

# Links Capital's Perspectives

## M&A Advisor's Changing Environment

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Many articles have been written on why you should engage an investment banker or M&A advisor to sell your business. If you are going to hire someone to sell your business, make sure you fully understand how they are going to manage the process before you engage them. This means knowing who is doing what for you.

I've been a partner in a private equity fund and a director of a private equity management buyout fund focused on Western Canada, so I have had my share of interactions with advisors selling businesses. Personally, I didn't plan to be in the advisory business, but when I was exiting the private equity business and sent out that email to let people know I was leaving... that's when everything began.

That very same day, a past vendor, who our private equity fund purchased a business from, asked me if I would be interested in selling his other business as he would prefer to have me "on his side of the desk". Shortly thereafter, another former client asked if I would help him raise capital to acquire a business that he had previously sold to a large public company who wanted to spin off the division. These encounters made me reflect on why they wanted me to help them instead of a large M&A shop or accounting firm.

Many years of private equity and investment banking have made me knowledgeable from a buy and sell perspective, but what made me different from the many boutique investment banks and accounting firms that offered similar services? I learned a lot by sitting through presentations, asking questions of advisors, reviewing various confidential memorandums, and having conversations with unprepared management teams. Maybe that's why they were coming to me.

I thought back to all my interactions with advisors and one thing was evident: in most cases, the senior managers on the file didn't have all the knowledge about the business that they needed to represent their clients successfully. In my meetings, if you asked the senior manager a difficult question and he or she was unable to answer, they would look down the table at the young junior analyst, the one who spent time compiling much of the due diligence and who knew the business far better than the senior manager. This is what managers refer to as deal leverage, having the junior analyst do the work and then the senior manager comes in for the close.

***How much value is lost between the information the junior analyst has and the information that the senior manager should have?***

**ACQUISITIONS  
DIVESTITURES  
FINANCINGS**

**Links Capital specializes in the divesting and financing of businesses in the Canadian middle market.**

Links Capital's philosophy is to preserve value throughout the entire transaction process. Senior partners handle all aspects of the transaction from inception to close and beyond, maximizing proceeds.

**Being experts in private equity markets and corporate finance enhances value to our clients through extensive buy and sell-side experience.**



**NORSEMAN**

A manufacturer and distributor of industrial foam and fabric products along with their retail camping division

**has acquired the assets of**

**COVER-ALL**  
BUILDING SYSTEMS

Links Capital acted as financial advisor to Norseman Group Ltd. in the structuring and negotiating of the acquisition of assets



Links Capital



**Links Capital**

Divestitures • Acquisitions • Financings

**Links Capital are specialists working with private equity firms, institutional investors and strategic purchasers in raising capital and divesting of businesses**



A third-party selling a business must be as committed to the process as the owners, who have spent a good part of their life building the company – they are very invested. So, if an owner is going to hire a specialist, they need to hire one who is totally engaged in the process.

A specialist should have a good understanding of your industry, but if he or she doesn't fully understand your company, you should consider that a fundamental problem in maximizing the potential value in a transaction. If your specialist isn't fully engaged, they are stuck in the middle, which is the worst place to be, but it's where many senior managers in big firms are. They think it is all about the leverage and not about getting the best they can for their clients.

## Deal Platforms

One selling point from the larger firms is “we have offices all over North America” and they can consolidate the information from their network for acquisition opportunities along with the accompanying deal metrics.

In recent years, the benefit of having many offices has been mitigated with new deal-making platforms with thousands of members (strategic and private equity), both domestic and international, who are looking for acquisition opportunities.

These new platforms have provided a much larger network for the boutique advisors than any advising firm could hope to have, regardless of the number of offices or years of experience. These deal platforms with their large network of domestic and international purchasers looking for acquisitions, have changed the landscape.

## Deal Data

Deal data are also now readily available; in the past this information was limited and gave a competitive advantage. Data consolidators now provide boutique advisors with various quantitative and qualitative deal metrics, such as proprietary valuations, leverage and key deal terms, at a price which is tilting the playing field. These advancements in technology and data mining all but eliminate advantages that the large deal advisory firms had over the smaller, boutique firms.

As an example, the below table summarizes North American private equity multiples for the broad market.

TANGIBLE ENTERPRISE VALUE/EBITDA - QUARTERLY SPLITS									
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	Avg.
TEV (millions)	2017	2017	2017	2018	2018	2018	2018	2019	
10-25	5.7	7.0	6.9	5.9	6.2	5.8	5.6	6.1	5.6
25-50	7.2	6.0	6.9	6.7	6.6	7.0	7.2	6.9	6.3
50-100	8.6	8.5	8.8	8.9	9.6	8.3	9.4	7.2	7.2
100-250	8.7	9.2	9.8	8.5	8.4	8.4	9.6	8.8	8.0
TOTAL	7.2	7.5	8.0	6.9	7.3	7.1	7.7	6.9	6.4

Data Source: GF Data®

Links Capital sends out their quarterly **Links' List of Multiples and Buyers**, which summarizes the current North American private equity purchase multiples, the current deal environment and also includes a list of industries and areas where selected strategic and private equity buyers are interested in investing.

Links Capital Partners is a professional firm focused exclusively on Selling Businesses, Raising Capital and assisting our clients Acquire Businesses. Links Capital are specialists in working with private equity firms, institutional investors and strategic purchasers in raising capital and divesting of businesses.

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