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BLESSING FAMILY BUSINESSES ACROSS GENERATIONS

According to a recent Meridian national survey, 65.3% of all petroleum marketers want to grow through acquisition. And last year, 46% of all marketers were solicited by three or more buyers but didn't sell. Another 24% had at least one door knocker, for a total 70% being solicited without selling.

So, why didn't they sell? Likely lots of reasons, but the most obvious is they didn't receive an offer tempting enough to move forward. And for some, the buyers may have unknowingly insulted them with their approach, their offer or both, killing any chance of a future transaction.

To drive this point home, consider a marketer you might want to acquire. It's likely that one or two of your competitors have their eye on your target too. So, let's say that you and two other marketers are knocking on the same door. Here is what could happen based on what I've seen:

- **Buyer #1** (not you) is at a petroleum convention and asks the owner of a target acquisition (let's call this XYZ Oil) if he ever thought about selling the business, and if so, he'd like to have first shot at it. The XYZ owner doesn't say no, so Buyer #1 joyfully thinks he has cracked the door open. Buyer #1 then relays this wonderful news to his team at their Monday morning management meeting. Buyer #1's sales team and drivers start telling everyone that they are about to acquire XYZ Oil. This news, now rampant at the rack, gets back to the XYZ owner who is infuriated. But Buyer #1, having no clue what has transpired since Monday, shows up at the seller's office as agreed on Friday, thinking he's about to strike a deal. Instead, he is flatly told the company isn't for sale.

- **Then, Buyer #2** (not you) calls XYZ probing about a possible sale. They've been friends for years. Although XYZ's owner is still soured from Buyer #1, he values the friendship and tells his buddy "Anyone would sell if the price is high enough "(a standard answer these days). Buyer #2 asks for financials and XYZ complies. Financial results the last two years at XYZ haven't been very good (after all, that's one reason XYZ's owner is not having much fun anymore and thinking of selling). Buyer #2 gives the financials to his CFO, and doing a quick EBITDA calculation, they excitedly decide they can pick up XYZ at a bargain. Since they are friends though, and they want to be "fair" they'll offer a higher EBITDA multiple than other owners were bragging about at the last refiner meeting. Buyer #2 verbally makes his offer. The seller silently thinks, "What kind of friend would think he can pay that for my life's work?" He doesn't want to rock the boat, so without saying anything to his buddy, he just mentally slams the door on him. Buyer #2 tries to move the deal forward, but XYZ's owner just avoids him like the plague.

• **Buyer #3** (hopefully you!) asks for a confidential meeting offsite, on a weekend, assuring XYZ's owner he is serious about buying XYZ because of all the loyal customers and areas of excellence he sees at XYZ. He stresses how both companies could benefit from combining operations. He assures the now very reluctant XYZ owner he is ready to pay a very fair price. Encouraged by that news, he agrees to meet. At the meeting, they explore all the possible synergies and Buyer #3 explains how he will price his offer through forecasting all of those synergies, not just a typical EBITDA multiple. After truly evaluating the opportunity and savings for both companies, Buyer #3 presents an above-market offer which the seller gladly accepts. The deal gets done and Buyer #3 is happy because he is confident he has a 3.5 year payback.

The most successful buyers in today's marketplace use Buyer #3's approach and consistently get 3.5 to 4 year paybacks. This approach is how we help Meridian buyers achieve success with offers that sellers happily accept.

This value pricing technique is so powerful that we've built a calculator tool which we give our serious buyers that prompts them (or their acquisition team) through a wide variety of "what if" considerations for any acquisition. The end result is a win-win definitive offering price that will pay back in the time frame specified if all assumptions are correct.

We love our buyers achieving 3.5 to 4 year paybacks AFTER paying above-market prices to our sellers. Why on earth would any sane CEO pay an above-average price? Here are seven good reasons:

1. Happy sellers retain customers. When a seller is enthusiastically happy with the cash in their pocket at closing, they take a hugely positive, active role in customer retention during the transition and even sometimes for years after the sale. Contrast this to a seller who is paid bare bones minimum at closing. He often walks away with buyer's remorse, questioning his decision to sell. He finds it downright impossible to support the new regime and customers frequently jump ship to aggressive competitors who see the opportunity window right after the sale.

2. Happy sellers equal new customers. Buyers' purchasing power and expertise are typically greater than sellers. That facilitates owners retained as employees or consultants capturing local business they may have always wanted but couldn't get! I've seen former owners relish in landing accounts they've coveted for years, all for the benefit of the acquirer.

3. Smart buyers gain better processes. They push their egos aside, seeking and pinpointing what the selling company, no matter how small, does better than they do. After closing, they immediately get to work implementing those new best practices into their own organizations driving up profitability they wouldn't have had without the acquisition. I saw a buyer shave a penny off his delivery costs this way!

4. Strategic acquisitions are loaded with cross-selling bonanza opportunities that equal profit. Happy sellers get actively involved in strategically planning and implementing cross-selling opportunities that benefit the buyer's core pre-acquisition business as well as the seller's organization. I've seen this time and time again, particularly when fuel and lubes marketers combine forces. It's a powerful profit driver.

5. Huge automation savings. We recently sold a company to a buyer who had done a great job with tankwagon automation, while the seller had no automation. When automation was added to the acquired fleet, not only did it cut costs, but the synergy with routing was amazing since both the buyer and seller were in the same geography.

6. Administrative savings. The biggest dollar savings show up in home office accounting processes, personnel, insurance savings and software fees.

7. Equipment and capital assets savings. Recently, one of our buyers scored a nice fleet of trucks via their acquisition which saved them from having to spend bigger dollars on brand new ones had they not been the successful suitor.

If you want to grow your company through acquisition, I challenge you to forget typical EBITDA multiples that are discussed so rampantly at industry cocktail parties, and instead focus on the full value potential of any acquisition to your organization.

A simple SWOT analysis (Strengths, Weaknesses, Opportunities and Threats) on each possible M&A target will create a foundation to accurate financial forecasting. You can then realistically factor in expected synergy effects, set a target payback period (we like 3.5 years), and produce an offer price that entices a seller to proceed while providing you with the peace of mind knowing you still have an attractive payback time.

And if you've never bought from our portfolio, rest assured that Meridian's Precision Valuation, required for every seller, sets realistic price expectations. Our valuations have less than a 5% variance between our value and actual selling prices over years and hundreds of valuations.