



MAZZONE & ASSOCIATES  
INTEGRITY | EXECUTION

## **5 COSTLY MISTAKES OFTEN MADE WHEN MIDDLE-MARKET COMPANIES ARE SOLD**

By Dominic C. Mazzone, Managing Member of Mazzone & Associates, Inc.

Following a strong year for merger and acquisition activity and despite a tighter credit market, we are seeing a significant increase deal activity in the middle market, which we define as being between \$10 million and \$500 million of enterprise value.

When we read about the mega-mergers like the BHP bid for Potash, the Novartis / Nestle bid for Alcon or the Southwest Airline's acquisition of AirTran, those transactions tend to stay in our thoughts because of the size, scale and impact they have on us and our communities.

Equally as powerful are middle-market transactions. Over 90% of the mergers and acquisitions volume is in transactions with purchase prices less than \$500 million. Approximately 60% of all merger and acquisition volume is in transactions in the middle-market between \$10 and \$500 million.

Debt is still available (particularly for asset-based credit facilities) and record amounts of private equity capital and cash on the balance sheets of publicly-traded companies is available for investment in the middle market, so the merger and acquisition environment in the middle market is quickly becoming a good sellers' marketplace. The buying activity in the middle market in the current merger and acquisition marketplace is creating a need for buyers to distinguish themselves. Many are doing so by, among other things, offering no contingencies for financing.

Many companies that may not otherwise be "sellers" can become sellers in today's environment. One reason is that many business owners realize that this is a good market to "take some chips off the table" and another reason is that more business owners are seeing the potential for a significant transaction as their numbers have turned around in 2010. Many companies turn into sellers simply because they are approached by a buyer who is offering what seems to be an appealing purchase price.

**Regardless of the reason for selling and the business acumen of the seller, five common mistakes made by sellers are set forth below.**

- 1. Not maintaining control of the process.** Many sellers don't find their buyers – their buyers find them. When approaching a seller, a buyer will generally reject the notion of the seller running a process and often threatens not to participate in any auction process run by the seller. However, serious buyers ALWAYS participate in and stay in an auction process.
- 2. Missing projections during the process.** One of the most difficult tasks for a management team is to work on the sales process while running the company effectively at the same time. For this reason, companies often miss their projections during the sales process. Missing projections during the process typically either slows down the process as bidders begin taking more of a "let's wait-and-see" approach or halts it completely.
- 3. Not getting your house in order.** The best way to maximize the value of a company during the sales process is by getting your house in order at the beginning of the process. In other words, do your own due diligence review of your company before someone else does, and clean-up any potential issues bidders may have with your business.
- 4. Not having a solid business plan or strategic plan or at least a set of projections.** A buyer or buyers doing diligence will be free to make any projections they wish as they analyze the business. Without a solid set of defensible assumptions, a seller will leave them to apply a conservative or even negative bias to the business going forward.
- 5. Thinking you can do it yourself.** Selling a company is one of the most, if not the most, important events in a company's history – and typically the lives of the members of its management team. Optimizing sale price valuation, structuring the selling process and managing potential buyers requires deal instinct and experience. Selling your company is not an undertaking you should attempt without professional merger and acquisition, legal, accounting and financial advisors.