

SERVING WESTERN MICHIGAN BUSINESS SINCE 1988

Identifying true value, ensuring smooth transition key to M&A market

NuVescor on track for record 2010 based on client focused process

By Joe Boomgaard | MiBiz
jboomgaard@mibiz.com

GRAND RAPIDS — Not all business transactions consummate because a company is distressed, even given the current state of the economy.

Regardless of the economy, Grand Rapids-based mergers and acquisition advisory firm **NuVescor Group LLC** makes it a point to only work with companies that are on good footing and solidly profitable. As a team of advisors, the company works with business owners to maximize the value of their business and get the most out of a sale.



Hirdes

Managing Partner Kevin Hirdes said 2010 is shaping up to be the best year ever since NuVescor was founded in 2007.

"This fall is shaping up to be incredible," Hirdes told *MiBiz*.

For the company, success isn't an overnight process, especially since their goal is for clients to get maximum value on the transaction, he said. The most advantageous transactions for sellers follow a long-term, strategic process aimed at identifying the true value of a business. What's more, sellers also benefit from a smooth transition.

"We want to eliminate surprises so that the buyer and seller are both happy, so that they're both delighted as the result of a no surprises, well informed process," he said.

Increasingly, Hirdes said NuVescor is being asked to offer seminars on its process to various industry associations and groups as a means of teaching their various members' best practices in finding an exit from their business when the time comes and maximizing the value of their companies.

"For most owners, the question riveted in their minds is, 'What's my business worth?' Many times they're not ready to sell, but if they have a planning process, it can make a big difference in what they get," Hirdes said. "As an owner, the quicker one needs to sell something, the less return they receive. Often, they'll wait till they're ready to retire and then sell it. You can do that, but to maximize value, a much different approach (is needed)."

The multifaceted process helps a business owner understand the value of his or her business, as well as what could be done to improve that value. That helps the owner plan for retirement, if that's the case, or the next move in their professional careers.

Typically, Hirdes said business owners' passion for their companies goes through a cycle that peaks about the 10th year when the operation becomes somewhat repetitive and may have lost its edge. "It's not new anymore," he said. "It's still a great business, but the owner has lost the fire in his belly to drive the business. Then the income statements start to go down once that passion starts to recede or diminish in a business. It's rare that a business' performance doesn't start to diminish as well. They will want to sell just as

that passion is starting to fade because the performance is likely to be strong. If they wait too long, they just multiply the lost value of the business heading down. They're never going to see the true value and sale price."

Oftentimes, Hirdes said there's a short window when the owner's passion has peaked, but the business continues to grow. Most business owners will want to sell somewhere in that period, but those who don't plan ahead can be too late to capitalize on the maximum value. And many think that a transaction is like a flip of the switch in which the owner goes from running the business to not being involved, but that's far from the ideal scenario.

"Some owners will wait till the last minute and then want to sell and go to Florida, but the new owner is likely to want involvement for a transitional time, often two to three years" Hirdes said. "We plan with them, and we look at their lives for the next five years — pre-transaction and post-transaction and work with a wealth management planner."

Using conventional value assessments, many owners leave money on the table when it does come time to sell. While many people have employed a multiple of earnings approach to determine the value of a business, Hirdes said that figure often only provides "a proxy, a wide-ranging rule of thumb, but in no way identifies the true value — nor will it maximize the value for a business owner. And that's what we're starting to share with other people."

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Owners and sellers often overlook hidden asset items – off-balance-sheet pieces, customer goodwill, brand value, or growth, for example – and those assets can weigh heavily on the value an owner could receive at the time of transaction. Recognizing those assets can help get sellers the most value, but also not change the rate of internal rate of return for the buyers.

“One form of compensation to the seller would be cash, but there could be other ways there could be compensation that have a lot of value,” Richard Wroten, managing director at NuVescor, told *MiBiz*. For example, if

the parties can agree to a tax advantageous sale agreement for the seller, the seller could stand to take home more money, although the process is usually less advantageous for the buyer.

Transactions can also be complicated when companies have multiple owners, as well as when the owner or group of owners has demands for post-transaction operations of the company. As an example, many owners of family companies want to see their family members remain employed. Others want to see operations remain in their community and not be relocated at the whim of the new buyers.

Hirdes and Wroten also counsel owners against approaching key

competitors directly because that can negatively impact the value the owner could realize, as well as hurt the health of the business. Without a third party or confidentiality agreements, the competitor could use the information against the company or use it to pull away customers. Using NuVescor or another M&A firm allows owners to put the business up for competitive bid, in effect seeing the most return, they said.

“If you go into the jungle, it helps to have a jungle guide,” Wroten said. “There are things that will take you down, things you’ve not even seen. The ability to have a professional help you come out alive and thriving makes an abundant amount of good sense.”