Developing relationships & not just transactions in M&A…. **Jeffrey Ishmael**
Some will argue, but creating a successful deal is all about relationships. **June 3, 2008**

I've had the opportunity to be involved in a number of M&A deals and there was no one deal that was alike. All involved extensive effort and detailed work with the incumbent management team. However, there was one deal that I had the pleasure, and I do mean pleasure, to work on. I believe that the work I did on this one particular project will shape my approach to future deals and how I work with potential acquisition targets.

One of the CFO's I had worked with asked me to meet with one of the V.P.'s within our company who wanted to present a potential acquisition for the business unit he was responsible for. The target in mind was a small service-based business in the Southeast who he had been using for some 3rd party installation services. It was simply being viewed as a "review of the financials, do the deal, and bolt it on…." *Ummm, right…..*

Once I received a copy of the financials I started my standard review and found that much of the information contained in the financials was not consistent with that discussed in the MD&A section. Once I started questioning the management team about the information it was clear that they were not prepared to address any type of inquisition into their financials. In fact, I was told that the financials I had shouldn't have been released and there were corrections that needed to be made to the presentation. What was I dealing with at this point? *At this point, most would have walked away over what was a serious lack of preparation*.

After further discussions with the management team it became pretty clear that they had a good handle on the Sales & Marketing side of the business but had never received any quality guidance on their financial matters and were pretty much "winging it" in their month-to-month reporting and analysis. When we finally did have a set of "final" financials for the periods we were reviewing, the EBIT results had swung from positive to negative. *If I didn't walk with the first "hiccup" then this should have been further reason to say" thank you" and move on*.

However, in my review I had a feeling that there was actually a good underlying business model that could be a good complement to our business. One that could be improved and with the right degree of coaching and ongoing review, could be turned profitable pretty easily and we could then develop the case for an acquisition. While the owner would have preferred to have a nice payday in the short-term, he wasn't in dire straights and it looked like we had the window to improve the business. It was made clear to him that unless we had a positive EBIT story with good growth, that there was no deal.

We committed the next month to developing a forecast for the next 2-years that would be followed up on monthly and would move us towards a strong EBIT story that could then be presented to the Executive Team for consideration. *This was not done on speculation though as I had already had conversations with our Executive Team about targets for this company and received an endorsement from them not to kill the deal, but to help in the development of the business*.

At this point, the company was clear on what they needed to accomplish. Since I had spent extensive time on-site with the management team and helped in the development of their forecast, I was expecting that they would be a consistent alignment between their actual results and our forecast. I was pleased when the monthly results continued to exceed the forecast, but not in a blowout manner. We had taken the approach to under-promise and over deliver. We were meeting the goal of top line growth while also showing the necessary management of SG&A expenses.

They also showed their commitment to the plan when it became apparent that not all of the existing players in their organization had the skillset to take the company to the appropriate levels. There were changes in their Sales staff as well as some of their Field Service personnel. While the owner may not have had a firm grasp of the financials in our early meetings, he was making it very clear that he knew the intricacies of his business inside and out, and with the appropriate team, could deliver the results. While he maintained office management staff to handle the books, I essentially acted as his 3rd party CFO.

In the development of the original forecast, we were looking to achieve an EBIT level of approximately 13% with a targeted buyout in the range of $8 million. That was the number that he was originally targeting and we developed the forecast that would help him get there.

Over the course of the next 18-months there were numerous trips made by members of our Executive Team and business unit managers to review the progress of the business and ensure that we were working towards a common goal. There was a constant validation of the forecast and we were constantly reviewing to determine if there was additional upside. In fact, it was almost as if we had developed a more formalized agreement with the company as information flowed freely between our two entities.

While all seemed to be progressing well, there were always little bumps along the way. I know that they owner, at times, was tired of "proving what the business was capable of" and really wanted to see some closure, regardless of whether he was going to stay on or not. Since there was no formal documentation in place regarding a transaction, the company's owner also took the liberty of shopping a bit on his own and found some interested parties, but none of substance.

With his results showing continued strength, he was able to secure a very interested public entity in the Northeast who believed, as we did, that they would be a great complement to their existing business. About this time, our company also got pulled into the first stage of the merger with a significant competitor, which took our eyes off every other target and goal. All acquisitions were put on hold and I had to call them and give them the news. However, not all was bad….

In the end, that little company in the Southeast exceeded the goals that we put in place, not only at a revenue level but an EBIT level. Based on the strength of their results they were able to secure a purchase price from that publicly traded entity in the Northeast that was almost 50% greater than what we were willing to offer. It was a tremendous success for them and a validation that what we were working towards was recognized within the public markets.

To this day I stay in contact with the owner of that firm to follow-up and see how things are going for him post-acquisition. His goal was to secure his future, as well as stay on and continue building what he had been working on for so long.

If I was working strictly on a transaction basis there would have been multiple trigger points for walking away and not taking the time to develop the deal. There would not have been the satisfaction of helping him turn the business back profitable and to assist in the revenue growth. We would not have achieved that success without honest and open communication. The work that was done on this deal was gratifying and will definitely influence my work in the future.

Thanks for reading……

Jeffrey Ishmael