



Maxi-AUCTIONSM PROCESS (Actual CASE STUDY)

Seller: Southeast based value added Distribution Company selling niche products to the construction and homebuilders market from 80+ company owned locations. They had a very strong CEO and excellent financial and operational systems in place. This along with a ten-year period of constant growth in revenue and EBITDA made this \$220 million revenue company a very attractive platform acquisition and equity recapitalization opportunity. The founder and majority shareholder had rejected an offer from a major big box retailer of \$100 million over concerns about the culture fit. The Company shortly thereafter entered into a Letter of Intent with a well-established private equity group (“PEG”) that was not able to close on its latest fund and thus could not close the transaction. A large limited partner of this PEG agreed to step into their shoes but the seller had reached his limit and passed.

Opportunity: A middle market Investment Banking (“IB”) firm had been calling on the Company but the Seller did not want to hire an intermediary because they only wanted to deal with a principal investor. However, after the negative experience with the PEG and strategic buyer, the founder contacted the Investment Banker and agreed to provide them a limited opportunity to match or exceed the offer on the table. The IB was given a forty-day period to approach a limited number of potential buyers and the IB fees would have to be paid by the Buyer. A one page blind “Teaser” was sent to ten potential financial buyers. No strategic investors were included because of the short time fuse. The seller had major deal fatigue and insisted on several very strict ground rules to accelerate the process. These were:

1. All potential buyers MUST sign the Seller’s Confidentiality Agreement as-is.
2. All potential buyers MUST sign an identical Fee Agreement with the Investment Banker facilitating the transaction to avoid conflicts.
3. Valuation Expectation – 6.5 X of Trailing Twelve Months (“TTM”) EBITDA (approximately \$123 million)
4. Founder wanted to invest 30% in Newco on a pari-passu basis with the buyer and grow the company to \$500 million in revenue with an exit in five to seven years.
5. CEO very debt adverse –Newco could not have more than 50% debt on the balance sheet.
6. Letters of Intent (“LOI”) MUST be received by the end of the forty-day exclusivity period. They could only be subject to buyer due diligence and documentation in accordance with business terms described in the LOI.
7. Closing MUST occur within ninety (90) days from acceptance of the LOI or the seller could terminate the transaction at his option.

Results: The Teaser, along with Seller’s form of the Confidentiality Agreement and the IB’s fee agreement calling for a 1.75% fee was sent to prospective buyers with approximately 30 days remaining in the exclusivity period. Four firms passed, six signed the fee and Confidentiality agreements and five conducted site visits and submitted LOI’s by the deadline. Two firms offered a fixed price of \$130 million when TTM EBITDA had dropped to \$18.5 million (\$30 million more than the strategic buyer had offered six months prior) and agreed to the other “essential requirements” of the seller.

All buyer diligence and documentation requirements were achieved within the 90-day timeline.