What Part of "Yes" Don't They Understand?

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It should have been easy. The buyer, our client, wanted to purchase a printing company in the region where another printer we knew had been talking about selling his business for several years. It looked like a good fit, and the buyer authorized us to present what we felt was a reasonable and realistic offer.

The seller, unfortunately, didn't see it that way.

Many other sellers have made the same mistake about the difference between what they think their companies are worth and what the market is prepared to pay. Too often, emotions, poor advice, and misconceptions about how the M&A marketplace operates scuttle deals that represent the seller's best chance of getting a competitive price.

Correct valuation depends on a number of factors, but a key one is knowing what buyers are willing to pay for a company of a given type at the time the acquisition is intended to take place. Think of it as a pricing snapshot: a range determined by what is happening in the marketplace now, not by what the seller imagines to be the company's cumulative worth over its entire life cycle.

In fact, selling a printing company is a lot like selling a house or another piece of real estate. Real estate professionals base their pricing recommendations on comparable recent sales of similar houses in the neighborhood. Professional M&A advisers keep the same kind of current tabs on sales of printing companies in the regions they serve. In both cases, the information is up to date and predictive of the kinds of offers the seller can expect to receive.

It's a simple concept, but it's one that sellers struggle with. Often, the biggest conflicts arise when lawyers, accountants, and family members offer advice that may be well intentioned but has little to do with the realities of the marketplace. Sellers who think that this input is more to their advantage than what their M&A advisors have told them may be tempted to hold out for a greater price than they have any real chance of getting. It's usually a mistake, and it can be a very costly one.

Sadly, this is what happened to the seller that our buying client was interested in. The owner insisted on a price that was double the figure we recommended. The buyer moved on to another opportunity, and the seller is still exactly where he has been for the last several years—ready to exit the business and take his reward, but without a workable plan for doing so.

The real downside of playing this kind of waiting game is that holding out for more today often means settling for less tomorrow. Market preferences change, and the companies that buyers are snapping up now may become less attractive to investors over time. Economic downturns come in cycles, and when the next one arrives, it could flatten or depress the selling prices of the companies hardest hit. Business-busting natural disasters can happen at any time.

We're not counseling pessimism. We are saying that when selling printers get fact-based pricing recommendations that reflect what buyers are prepared to do now, any period other than now is the wrong time frame to be thinking in.

Like the selling price the real estate agent proposes, the price from the M&A advisor aims at delivering the best possible return in the smallest amount of time. Stopping the clock with unrealistic expectations only brings frustration in the short term and the pain of economic loss when a sale at a less favorable price finally does take place.

If you are presented with a pricing recommendation that seems less than the true worth of your company, don't reject it out of hand. Your advisor can show you how the movements of the M&A marketplace have yielded a number that marks you as a seller whom buyers will know they can do business with. That way, you can treat the price not as a compromise, but as a profit opportunity that makes sense to seize while you still can.

New Direction Partners is an investment banking and financial advisory services formed by Peter Schaefer, Paul Reilly, Jim Russell and Tom Williams to serve the printing and related industries. Services include merger advisory services through the representation of selling shareholders as well as buy side representation, valuation services, financing and refinancing efforts, turnaround and restructuring services, and temporary/interim management consulting. To learn more about New Direction Partners, visit New Direction Partners' website at www.newdirectionpartners.com.