

# Case Study

## Increasing Enterprise Value through the Investment Banking Process



People often ask us about our investment banking competitors. Our response is always the same: *"Our most significant competitor is the unrepresented transaction."* The typical unrepresented transaction occurs when a company receives an unsolicited offer for an amount deemed to be "fair," and the company proceeds to negotiate a transaction directly with a buyer without evaluating and testing the capital markets opportunity for the company. By some estimates, in excess of 70% of corporate acquisitions or merger transactions are not represented by financial advisors.

Earlier this year, we were engaged to represent a company that had received several unsolicited offers. Fortunately, the company retained Periculum as its investment banker to execute a sale process wherein Periculum developed and negotiated a successful transaction that was 50% greater in value than any of the numerous unsolicited offers. Through the process, Periculum was able to establish an auction environment with a significantly large number of prospective purchasers in order to get the "market" to respond as opposed to the direct negotiation of an unsolicited offer.

### Why the Investment Banking Process Works

In the aforementioned transaction, Periculum represented Peerless Electric Supply Co., Inc. in its sale to Crescent Electric Supply Company. Peerless was an established electrical distribution company serving commercial contractors in Indiana and Ohio. Crescent was a large national distributor of electrical products selling to contractors, manufacturers and other companies. Because Crescent had no physical presence in Indiana, Peerless was an excellent strategic geographical and customer fit.

Over the years, Peerless was contacted by several distributors who were interested in acquiring the Company. The shareholders of Peerless felt the offers did not reflect the value they thought appropriate for Peerless and sought an experienced financial advisor to execute a professional sale process for the Company in order to realize the value built by the shareholders over a long period of time.

The Peerless sale process included the following major elements:

- analysis of the competitive dynamics and trends of the industry;
- development of appropriate valuation scenarios to establish an expected price range;
- identification and screening of the market for potential strategic and financial buyers;
- completion of a definitive Information Memorandum based on the Company's information and our due diligence;
- solicitation and management of the process targeted to the most likely potential buyers, which included contacting more than 70 potential buyers;
- management and oversight of buyer visits and the due diligence process; and
- management and oversight of the final negotiations, completion of legal documentation, and closing.

As expected, Periculum generated a significant amount of interest from large electrical distributors who saw strategic benefit from expanding into Peerless' market. The Information Memorandum

provided the necessary data to encourage interest and provide the buyer candidates with the confidence to bid aggressively. Through our auction process, which enabled considerable due diligence opportunities and information to prospective buyers, Periculum received and negotiated eight letters of intent. Ultimately, a West Coast buyer was selected as the buyer with the best combination of price, terms and conditions.

Periculum assisted the winning buyer candidate to complete their final due diligence and commenced the negotiations of the purchase agreements and other closing documents. The sale to this buyer was within a few days of closing, when the buyer candidate identified issues which caused them to change their purchase terms.

As part of Periculum's process, we continue to maintain the interest of the leading original bidders for a company because of the potential for a proposed transaction to break up before closing. We felt the changes proposed by the winning buyer were not appropriate, and we terminated the executed letter of intent. With our client's concurrence, we were able to get a new letter of intent executed by another bidder – Crescent Electric Supply Company – within four days of the proposed change by the original winning buyer. We were also able to increase the purchase price with this new buyer candidate and ultimately closed the transaction within the original expectations of the Peerless Shareholders.

Our process resulted in a successful transaction with a purchase price which was about 50% greater than any of the previous unsolicited offers received by the Company. The market for the Company was explored to such an extent to assure that all fiduciary obligations were achieved by the Board of Directors and selling shareholders.

From our experience, the investment banking process will result in greater proceeds to the selling shareholders through a broad marketing process carefully managed by experienced investment bankers and provide significantly higher closure rates than responding to unsolicited proposals.

If you or your clients are considering the sale of a company, or are interested in reviewing how our processes may meet your needs, we ask that you give us a call.

Sincerely,

Periculum Capital Company, LLC