

Christopher All right, welcome. I'm Kit Lisle, this is the Strategic Growth Council. A podcast about strategic growth and mergers and acquisitions for the middle market. If you're interested in learning more about organic growth, growth by acquisition, or the sale of your company, well, this podcast hopefully will be interesting for you. Every episode I interview a mover or a shaker in the world of strategy, growth and M&A. So I'm not sure who the mover is and who the shaker is, but I'm joined today for this episode by John Ziegler and Russ Chapman, partners at Acclaro Growth Partners. Welcome.

John Thank you. I'm the mover, by the way.

Russell I'm definitely the shaker here.

Christopher All right, well, there are a lot of pieces of evidence floating about that 2021 was an unusual year from the standpoint of mergers and acquisitions. What we're here to talk about today is the sell side market study. Investment banks have been incorporating quality of earnings into their data room that they're presenting to potential buyers for quite a few years. The trend of the sell side market study began 15 years ago, maybe even longer ago than that in Europe and over the last five years. It's become increasingly popular in this country, but especially just in the last couple of years. So I'll start, John, Russ, maybe if you could just give us 30 or 60 seconds, we'll start with John. A little bit of background on yourself.

John OK, well, I'm the CEO of Acclaro Growth Partners, and I've been in consulting for a very long time. Joined Acclaro and got into the M&A growth strategy space about four or five years ago. And we've been growing pretty aggressively the last few years. And of course, COVID probably helped, and I'm sure we'll talk a little bit about that today. But happy to be here. Thanks for having me.

Christopher All right, thanks, John. Russ, how about yourself?

Russell It's interesting my career is a bit longer, and it sort of has three distinct parts. The first part of my career a couple of decades were operating positions, primarily working overseas. I became intrigued by the small business as opposed to the corporation, and had an opportunity to run a portfolio company for a private equity group. Four owners in five years, it was quite the ride. And for the last 18 years or so, I've been working with Acclaro helping them do both acquisition studies, sell side studies, strategic growth projects, a very interesting and fascinating sort of job to be doing.

Christopher Excellent. So that's a good segway. Acclaro growth partner serves the middle market as a strategy consulting firm, so you guys obviously have a lot of exposure to the world of M&A. And you know, today's episode is all about the sell side market study. First of all, what is that and why does it exist?

Russell You know, it's a relatively recent development, I think when you think about sellers and buyers in the middle market, they're all risk averse and anything a seller can do to reduce the perceived risk for the buyers allows him to get a higher market price. And it also allows him to assure the buyers that there will be a quick and easy close. And that's what everybody wants. They want to do their deals, they want to do them without risk, and they want to do them very quickly. A sell side market study is just a massive amount of

data that is credible and defensible by us that allows the seller to know that he's got a great story and allows the buyer to get comfortable with the opportunity he's embracing.

Christopher So just reading between the lines, last year, there was an awful lot of M&A activity taking place. Obviously, bankers probably are. I'm guessing more receptive today than they were a few years ago to the idea of a sell side study. Does it help speed the process up, John?

John It definitely does. That's that's that's the intent or that's the intent from an investment bank to do this outside study. The reason to do Q of E also in the same vein is to either call it increasing the velocity of a deal or shortening the length of time it takes to just start up a sell process and get to the closing table.

Christopher And some folks correct me if I'm wrong. I've heard terms like vendor due diligence, even sell side due diligence, which sounds like an oxymoron to me. You guys call it the sell side market studies that all do the same thing.

John They're the same. I mean, they're all the same. In some cases, we just call it a market study. Some investment banks don't like hearing the sell side and some of it. But at the end of the day, it's the same thing.

Christopher And who's your client? Is it the investment bank?

Russel You know, that's one of the things that makes it interesting when it's buy acquisition diligence, you are on the side of the buyer, you're trying to find any issues that may be there. And it's pretty straightforward and pretty standardized. When it's a sell side market study. You have multiple clients, you're working for the investment bank that needs the information. You're obviously working for the company that is for sale because then information that you glean will be used by them on a go forward basis. And ultimately you're working for the buyer presenting a clear picture of what the opportunity is and your response will ask questions for them later on. So it's a large group of people with very diverse interests.

