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Case Study – “Maximizing Exit Value of a Business with Significant Supply Side Risk”

BACKGROUND

Our client is a value added manufacturer of various gluten free branded packaged foods sold throughout the United States. The Owner was one of 23 shareholders, all of which were passive except the active owner. The Owner wanted to retire, sell the Company and believed that most if not all of the owners would go along with his recommendation of choosing the final buyer, sales price and structure.

As the representative, his goal was to maximize the exit price for himself and fellow co-owners.

CHALLENGE 1

The Seller’s key product was sourced from a single supplier in South America. The Target Company had investments in their (S.A.) facilities and equipment to ensure quality and reliability. However, most everything was done on a hand-shake and based on long-standing personal relationships.

Maximizing value and addressing this sole source supply risk were at odds with each other. The business, its products and growth profile were in high demand. In fact, they were “red hot”, a branded food company, growing in the healthy foods space.

Nonetheless, our targeted buyer list was received with mixed reviews. Some were very excited but were hesitant to invest into such significant supply side risk.

CHALLENGE 2

The active Shareholder wanted to retire and there was not currently anyone slated (internally) to replace them after closing. Without a key operator, interest in the business waned.

OUTCOME

Plethora found the right acquirer with a sole focus in the branded food space. They understood the businesses’ challenges and took steps to address the single vendor.

Notably, key members of the acquiring team were familiar with the informal business dealings often found in South America. They took the time to meet the grower/processor personally and combined with their prior experience in the region, became comfortable with the risk profile of this vendor.

Secondly, this acquirer was well networked with food industry executives and had multiple candidates in mind as an eventual successor. The Seller remained as the President for one year until the right executive was recruited and transitioned into the business.

The business eventually sold for more than 160% of the appraised value. The Seller has since retired, provides consultative services as needed and owns a small piece of the equity.

ABOUT PLETHORA BUSINESSES

Plethora is an M&A Advisor to business entrepreneurs. We specialize in sell-side advisory, business appraisals/valuations and support for corporate buyers. For more information on this case study, and how Plethora can help you in your exit strategy, contact us at the information above.