



Who are the Buyers for Privately Held Businesses?

Episode 3: Monetizing Your Business Podcast

June 2021

Types of Buyers

Strategic

Industry, Corporate type, often public company

Private Equity - Institutional Capital, Family Offices

Funded, Pledge or Non-Funded

Private Individual

Buying a Job, Previous Business Owner

*Understanding HOW buyer types buy and WHY
is KEY to you as a Business Owner/Seller*

Strategic Buyer Characteristics

- Who are these buyers?
 - Corporate, competitors, synergistic
- Purpose
 - Synergy/Market Share/Growth/ROI
- Size – Transaction Value
 - \$1MM – \$50MM+ depending on fit
- Ownership
 - 100%
- Control
 - 100%
- Current Mgmt. Role
 - Varies/Limited
- Financial Leverage
 - None or Limited
- Deal Structure
 - Cash
 - Stock of Investor Company
 - Earnout
 - Bonus/Royalty

RISK to Company from a Strategic Buyer

- Expose company weaknesses to competitors/customers
- Breach Confidentiality - Rumor mill damage
- Steal employees / customers
- Loss of Identity

Private Equity – Institutional Capital Characteristics

- Structure
 - Funded, Unfunded, Pledge, Family Office
- Purpose
 - Financial Returns Through Growth
- Size
 - Platform 2+MM EBITDA, add on smaller
- Ownership
 - Control or Non-Control, firm dependent
- Control/Non-Control
 - Buyer group dependent
- Current Mgmt. Role
 - Remain active, preferably long term
- Hold Period
 - Typically 3 - 5+ years
- Investor Mgmt. Role
 - Arms Length, Passive Board Level, Project
- Financial Leverage
 - Mid to High
- Deal Structure:
 - Cash
 - Seller Note
 - Stock of New Co
 - Earnout

Individual Buyer Characteristics

- Background
 - 1st Time Buyer, Previous Business Owner
- Purpose
 - Buy a Job and/or Better Financial Returns
- Size
 - Range small up to \$5M, rarely larger than \$5M
- Ownership
 - 100%, Active, Day to Day involvement
- Control
 - 100%
- Current Mgmt. Role
 - Looking to replace owner, Keep Mgmt.
- Financial Leverage
 - Generally High, SBA
- Deal Structure:
 - Cash
 - SBA or Bank Financing
 - Seller Note
 - Earnout

Buyer Types by Transaction Size

Buyer Types	Transaction Value Ranges in Millions \$		
	1-2	2-5	5-50 +
Strategic	30.3%	35.6%	36.7%
Private Equity			
Platform	2.8%	7.0%	23.4%
Add-On	3.7%	5.9%	21.2%
Individual			
1st Time Buyer	33.2%	26.3%	6.4%
Previous Business Owner	28.7%	22.9%	8.4%
Other	2.3%	2.2%	3.9%
<i># Transactions</i>	963	673	510

1-2MM Transaction Value – 61.9% are Individual Buyers

2-5MM Transaction Value – 49.2% are Individual Buyers

5-50+MM Transaction Value – 81.3% are Strategic or Private Equity Buyers

Why Buyer's Buy

Reasons for Buying	Transaction Value Ranges in Millions \$		
	1-2	2-5	5-50 +
Horizontal add-on	25.6%	32.8%	42.6%
Vertical add-on	14.5%	14.0%	22.1%
Better ROI	19.9%	19.9%	13.6%
Buying a job	28.2%	22.5%	5.3%
Other	11.8%	10.8%	16.4%
<i># Transactions</i>	963	673	510

Regardless of Transaction Size, Nearly 60% of the Buyers are Buying for Growth or Better ROI.

Tip!: Sell when your business is hitting on all cylinders, not when it has flat lined or is failing!

Deal Funnel (pre COVID)

Opportunity Sourcing	Per Year Average*	Deals Received	Deal Books Reviewed
Total Deals Received	1259	100.0%	
NDA Executed	191	15.2%	100.0%
IOI Submitted	19		9.7%
Management Visits	10		5.0%
LOI Submitted	5		2.4%
Deals Won	3		1.4%

* Sample over 6 year period from PE Firm with a committed pool of capital, a 20+ year track record and 3 deal origination partners.

Key Take Away: "Get your house in order" BEFORE you go to Market!

Key Take Aways

Have a Plan Before You Start

Talk to Your Advisors: CPA, Wealth Advisor, M&A Intermediary, Deal Attorney

Ask Yourself: "Will the Sale of my Business Fund the Next Chapter in my Life?"

Know what you NEED from a sale and WHY you want to Sell

Employ a Competitive Process to Generate Multiple Buyers

- *Multiple Offers equal Options*
- *Options equal Choices and Negotiating Leverage*
- *Choices and Negotiating Leverage equal "Best Deal for YOU!"*

In for our next episode we explore running a Competitive Process

We hope you enjoyed this presentation and learned some valuable information

- If you have questions or would like to set up a complementary confidential call to discuss your opportunity, or
- If you have comments or suggestions on how we can improve these type presentations, or
- Have topics that would be of interest to you. (Note: we will only pontificate if we have the experience and knowledge to do so. If we do not, we will interview folks who we know are a strong and trusted resource on the topic.)

Please email Renae at: renae@uptonco.com

Thank you