%
United Stationers Inc.	1,413	1,862	6.9x	8.2x	8.0x	8.0x	58.85	95.3%
W.W. Grainger Inc.	7,858	7,987	8.6x	8.9x	8.5x	10.0x	108.12	98.3%
Watsco Inc.	1,841	1,954	22.4x	20.5x	21.7x	20.7x	56.88	94.8%
WESCO International Inc.	1,472	2,084	6.9x	7.4x	8.5x	10.1x	34.71	97.0%
Adjusted Mean (excludes high & low values)			9.1x	10.4x	10.7x	12.8x		93.6%
Median			8.6x	9.5x	9.6x	10.4x		95.9%

Get organized – Stay organized in key diligence areas to facilitate potential acquirers' examination of the company. Efficient access to information also conveys a strong, organized management team that makes decisions based on information, not intuition.

Develop detailed, credible and achievable monthly forecasts – Projected earnings are key to valuation, and achieving projections during the sale process is even more critical. Falling short of forecasts shifts leverage to the acquirer, possibly resulting in lost value while causing acquirers concern about management's credibility. Management should develop forecasts that it believes, with high confidence, are achievable.

Develop a plan for working with management and communicating with employees during marketing process – Management plays a vital role in the sale process and is the "face" of the company in the marketing and diligence process. Owners should determine which management team members must be informed at each stage of the sale process and also determine which ones will receive i) an incentive transaction bonus to reward them for the key role they play throughout the sale process ii) employment contracts to retain them through the sale process and iii) "stay bonuses" to align incentives of managers and owners.

Identify synergies obtainable by a strategic acquirer – Synergies are essential to maximizing valuation with strategic acquirers that will analyze the potential for increased revenue and lower costs post-merger. A seller should proactively create its own synergy analysis for each likely strategic acquirer, identifying categories of incremental profitability and related financial estimates.

Many of these initiatives require considerable lead time and should be considered no later than 12 months prior to commencing exploration of a sale process. For most private owners, the sale of their business is a once-in-a-lifetime occurrence for which they should be optimally

prepared well in advance. **IS**

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