THE CHALLENGE OF NOT WORKING WITH AN EXIT PLANNING ADVISOR

When planning to exit your business, having the proper team in place is paramount to your success. CEPA and Founding Partner of REAG, Scott Mashuda shares what he and his buy-side client experienced when trying to close on a deal with an owner who was ill-prepared to exit their business.

Exit Planning Institute

COMPANY

Specialty Cleaning Co.

FOUNDED

1974

NUMBER OF EMPLOYEES

25

Meet the CEPA: Scott Mashuda

Scott Mashuda is a Founding Partner of REAG and is responsible for the firm's growth and strategic vision. He has nearly 20 years of mergers & acquisitions and business valuation experience. He has represented both public and private companies in matters of sale, purchase, valuation, and restructuring.

In January 2017, Scott was named to the Board of Directors of the M&A Source where he has served in various roles including past chair of the marketing committee, and chair of sponsorship. Scott was named one of the 2013 "40 Under 40" top M&A service providers by The M&A Advisor. He is an active member of the Cleveland Chapter of the Association for Corporate Growth. He has served as an adjunct professor of entrepreneurial finance at Duquesne University's Palumbo Donahue School of Business and Treasurer of the Allegheny HYP Club.

Prior to founding River's Edge Alliance Group (REAG) with Todd Torquato in 2004, Scott Mashuda served as a Senior Valuation Analyst at the accounting firm Ernst & Young.

COMPANY BACKGROUND

Scott Mashuda and REAG represented a buy-side client who approached the owner of Specialty Chemical Co., a manufacturing company. Mashuda's client was interested in acquiring Speciality Chemical. The company was a Mid-Atlantic business founded in 1974 and had 25 employees at the time. When Mashuda and his client first contacted the seller, they were informed that they were already working with a developer to redevelop the property. As the business was near a recently constructed interstate on-ramp, the seller believed the business would be more valuable as a B2C business instead of a manufacturing facility.

Owner and company names have been changed to protect the privacy of the individuals and businesses represented in the case study.

THE SITUATION

The owner of Specialty Chemical was aging and approaching retirement. He thought the real estate was more valuable than his business and was looking for a buyer that would acquire the business and relocate the manufacturing operation to their existing facilities.

THE GOAL

The owner's goal in exiting Specialty Chemical was to sell to a third-party buyer who would then relocate the business. He wanted to exit as soon as possible, but without working with a CEPA on the sell-side advisory team, his exit was not a smooth transition.

On the buy-side, REAG's client's goal was to acquire the business, retain the current customers, and outsource the production of the non-synergistic raw materials to an independent third party. They also wanted to maintain the seller's existing cost structure so the seller's valuation could ultimately be supported.

THE STRATEGY

Without a Certified Exit Planning Advisor on his team, the owner of Speciality Chemical faced significant challenges during his exit planning process. Scott Mashuda and his client also faced difficulty as they would not be able to produce the raw materials for the same low rate as the seller. The seller had previously produced the raw materials in-house, but due to the relocation of the company, the raw materials would have to be sourced independently.

THE RESULTS

Scott Mashuda ultimately was able to broker a deal with his buy-side client. However, he shares that the process was difficult for all those involved. Mashuda says, "The seller ultimately received a lower purchase price than desired. With the sale of the property already agreed to in principle, there was a timeline that had to be set on the sale of the business, limiting its marketability."

The seller couldn't understand why the factors that had historically made the business different and gave them a competitive edge in winning new business were becoming roadblocks to the sale. The answer was that the industry had evolved to a point in which everything had become specialized.

> Mashuda shares, "With the acquirer unable to produce this product at their existing facility and the seller's facility being redeveloped, cost of goods sold were set to increase, meaning margins would decrease, EBITDA would decrease, and prices would potentially rise for customers. The issue then turned to the acquirer's ability to retain these customers post-closing if a price increase went into effect."