Christopher So when the prospective buyer is reading that report, is there a lot of pushback? You know, I guess the question is you mentioned credibility. You know, from my perspective, you know, caveat emptor always comes into play. Do you think the concept of the sell side market study will eliminate the need for buy side, you know, market or commercial due diligence?

John I don't think it will eliminate the need for it, but I think it's going to change how it's done and probably at some point going to become more targeted about specific issues. But I think we still have a ways to go. There are a lot of middle market investment banks that still don't buy side studies or hard sell side market studies on a regular basis. Prior to starting this sales process, there's still a long way to go before I think that becomes a reality, but that that is definitely a possibility once it becomes a little bit more accepted or/or more consistently used.

Christopher Yeah. And that brings up another question, you know, if it hasn't yet gained complete traction among investment banks, in other words, if they're not all yet, proponents of it is that because they do this work internally, you know, obviously in creating assume they have to present a portrait of the market landscape. What do you do differently than what an investment bank could do internally?

Russel I think we will do it more completely, more comprehensively. And let's remember, we have a couple of decades experience working for buyers, so we know exactly what buyers are looking for. We can do it quickly, expediently. And you know, time is money investment. Banks want to get too close and we can help them save time. Do it in a cost effective fashion and in a very credible fashion because we know exactly what the markets are looking for.

John There's also a piece to this that, you know, in the upper levels of the middle market where companies are larger, asking a client is going to go on the sales process, asking that client to pay for a sell side market study, it isn't as big a deal as asking a company, let's say, 15, 20, 30 million dollars in revenue, asking them to pay for a sunset. Market studies, it is a much bigger thing. So there's going to have to be some more track record and zero proof of generating higher multiples to. To show some of the smaller, lower middle market or, you know, the center of the middle market CEOs, that is that it's a worthwhile endeavor.

Christopher Yeah, and that sort of begs the question, you mentioned multiples. How do you prove ROI? What is the return on investment for a sell side market study?

John I think it depends on the day. So we're an investment banker if they do sell side studies and it condenses the time to get to the closing table, then they can do more deals in a year and that's the ROI for them. For the seller, the ROI is I'm getting a better multiple for my company or I'm getting a better buyer, a buyer that's more interested in partnering than necessarily having a financial transaction.

Christopher Can you elaborate on that on both of those points, you on the idea of a better multiple and maybe a better buyer?

John So, you know, most in my opinion, Russ, you can disagree with me if you want. But in my opinion, most middle market CEOs just give it. If it's a founder owned business they want, they're looking to make sure that their employees are taken care of. After there is a transaction, you're looking to make sure that company is still there 10-15 years from now, so they're not looking for somebody to come in and change everything that they've done overnight or get rid of people to save a buck. They're looking for the right partner to help grow their business after they're gone, and an investment bank is, their whole purpose is to close as many deals as they can in a year or so of the sell side market study to be done before they start the process helps them shrink that amount of time that they have a company in a sales process, then they can get two more deals. And that's the name of the game.

Russel And I think you asked an interesting question, could you prove ROI of a sell side market study? And the truth is we don't. It's the investment bank that learns through experience that he's going to go faster, higher, better having sell side data at his hand. He has to learn that as to who it is for himself. As we've learned, some of the banks we work with and we work with all the big ones, there are small groups that have started out using this work and they say, Wow, this has made our job so much better. We're doing such a better job. We need to tell our colleagues about how this works. So it comes from within the investment banks. We can't go with the quick throw in and say, Hey, here's the answer: they have to learn it for themselves, their experience. Right?

