

44% of small distributors would welcome an acquisition offer, according to ID's 63rd Annual Survey of Distributor Operations.



Selling your company? Get organized early

Maximize your company's value by getting organized well before you even start looking for a buyer

IF YOU ARE a private business owner, you likely have spent the vast majority of your time during 2009 with your head down, focused on managing your business amidst extremely challenging economic conditions. You have probably spent very little time contemplating the potential sale of your business. However, as economic conditions improve, more and more private companies are beginning to contemplate the sale of their business within the next 24 months. If you are an owner considering a possible sale of your company, there are several initiatives to help guide the process, and they may ultimately maximize the value of your business.

First, think like an acquirer. Identify and proactively manage potential concerns and identify potential "batleground" topics.

Create and follow a defined and 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 pre-set growth and profitability improvement plan will allow potential acquirers to credit the owner for executing a growth strategy (versus realizing "accidental success") and will provide credibility for future growth forecasts.

Get organized. Stay as organized as possible in key diligence areas in order to facilitate potential acquirers' examination of your 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 critical. Falling short of forecasts shifts leverage to the acquirer, possibly resulting in lost value while causing acquirers concern with respect to 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 the marketing process. Management plays a vital role in the sale process and is the "face" of the company in the marketing and diligence process. The existence of a strong and deep management team—as well as a succession plan for key individuals—is a critical consideration for most potential acquirers, and financial acquirers in particular. Owners should determine which members of the management team will need to be informed

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INDUSTRIAL DISTRIBUTION INDEX: VALUATION UPDATE

Company Name	Market Cap	Enterprise Value	Enterprise Value / LTM EBITDA as of				Stock Price	% of 52 Week High
			4/30/09	6/30/09	8/31/09	10/30/09		
Airgas Inc.	\$3,630	\$5,197	7.0x	6.8x	7.6x	7.5x	\$44.36	87.0%
Anixter International Inc.	1,478	2,206	6.2x	6.0x	6.6x	9.0x	41.85	95.5%
Applied Industrial Technologies Inc.	856	865	7.0x	6.2x	7.1x	7.7x	20.23	84.5%
Barnes Group Inc.	867	1,302	5.6x	5.8x	8.1x	8.7x	15.85	82.9%
DXP Enterprises Inc.	148	290	5.6x	5.2x	5.6x	5.8x	11.48	70.0%
Fastenal Co.	5,117	4,922	12.2x	10.5x	12.8x	13.5x	34.50	81.2%
Houston Wire & Cable Co.	213	233	5.0x	7.1x	9.6x	10.1x	12.09	81.9%
Interline Brands Inc.	474	746	7.0x	7.3x	8.7x	8.0x	14.60	78.4%
Kaman Corp.	530	608	6.0x	6.3x	7.9x	7.9x	20.66	76.6%
Lawson Products Inc.	133	122	6.2x	7.6x	11.9x	10.1x	15.55	48.4%
MSC Industrial Direct Co. Inc.	2,704	2,672	8.5x	7.4x	9.2x	11.5x	43.05	87.4%
United Stationers Inc.	1,118	1,532	5.8x	6.0x	6.9x	7.0x	47.14	93.7%
W.W. Grainger Inc.	6,966	6,828	7.3x	7.1x	7.7x	8.5x	93.73	95.2%
Watsco Inc.	1,629	1,763	11.4x	15.1x	21.7x	21.7x	51.22	88.9%
WESCO International Inc.	1,080	1,673	5.8x	5.8x	6.4x	6.9x	25.56	83.8%
Adjusted Mean(1)			6.9x	6.9x	8.5x	9.0x		84.0%
Median			6.6x	6.9x	7.9x	8.5x		83.8%

at each stage of the sale process. Owners should also determine which members of the management team will receive: an incentive transaction bonus to reward them for the key role they play throughout the sale process; employment contracts to retain them through the sale process; and “stay bonuses” in order to align the incentives of managers and owners.

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

Many of these initiatives often require considerable lead time and should likely be considered no later than 12 months before you start exploring the 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.