

# Case Study

## The Power of Negotiation



**“Negotiation is an art, not a science.”**

Although the saying may sound cliché, it is a fundamental truth which must be remembered when negotiating the sale of a business. Flexibility, creativity, experience – these are the key attributes to deal negotiation. When selling your business, you need a firm representing you which understands the “art” of negotiation.

Negotiating a business sale is quite different from many other types of negotiation, and it is important to realize that having an investment banker negotiate on your behalf is critical in your ability to maximize value. Business owners are usually good at negotiation themselves, which leads to the belief that they can negotiate a business sale just as effectively without outside help. Although this is not an unrealistic assumption because most business owners have spent their careers negotiating with customers, vendors, contractors, and a host of other third parties, there are many aspects to a business sale which are quite unlike any other type of transaction. To maximize value in a business sale, you have to execute flawlessly in the following areas:

- **Managing the moving parts** - There are hundreds of facets to every deal and managing all the moving parts can be daunting. It is critical to have the experience necessary to anticipate and react to each event as it takes place.
- **Keeping emotion out** - A business sale is often a very emotional experience for the business owner. A sale is usually a once and a lifetime transaction which represents the monetization of years of hard work and perseverance. Owners are emotionally attached to their businesses, and rightly so – but when negotiations get tense, keeping emotions out of the game is critical to success.
- **“Knowing your enemy”** – Although potential buyers are not really viewed as enemies, it is critical to know and understand the mind of the buyer as if going into battle. Financial and strategic buyers each view the world in unique ways, and understanding the way a buyer views business opportunities can significantly affect the final price paid.
- **Effectively communicating your “story”** - Having managed a business for so many years, business owners often find that they are too intimate with their businesses to properly understand or effectively communicate what the potential value to an outside party could be. Getting the story right and communicating it through professional memoranda and other marketing material is an investment banker’s specialty.
- **Knowing the market** – Just like any other market, the market for a business obeys the laws of supply and demand, and it is an investment banker’s job to know the financial markets thoroughly. To successfully sell a company for a premium price, one needs market intelligence on comparable transaction data, current valuation multiples, and the latest valuation methodologies.

For an excellent example of the *power of negotiation*, this case study takes a closer look at Periculum Capital Company's recent sale of Maxon Corporation to Hammond, Kennedy, & Whitney Company, Inc.

Maxon, headquartered in Muncie, Indiana, was one of the largest manufacturers of industrial combustion equipment and shut-off valves in the United States, with additional manufacturing facilities in Europe and China. The Company was owned by a group of individuals and an Employee Stock Ownership Plan (ESOP) before the sale transaction. The Company's Board of Directors had determined that in order to get liquidity desired by shareholders and concurrently fund future growth a strategic sale was the best alternative. However, because of the Company's ties to the local community the Board wanted to maintain the Company's headquarters in Muncie. The Board realized that to accomplish this they would need to sell to a financial buyer, however they still wanted a "strategic" price.

The Company identified and courted a number of interested buyers, but none of the indications of value which they received met shareholder expectations. Frustrated with their efforts and needing to remain focused on their business, the Board engaged Periculum to negotiate with the potential buyers, manage the process, and close a deal.

Upon accepting the engagement, the Periculum team took steps to prepare itself. As with every transaction that Periculum is involved in, the team

- 1) performed due diligence on the Company
- 2) analyzed the industry outlook to properly position the opportunity for the financial buyers,
- 3) valued the company in light of its financial performance and comparable transactions in the industry,
- 4) put together professional presentations of the opportunity for the financial buyers.

After proper preparation, the negotiations began. During the negotiation process, Periculum not only had to drive price but also had to make buyers comfortable with a potential environmental issue and a deal that would be structured as a stock purchase. Maxon had made substantial investment in plant and equipment over the years, and it could not do an asset deal as there would have been significant tax recapture on the depreciated assets.

Over the course of the next two months, Periculum was able to drive the company's valuation by communicating new insights into the market, identifying potential consolidation opportunities for a financial buyer, and intensely negotiating with each potential buyer to achieve maximum value. Three months later, the transaction closed with Hammond, Kennedy, & Whitney Company.

**Periculum successfully obtained a "strategic" offer for the Company and a final purchase price which was 35% more than the highest indication of value initially given by the potential buyers.**

Periculum's professionals have the experience and expertise necessary to properly value a company and push buyers to their limit while still getting the deal closed. They do this with creativity, flexibility, and "art", and the Periculum team would love to help you leverage the power of negotiation in your business sale.

-The Periculum Team