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Making the pieces fit

Mergers must make sense for both parties, experts say

By Martin C. Daks

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From left, Michael Meyer, a business broker with the Benjamin Ross Group; and Clint Riley and Avery Allen, partners of Princeton Irrigation Specialists. The appeal of an existing client base won over Riley and Allen, who purchased the Robbinsville-based company when its former owner retired. [Christina Mazza]

After 53 years in the school bus business, Arthur Jordan sold his company to a larger competitor in September. But though Jordan is ready to retire, his son will stay on under the ownership, and likely will play a big role in the parent company's operations, according to Stephen Goldberg, whose firm brokered the deal.

"From Arthur's point of view, the sale of Jordan Transportation was an important estate planning and wealth distribution tool, since not all of his children work in the business," said Goldberg, managing partner of Hasbrouck Heights-based Sun Mergers & Acquisitions. "From the buyer company's point of view, it's a good fit, since many of its routes are near Arthur's routes, allowing it to centralize more operations."

To be successful, a merger or acquisition has to make sense for both parties, Goldberg said. It's a combination of timing, pricing and growth potential.

The overall pace of M&A activity is off, given the weak economy, but Goldberg said his firm benefitted from a few big-ticket deals.

“Normally, it takes from six to nine months to close a deal,” he said. “We’ve had to put some planned deals on hold in this quagmire, though. At the same time, we’re seeing more companies growing through acquisitions, instead of organically.”

When it comes to due diligence, “buyers are looking at current earnings,” he said. “Historical results aren’t as important, especially in this shaky economy. Buyers are also looking at how well a business is protected against obsolescence, shifts in marketplace, overseas competition and the level of customer concentration.”

Those issues and others can be even more important in a weak economy.

“This is not your typical recession,” said CPA Brian Greenberg, owner of Brian C. Greenberg & Associates LLC, in Marlton. “I would be nervous about buying a company right now.”

Buyers should consider the short and long-term trends of the economy, the target company’s industry and the company itself, he said.

“Even in good times, it can be tough to get reliable information about a closely held business,” Greenberg said. “You don’t want to take on a lot of debt and find out you’ve overpaid for something — especially in this economy.”

A seller also has to feel comfortable about the terms of a deal.

Princeton Irrigation Specialists former owner **Hal Dunn** sold his Robbinsville-based commercial and residential sprinkler business because he was ready to retire, said **Michael Meyer**, a broker with **Benjamin Ross Group**, a business brokerage with an office in Princeton. The buyers, a pair of business partners, liked the fact that they had an existing client base and wouldn’t have to build a company from scratch, Meyer said.

“A buyer has to feel comfortable with the industry and with the seller,” he said. “Buyers often focus on cash flow after debt service, and will want to review three years of tax returns and recent financial statements. A seller, of course, will want to be sure that the purchaser can finance the deal.”

Historically, a buyer would put down about 25 percent in cash, the seller might hold a note for another 25 percent and a bank would finance the balance of the price, said Achim Neumann, president of the Atlantic Highlands business brokerage firm A. Neumann & Associates LLC. “With the tight credit market, though, sellers are providing more of the financing.”