ALLIANCE OF MERGER & ACQUISITION ADVISORS®

At the Conference – Supersizing the Pie

Martha Sullivan, Partner, Honkamp, Krueger & Co, P.C.
Chuck Mohler, Principal, Eagle Corporate Advisors

At the Summer Conference, attendees were introduced to the AM&AA's New Standards for Collaboration. The standards include the launch of the Alliance's New Center for Excellence Platform and the new "Learn, Improve, Deal" framework to help members convey the value proposition of collaborative engagements to peers as well as business owners. (Watch for more information on the "Learn, Improve, Deal" framework in the next newsletter!)

We had a lively discussion around the fears, obstacles and concerns surrounding collaboration between intermediaries, private equity groups (PEGs), value growth and other advisors. The panel, comprised of investment bankers, private equity principals and value growth advisors, tackled the biggest obstacle head-on – the issue of trust. The reasons members share for resisting collaboration are all rooted in trust, including fears that the referred-in party will:

- Slow the deal down
- Steal the deal
- Never reciprocate
- Go rogue on me

The panel discussed how they overcame these legitimate concerns.

Jason Tuzinkewich, an investment banker with Cornerstone Business Services based in Wisconsin, stated that their collaborative relationships have been years in the making. "We wouldn't bring someone new into a transaction that we had not already developed a relationship with." Instead, Cornerstone develops its relationships with other advisors and industry players on an ongoing basis so that, when the time comes, they can make the best of opportunities that arise. "By the time we get to a deal, we understand how each other likes to work and how we work together. This actually allows the deal to go faster and smoother, a win-win-win situation for everyone involved."

John Mickelson, a principal with the private equity firm Midwest Growth Partners, echoes the need for all members within the ecosystem to commit to investing up-front and develop relationships now that can be the basis for collaboration in the future. "We have a collaborative relationship in place with several investment bankers. One in particular took several years to develop. I met the founder on the other side of a few deals. We got to know each other bit by bit. I made the investment of time and money to go visit him, although his operation is in another state. We started small and then grew to the point where we were comfortable working with each other on larger projects."

For Kyle Madden, a principal with KLH Capital, collaborative relationships with other advisors serve as the basis of the KLH business model. "We made a conscious decision that we were going to market to other advisors within the ecosystem rather than the business owner themselves. This creates the opportunities for cross referrals and a fluid deal flow."

The fears surrounding someone going "rogue" on a deal are real. It happens from time to time. However, not often. According to Mr. Tuzinkewich "You've invested all of this time and energy into forming a solid relationship with someone. Why would you want to blow it all up by going rogue?" Chuck Mohler, principal with Eagle Corporate

Advisors, a value growth firm in Las Vegas, concurred. "If you have gotten to know one another and established game rules for communication, your processes, and so on, you'll be fine. If you don't have things set up, that's where you'll run into trouble. "

Sid Shaver, an investment banker with B&V Capital Advisors, adds that "If someone goes rogue on you, you haven't vetted them very well. It can happen, but then you revisit whether this is someone you want to do business with again. The same is true with the fear of someone stealing a deal. I've not actually to my recollection had a referred-in advisor actually confiscate or hijack a transaction. Most people want the transaction to be a mutual success."

The panel discussed how to structure a collaborative relationship. Martha Sullivan, a Partner in the Business Transition Strategies group at Honkamp, Krueger & Co., noted that her firm has formal and informal agreements in place for its collaborative relationships. "This provides clarity around roles and responsibilities. Will fees be shared and, if so, on what basis? As it relates to fees, however, you need to be careful. CPAs need to be aware of the AICPA Code of Ethics and when you may or may not accept contingent or referral fees. Investment bankers covered by FINRA also have specific laws that must be followed, although the Campaign for Clarity is working to move new legislation forward."

Forging these collaborative relationships now, well in advance of any deals, positions all of the players in the AM&AA ecosystem for more successful deals. Value growth players can know which investment bankers and private equity groups best fit the company owner and bring them more qualified businesses to sell. Conversely, when a company isn't market ready, investment bankers and PEGs can rely on the relationships developed with value growth advisors and other consultants. They can refer an owner to an advisor that can help fix the deal-inhibiting issues, knowing that the advisor will direct the owner back to them when the time is right. Otherwise, the banker or PEG may never see that business owner again.

Chuck Mohler summarized the discussion well. "By planting the seeds for the deal and building your trusted relationships now, things will go smoother when it comes time to make a deal happen. We can help each other help the business owner be ready, themselves as well as their business, for a transaction. More companies can be deal-worthy and more transactions can close. It's win-win-win for all."

(Watch for more information on the "Learn, Improve, Deal" framework in the next newsletter!)