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Exit or Expand? A Guide for Business Owners

The robust acquisition and consolidation of former family-owned precision metal forming, and fabricating technology companies continues its strong 5-yr pace, with expectations it will continue throughout 2023. Both strategic and financial buyers (e.g., private equity) are consolidating competitors to increase market share and expand product lines. While some business owners are looking aggressively into the future, others feel “exhausted” and are ready to cash out at what could be the peak of the M & A frenzy. Either way, we see tremendous opportunities for family-owned companies (including PMA members) to either sell or grow through acquisition.

Some of the variables adding complexity to M & A activity include the well-documented supply-chain issues and increasing workforce challenges. Asset-intensive metal forming companies face significant change that will create challenges, and opportunities. Besides wondering if your children or next-generation family members are prepared to run the company, business leaders must consider

supply-chain disruption, rising material costs, technology changes and sustainability.

Faced with these dichotomies and a red-hot M & A market, many business owners and stakeholders wonder what strategic direction to follow. This is the time to ask yourself if you have the strength to weather another year of ownership stresses. If not, is the next generation of your family ready and willing to step in and lead the business to a higher plateau? If you decide to expand, you can choose to continue to grow organically or through acquisitions, finding partners or additional funding. On the flip side, if you do not want to make the necessary investments to remain competitive—or you choose to take advantage of the high valuations in the current market—this may be an ideal time to sell.

Regardless of the path selected, begin the process with a thorough and honest evaluation of your business and personal situation. Discuss these topics with your management team and conduct a brainstorming session

with an investment banker experienced in guiding businesses through strategic alternatives. The banker should understand your role in the precision metal forming industry, as well as the needs of a business of your size, to enable you to properly evaluate options, navigate the process and ensure the most value from the transaction.

Options for Growing Your Business

If you decide to invest and expand your company, your options include:

- Find a partner—Seek a strategic partnership to propel growth with expanded resources or capabilities.
- Secure growth capital—There are several sources of growth capital, including:
 - Bank debt via a commercial loan; the market currently offers favorable rates and terms.
 - Mezzanine financing through an unsecured loan that typically commands higher interest rates than a bank loan, but has no principal amortization, optimizing liquidity.
 - Equity investment, in which an individual or firm exchanges cash for ownership in your company with the anticipation of sharing in the income.
- Acquisition—If you want to consider an acquisition, only choose to acquire another company that will be accretive to the value of your business. Begin by developing a checklist of criteria that the acquisition should provide.
- Organic Growth—Create new ways to increase revenue by using your existing resources more effectively.

Choices for Exiting or for “Taking Money Off the Table”

There are several options that exist to “take money off the table.” You can do a recapitalization (recap) that will reorganize the balance sheet and allow you, as the owner, to take money out of the business while maintaining control. You also can sell all or part of the business.

Various types of buyers who have different advantages and attributes:

- A strategic buyer, who often pays the highest price and has significant synergistic reasons for wanting to acquire your business. Your company’s capabilities could increase the strategic buyer’s scope by substantially increasing their own value and paying you a lucrative multiple. In

addition, foreign strategic buyers are paying above-market prices for companies to enter the U.S. market—one of the reasons for the M & A boom.

- A private equity firm may purchase a portion of your company (majority or minority), allowing you to stay involved and share in the growth. This is an appropriate hedging strategy for those not quite ready to exit and want to hedge their bets.

What is Your Business Worth?

In any of the above scenarios, an investment banker knowledgeable about the precision metal forming industry should be able to help you understand the real value of your company. When pursuing the best valuation, be keenly aware that the specifics of your business highly impact its value. Do not assume that an industry-average multiple is the right valuation metric for your business. You must be able to see your business through the lens of potential investors and understand the value that they find in your company. If the purchaser is strategic, then you must know how your particular business will impact the value of their business to obtain the highest valuation

Selling your own company—or buying someone else’s—is not a task you want to take on without the assistance of experts who understand and can navigate the process while bringing value to whichever side of the table you end up on. This team should include investment bankers, attorneys and accountants who can help guide you through the process and bring optimal value to the most important decisions regarding your company’s future.

All in all, acquisitions and divestitures represent great opportunities in 2022 and 2023. With sound advice, good planning and a strategic approach, you can determine which options offer the best match for you and your business.



About Len LaPorta

Len LaPorta is a managing director of The DAK Group, an investment bank specializing in middle-market, privately held companies. Len has significant experience in cross-border M&A transactions between USA & Europe, advises business owners on sell-side and buy-side transactions, capital advisory, and valuations. Len is a veteran of the U.S. Navy, and a member of the non-woven Technical Advisory Board for INDA. Reach him: llaporta@dakgroup.com.