There was no other manufacturer that produced that same raw material plus the end products, which meant any buyer (including our client) would face the same challenges.

As a result, the challenges multiplied—the buyer needed to understand the cost of third-party raw material production to fully understand their material cost, product cost, and adjusted EBITDA. The seller was also unwilling to share the proprietary formula without a check in hand.

> REAG figured out a solution and the deal was completed, but as a result of these challenges, the seller received a lower purchase price. All parties involved, buyer, seller, and intermediaries, came away frustrated.

WHAT TO LEARN FROM THIS CASE STUDY

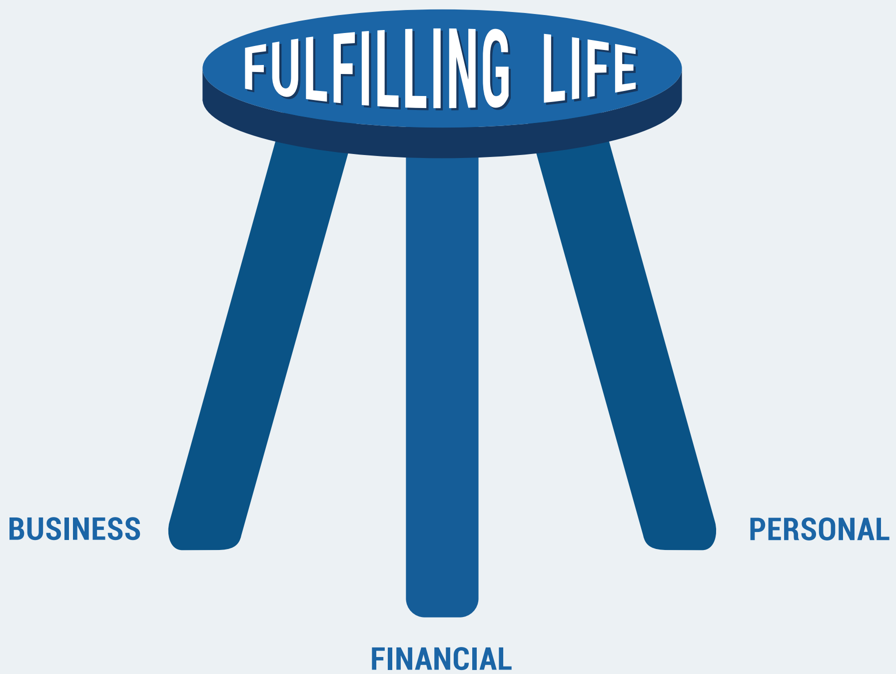
This case, while ultimately ending in the sale of the business, was not a smooth process due to the owner's lack of holistic planning. Since the owner of Speciality Chemical did not work with a Certified Exit Planning Advisor (CEPA) or a diversified team of advisors during his exit, he was unable to see how certain aspects of his business, while valuable to him, were not transferable to the next owner.

Mashuda states, "Working with an exit planner early in the process would have allowed the seller to better understand the business, establish realistic expectations, identify the challenges of selling the business, and change the business model in a way that would allow for a larger pool of potential buyers to be sourced."

HOW DID THE VALUE ACCELERATION METHODOLOGY IMPACT THIS EXIT?

By failing to work with a CEPA, the owner of Specialty Chemical was unaware of the Value Acceleration Methodology and therefore failed to have a deep understanding of their business value. Additionally, the seller did not have a cohesive personal plan in place for his life after he exited the business. Without planning for his personal and financial goals as well as business goals, he had a disjointed exit strategy. The Speciality Chemical owner failed to understand the risks in his business and personal life that would negatively impact the sale price of his business.

CEPAs educate the owner on all of the exit options and enter engagements with a holistic perspective to truly serve the business owner's diverse needs. CEPAs collaborate with a multi-disciplinary team of professionals to support the success of the business owner and use each other's specialties and expertise to the benefit of the project.



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