Christopher And Russell, just reading between the lines, you know, you've got the investment bank as well, we've already learned they're not really the client per se, but they're an influencer. I would assume we've got the owner, usually a private equity group. We've got a group of bidders, the prospective buyers. And then lastly, the management team, I'm just sort of curious about the utility of the report for a management team because conceivably this is a study that they're going to be able to use, maybe in different ways than the buyer or they would or perhaps differently than you intended. That's a question.

Russel Okay. It's interesting the the private equity group that's selling in the company itself, they're writing the check, but they're not driving the process. A seller sells his company once he is relatively naive. And as John pointed out, he's got a variety of things. He's interested in the investment bank. They do this day in and day out. They are the experts. They are a strong facilitator, but they do defer to to the company when making the final decision. The management team is a is a beneficiary almost by default. They don't have a lot to say in the process, but in our role of pointing out the future growth opportunities, we have to outline what they are and how to get them, how to capitalize them. And that's information that goes directly to the management team and they get to run with it. A hidden benefit of the way we do it. Every project is bespoke. It's done according to the needs of the client. We have basically two sets of data. We have the data that goes in the data room. Everything looks great. And then we have the cold, hard facts which we need to defend ourselves when being questioned. But it's those cold, hard facts that management loves to have because they can preempt some of the difficulties they're encountering long before the sell side process is finished.

Christopher So when is the right time to commission a sell side market study?

Russel In honesty, the sooner the better.

Christopher Why is that?

John Because you're in a, just thinking what we think of this from a, we also think of this the lens of the buy side as well. So you're trying to position a middle market company, and in many cases, they're not as sophisticated as the investment bank wants them to be or there's some piece of one of their functional areas that's not necessarily, you know, running on all cylinders. And so the earlier you can do the sell side study, the earlier you can identify what some of the opportunities are that the better it is for the investment banker, the easier it is for the investment bank to then position that company in a way that's going to be most attractive to potential buyers.

Christopher Makes sense. So to some extent, you're helping the investment bank coach or prepare management for the tough questions they're going to face during diligence.

Russel And force close.

Christopher The other thing that I would add about this, the management team is, you know, we are most successful when the management team is involved in our process of pulling together the market study. When you have, for example, the head of sales it is really involved and interactive with us throughout the sorry map process.

Christopher Sorry, John, go ahead, bring it back up.

Christopher When the management team, so top to bottom in the management team is engaged and they're interested in the output that we're going to create, that our work product is better, they are helping us understand different nuances of their business throughout the course of the engagement. They're helping us get to the right people within the company. Getting us data that we need is a much better process when they're engaged and then they get a better product that's on the back end as well. They're one of the constituents. So in that manner, engaging early and often is sometimes challenging. But when we can do that, it's better for everybody.

Russel It is easier sailing than the side work we do on the buy side, you're the proctologist, you're the Spanish Inquisition. They look at you as if you're looking for problems, which candidly is not totally incorrect and they can be resistant when it sell side. You're all on the same team. Everybody has financial goals. We're all in this together.

Christopher Well, you know, I'll push back a little bit on that because the industry of strategy consulting sort of has an ivory tower feel to it. And I think it probably resonates more with the upper end of the middle market than the lower end. Is there a size range below which you kind of don't go for a sell side market study? Does it matter? Does size matter?

Russel It does. It's not that we don't go. They don't come to us. Their banks don't come to us. They know straight out they've got limited time and money to put together a compelling narrative. The larger they get, the more time they have, the more money they have, the more diligent and accurate they need to be. And that's when we rise to the surface, when good, hard fact based understandings and support of a narrative is required. That's when this stuff really makes a big difference.

Christopher So John, would you say that there is a range that, you know, relevant range for sell side, you know, companies that would be interested in commissioning a sell side market study?

Christopher There is. I also think this is not Russell's point, but I would add that there are nuances of the market market growth if it's a \$20 million business and a \$1 billion market. And that company went from five million to 20 million in the year and a half. And it looks like they're going to go to 50 million in another year. And then a full scope sell side market study is probably required from the investment bank. If it's a 20 \$30 million business, it's more likely that they may need a sell side market study, but they're going to be very targeted and focused on what they want in it. So they may come to us and say, Well, we don't want everything that you would normally put in a full scope sell side study. Let's focus on the areas where it's going to generate the most. The most energy from potential buyers is the most interest from potential buyers.

