M&A Myths

Beware of these common selling tactics. They could hurt you.

When owners of an LBM business decide to approach potential buyers, choosing who to approach is a major determinant in the deal's success. There are the largest, most active buyers that we see in the headlines virtually every week; they figure in about half of all deals. The other half of acquisitions are made by smaller national or regional companies, who tend to buy other LBM operations whose sales territories are contiguous to or have only a small overlap with their own primary territory.

The good news is there are plenty of buyers out there—but some sellers choose not to approach them, often because of misconceptions regarding who would want their company. Let's bust some of those myths.

It's common, for example, for sellers to believe they shouldn't show their company to a potential buyer because "they're just like us." The opposite is typically true. The less a potential acquisition target looks like the buyer, the more risk they'll typically perceive in the deal and the less they'll be willing to pay. However, when a business is operating in much the same way as the buyer and represents immediate, turnkey geographic expansion, buyers may perceive less risk and pay more.

Other sellers think it doesn't make sense to show their company to private equity (PE) funds. Truth is, many PE funds have acquired lumberyards or other distributors. LBM companies of all sizes may be considered as add-on acquisitions.

Also beware sell-side advisers who say you should work with a small, select group of buyers and shows deals only to that small group. They'll argue that this approach will keep the deal quiet and allow the client to benefit from the adviser's relationships with the potential buyers.

This approach mainly benefits the adviser. When a deal is shown only to a handful of buyers, a five- to six-week process of discussing the deal with potential buyers is avoided. Since avoiding that work creates the strong possibility of not receiving a variety of attractive offers for the company, we have to mark that benefit in the adviser's column.

Keeping a transaction quiet is always for the best, but there are better ways to do so than avoiding potential buyers. In many cases, buyers and sellers have existing relationships that may include being customers of one another. These connections can make for an ideal marriage in a transaction, but they can also be difficult to navigate.

One way of doing so is to contact the sensitive potential buyer prior to even sending an anonymous description of the deal. You may learn that the buyer is reworking its debt structure or making other changes that have it on the sidelines. With these and other methods, the seller can close a transaction knowing they have heard from all qualified potential buyers—while still maintaining a quiet process.

Dialing in these various factors, the best approach to achieve the optimal offer from the market at any given time is one that includes a broad group in the discussions. A broad approach, conducted in a careful and responsible manner, accrues the maximum possible benefit for selling shareholders and the best overall deal outcome.

Michael Collins is a partner with Building Industry Advisors. He leads the firm's efforts in M&A, capital placement, and acquisition advisory services for building products distributors and manufacturers. Contact him at mcollins@buildingia.com or 312.854.8036.

ILLUSTRATION: PATRICK WELSH