DEAL MAKER ASSET ANALYST

STORY BY **DAVID CONRADS**

Pat Finn has lost count of the number of businesses he has sold or been an advisor to over the past 20 years, but the number is substantial.

A business intermediary, he founded **Finn & Associates Inc.** in Wichita, Kansas, in 1988 to help business owners market and sell their businesses when the time comes to turn those assets into cash. He often works as a buyer's representative. In fact, his firm has done some of its biggest deals as a buyer's rep and closed a deal last September for which it functioned in that capacity.

In the early years, his practice gravitated toward selling kitchen cabinet manufacturing companies, an industry in which he has an extensive background. Fearing a slowdown in that industry and not wanting to put all his proverbial eggs in one basket, Finn became more of a generalist. Initially he brokered smaller transactions where it is not unusual to close a fairly large number of deals in a year.

Today his focus is on mid-sized companies with assets between $1 million and $40 million. While the number of transactions per year is smaller, the deals are far more complex, and the total dollars involved are generally much greater. "We might be selling a business that operates across four states," he says. "You can't do those kinds of numbers when you're selling larger businesses. They take a lot more time and have more nuances that must be dealt with."

Finn got a taste of his current business while working for **Kansas City Southern Industries** (**KCSI**) in Wichita. He helped put together some acquisitions during his many years with KCSI and discovered that brokering businesses was what he liked to do. He left KCSI in the late 1970s but continued doing consulting work for the company. While Finn describes himself as a generalist, his work is focused primarily on manufacturing and large distribution companies.

And there are some deals he won't touch, like restaurants. "I always felt that the way I was going to make this business successful was to do successful transactions," he says. "Restaurants are the most failed business category in the United States. I don't want my name associated with that."

He also doesn't handle businesses with less than $1 million in assets (for the most part, retail). While he has sold businesses in 18 states, his real market is Wichita and anything within 250 miles of that city.

Two years ago, Finn became an investment banker, which enables him to offer services to his clients that a regular business broker or intermediary cannot provide. His securities license allows him to sell the stock of a corporation, which can result in substantial tax savings to his seller client. He notes that stock sales without a properly licensed intermediary can subject the transaction to rights of rescission, which can be catastrophic for selling clients.

Finn also holds a real estate license. Last year he became a licensee of **VERCOR Investment Banking**. A middle-market investment banking firm headquartered in Atlanta, VERCOR has 15 offices in the U.S. as well as offices in Canada, Switzerland and the Netherlands. Finn now operates under the VERCOR banner.

What is the difference between a business broker and a M&A firm like VERCOR? A business broker typically handles companies worth up to $1 million. Brokers secure offers by utilizing real estate methods—get the listing, run ads, field phone calls, and relay offers to the owner. A middle market M&A firm like VERCOR handles

Buyng or selling a business in today's economic environment involves more than just trying to time the deal to the fluctuations of the stock market. That's why companies choose third party negotiators and rely on their expertise to make the right deal at the right time.

companies worth between $1 million and $100 million. VERCOR provides a comprehensive planning process to develop the best way to obtain maximum value for all of an owner's assets, both tangible and intangible. VERCOR's mediators negotiate terms rather than simply relay offers. Even in a down economy, there are always businesses for sale. But in times like these, they can be harder to move. With the recent tightening of credit following the subprime mortgage crisis and the meltdown in the credit markets, banking requirements are significantly different today than they were just 12 to 18 months ago.

As a result, buyers today have to put down more money, which works against the seller by lowering the multiples and puts downward pressure on prices.

According to Finn, intermediaries offer great advantages to both buyers and sellers—especially now. Many buyer clients come to him because confidentiality is critical. Oftentimes, a company looking to purchase a business within a specific sector does not want that fact known within the industry.

Initially Finn might approach a prospective seller as the representative of an anonymous buyer, though the buyer's identity would be made known as soon as confidentiality agreements are in place. "We want to make the process as transparent as possible and build trust among both parties," Finn says.

Many buyer clients also prefer working with an intermediary as a buffer between them and the prospective seller. Confidentiality is often the paramount issue to a seller.

"Rumors of a sale can shake up everybody, from the owner's bank and supplies to his customers and employees," Finn says, adding that an important part of his job is ensuring that no information is released until proper confidentiality agreements have been consummated and the potential acquiring party has been vetted to ensure it has the wherewithal to complete the transaction.

Finn points to several other benefits of owners letting an intermediary handle the sale of their business. A business broker has access to a far larger pool of prospective buyers than a typical business owner would. At one point, Finn had a database of more than 5,000 buyers with $1 million or more to spend. His firm subscribes to many sources, and he has ready access to resources such as figures for comparable sales as well as information on specific industries and what businesses within that industry sell for. "Where would a typical business owner go to get those kinds of resources?" he asks.

Finn cautions do-it-yourself sellers that their businesses may lose value simply due to the time and effort required to sell the business and the inevitable distractions that ensue. Working with an intermediary, he says, lets sellers focus their efforts on running the business, even while it is being marketed. Sometimes, business owners assume that because they know their own business better than anyone else, they are in the best position to sell it. But Finn says he has found that sellers, surprisingly, don't always have a great sense of the true worth of their businesses or the current market environment. Many owners rely on their accountants to calculate the value, but according to Finn, accountants often have a skewed sense of value.

"They may know how to compile the numbers, but they're not really in touch with the marketplace and the key factors that add value," he says. "Two businesses with equal earnings may or may not command the same price in the marketplace. A good intermediary can assist the owner by enhancing the value drivers prior to the sale."

He says his biggest challenge is getting business owners to really understand their business situation and how they can add value to it. He gives an example of a business he sold years ago. An accountant had done a valuation six months before for a firm that planned to sell its business and pegged its worth at $500,000. Finn sold the business for $1.2 million. While the accountant was probably not far off in terms of cash flow, Finn notes, he did not take into account certain intangibles like the fact that the business was highly replicable and at a very low cost. "When you started looking at it from that standpoint, the business was worth way more than the cash flow it was currently generating. The accountant did not seem to understand or to grasp that. That's one reason a good intermediary is a benefit." **CEO**

SALE STRATEGY

While it is easy to focus on the short-term factors that can affect your business, it is critical that business owners in the middle market continue to focus on long-term business drivers that improve overall business value. Factors such as growth, innovation and effective cost management can positively affect overall business value in the long run.

Long-term value drivers, and not stock or credit markets, determine the overall business value and eventual sale price of a company. That is why managers continue to pursue long-term strategic objectives with the same vigor today as they did before the economic downturn.

The good news is that, despite the economy, now is still a good time to consider selling your company because valuations in some middle market sectors are still at historic highs.

The process of marketing a for-sale business and moving it to closing can be very complicated and time consuming. VERCOR employs a four-phase process:

Phase 1: Pre-sales planning, which includes finalizing the engagement terms, establishing goals and objectives, accumulating data, finding facts, establishing marketability, setting expectations and preparing a confidential "deal book"

Phase 2: Marketing, which can include finalizing a marketing approach, developing filter criteria, conducting marketing outreach, presenting opportunity, managing a buyer's interests and obtaining confidentiality agreements

Phase 3: Negotiation, which includes reviewing offers and reports, managing key relationships, and addressing the critical non-financial issues and obtaining a signed letter of intent

Phase 4: Transition, or working with counsel to develop a definitive purchase agreement, then facilitating the close of open issues between parties, advising the seller or buyer on strategic planning issues and closing the deal.