

# Volatility IS Opportunity

(Stormy seas are where money is made)

We have many years of experience in mergers and acquisitions in the building products sector and can point to sector changing deals that we have been involved with both on the buy and sell side for clients. As a result our phones are now ringing with interested parties on both sides of that fence some who see market volatility as a crisis not to be wasted and some who see it as a last throw of the dice.



***If you are on the buy side of a transaction the first thought is of course that prices will be depressed and that a bargain is there to be had*** and that's true but it's not as obvious as it looks. Sellers of what are good

assets (cash generative, profitable, sustainable, well capitalised businesses) are unlikely to agree to a pitch that steals the business from them (as they would see it) for less than it's long term value based on what they may see as an 'event' rather than a long term destruction of their market or business model. So if you are on the buy side how do you value that opportunity? The traditional model of a multiple of EBITDA on a cash and debt free basis is almost useless as, in the words of every investment warning you have ever seen 'past performance does not guarantee future performance' and buyers will tell you they do not pay for future profits (although of course they do as they expect profits from the asset they buy). Valuation then becomes complex and requires a strategic as well as an accountancy approach, what's the potential/likely future performance, does this acquisition give the acquirer a product/market/geographical opportunity and if so what's that worth? A ready made stable skilled and productive workforce is also a factor in thinking about paying over and above this year's EBITDA multiple. ***As a seller if you are likely to get an offer below last's years perceived value why would you sell your business?*** For some it's about a lack of appetite for the fight to come and for some it's a reaction to a scare about the money they effectively still have 'on the roulette wheel', a dilemma when you believe in your business's future. Being creative in the deal structure has allowed MBA to broker deals that, whilst there is some risk on either side, manage that risk and realise the opportunity for buyer and seller, it can be done but it's not straightforward.

The other sort of seller in this market is a distressed business that will not survive the shock of the downturn, if you want cheap assets then much better to let these businesses fail and buy from an administrator. There are not many buyers for manufacturing capacity and if it's a competitor that you are looking at just hunt their customers, no need to pay for losses and a tragic balance sheet. Turning round a business, even if the acquisition cost is £1 may well be costly, and not just in monetary terms, unless you are sat on the management 'bandwidth' to restructure all you'll likely do is buy losses.

There is no 'one size fits all' formula to realise opportunity from this market but opportunity it certainly is.

Deals for buyers who can only leverage consideration on the assets of the business they want to buy are very difficult at present but if you are sat on some risk capital and play a careful hand market downturns, volatility, changing business models and vendor mindset are opportunities to build value. ***Rising or falling markets are where serious money is to be made.***

*Chris Ball is a Director of MBA, MBA Associates Ltd is a specialist consultancy that partners clients to **Recruit, Retain and Develop Top Performing Teams.***

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