

Market's Ripe for Acquisitions



For a company with cash on hand, it's a timely opportunity for buying bakeries and snack producers.

Cash, in a word, is king in today's market. Either you have it, produce it on a regular basis or are starved for it. For those food companies with cash or additional availability to see it through existing bank facilities, the current environment presents a once-in-a-generation opportunity to acquire market share, key customers and channels, and valuable intangible assets at the expense of competitors.

Independence is not all it's cracked up to be. In this market, many business owners are finding that the internal demands of remaining independent such as personal bank guarantees and maintaining employee morale are just as challenging as fighting eroding consumer product demand and slow paying customers. To many owners, today's independent businesses have to work twice as hard for half the return.

Some independent owners may be

forced to consider a sale simply to save their businesses rather than liquidate. Transactions in the current market involving distressed businesses are being consummated using a variety of types of consideration including cash, seller notes, contingency payments based on future performance and employment contracts.

Given the typical lack of positive cash flow of these businesses along with the dearth of new cash flow-based loans being written by banks, most of the additional funds needed to put these newly acquired assets to work will come from asset-based or collateralize loans.

It's no secret that business valuations



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are down, along with virtually every other income-producing asset these days. For transactions below \$50 million, enterprise value-to-EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) multiples in the United States in 2008 decreased to an average of 5.6 times, 8.8 times in 2007 and 11.8 times in 2006, according to London, UK-based Dealogic.

From a buyer's perspective, this is an excellent opportunity to pursue acquisitions of companies that see a need to transform their independent status, and acknowledge that the value of their businesses in today's market is not the same as it was in yesterday's market.

We recommend, as simple as it sounds, to first formulate an acquisition strategy, rather than just acting on a rumor that a competitor may be for sale. Most strategies fall into one of two categories — consolidation or growth.

One consolidation play involves rationalizing costs across a larger sales base. Do

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you have the skills to identify and execute consolidation of such items as production capacity, routes and back office customer servicing? Another type of consolidation involves share of market, which can lead to more leverage with suppliers, distributors and retail customers.

The second category is growth, which is primarily concerned with opening and entering new markets for your company. It may involve buying your way into a new product market with which you are familiar but have not participated in so far. Ideally, the new market can be attacked in much the same way as existing markets with your corporate core competency, which will lessen execution risk.

Another option is to buy into a developing market. This is a higher potential reward scenario with high execution risk and prospects for significant execution cost along the way. In either case, the common thread is management. You need skilled,

experienced and effective managers, whether they come with the acquired company or from your own ranks, to deliver a return on your investment.

Once you have identified your strategy, it is time to analyze the benefits of a specific acquisition. Most of the value associated with an acquisition will be captured through a series of revenue-enhancing and cost-reduction activities during the integration phase that merger and acquisition practitioners like to classify as “synergies.”

Revenue synergies may come in the form of increased distribution channel access, enhanced brand recognition, innovative marketing strategies and other characteristics unique to the joined businesses. Cost synergies may come in the form of consolidated corporate functions, economies of scale in marketing activities and advertising, common IT and inter-company communications platforms, and

adoption of effective practices across the combined businesses.

For those bakers and snack producers in a position of strength, today’s capital markets offer an opportunity to “move up the rung.” During the bull market of the last few years, growth by acquisition was prohibitively expensive, particularly for companies operating in slower growth categories.

There are many ways to identify potential acquisition targets other than just marketplace rumors. If you are considering a sale down the road, this could be the first step toward enhancing the overall sales price of your business and getting the benefits of the synergies. **SF&WB**

Editor’s Note: Stephen Tardio and Philippe de La Chapelle are managing directors at HT Capital Advisors, LLC, a privately held investment banking firm focused on middle market merger and acquisitions and advisory services, with offices in New York and Chicago and representation in Paris and Boston.

Advertorial

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That’s why Berndorf Belt Systems recommends the CARBO 13 belt, which can accommodate operating temperatures up to 752°F because the steel goes through a complex heat treatment process to achieve the required tensile strength and surface composition. Plus, its dark black surface, acceptance of radiant heat, high thermal conductivity and low thermal expansion offer a reliable base for bakery products.

The Elgin, Ill.-based company’s belts operate between two drums ensuring precise tracking and belt straightness, thus resulting in less downtime and belt



damage, which is essential for bakers, snack manufacturers and OEM bake oven producers.

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Editor’s Note: Berndorf Belt Systems USA provided information for this article.