Christopher Yeah. And early on in this conversation, you brought up COVID, and I can imagine that COVID had an adverse impact on some business owners and sort of timing of when to sell, but it had a maybe a very positive impact on others. You know, I also wonder whether there are, you know, the U.S. I'm combining two questions here, but the complexity of the deal or the complexity of the market coming into play as a driver of when an investment bank might say, Yeah, I think it makes sense. You know, you brought up the concept of a rapidly growing business so that that makes sense. We need to confirm that there is still a runway. Is the complexity of the market also a factor? And maybe if there are any comments related to COVID, that'd be great.

Christopher I think the complexity of the market is a factor so long as the complexity doesn't allow a potential buyer to skew to the true full value of the business. So if there are things that use, you know, you see a bus that sits between two established markets, right? And that's hard for a buyer to understand which market it's in or if it's in either of those markets and they don't necessarily understand what the drivers are for that market. Sell side study is a way to help clarify that uncertainty. And then to your question about COVID. COVID created for some people some tremendous growth, and they want to take advantage of that growth and that, you know, increased revenue while they could and get on the market as quickly as they could. There's other reasons from a private equity perspective for why you want to get a business in the market. But I think that's a little bit different, a little more nuanced for us. But yeah,

Russel no, I think, you know, it's kind of a popular, popular misconception that private equity investors are swashbuckling risk takers. They are absolutely not. They need to do everything possible to mitigate risk. So when a new variable pops up, whether it be COVID or supply chain or inflation or government regulation, that's when sell side work makes the most sense, you need to help them mitigate the perceived risks so they can move forward with their normal process. And we've had a lot of that recently.

Christopher So a clear growth partner, how do you guys differentiate this in this? You know, I'm going to use the term nascent market emerging market of sell side market studies. How do you guys differentiate?

Russel I have a couple of thoughts, but I think, John, you can certainly lay in afterwards multiple decades of experience with buy side helps us know exactly what buyers are looking for, how to provide it, how to package it. We're relatively flexible. We don't have a template that we use. We use our flexibility to our advantage to create the narrative that best tells the story of the seller. And we're genuinely curious. We truly enjoy this work and like finding a way to portray things in the best possible light. And it's a lot of fun. So we're flexible where we're aware of what buyers are looking for, and we found a way to tell the story in a way that makes the most sense. John, but which would.

Christopher I mean, there's several layers to this. One is, as Russ mentioned, flex like to say, agility. Agility is the term that I describe as another like Russ and like many of our other teams. We have a lot of experience, and don't have very many young 20 or 30 year olds on our team. We have a lot of people that have been doing research. I've been an operator or have been in the marketing departments of large and successful companies. So that's just another second differentiator. And the third is, you know, we treat the multiple deliverables as a really important piece of what we do. You know, we create deliverables for the management team. Ross mentioned there's a deliverable that goes in the data room, of course, and in some cases, there's a third deliverable that is just for strategic buyers. There may be some things that you don't want a strategic buyer to see, you know, for the fact that they may not end up being the owner of the business. And so the product?

Russel Right?

Christopher So there's several things. And the other thing is, you know, we're relatively smaller compared to a lot of other, you know, brand management consulting firms that do sell side market studies. And I think our agility separates us a little bit from them.

Christopher You talked about the multiple versions of the report for different constituents, and that that strikes me as something that might be intriguing to our listeners that our investment bankers or business owners. Any words of wisdom for those folks that are listening that might be in a position to hire a management consulting firm strategy consulting firm in terms of, you know, best practices, processes, you know, what should they be looking for or what should you know what, what what are some lessons learned that you've seen in terms of doing the the sell side market study?

Christopher I'll take it outside of what we do first. I think earlier in the process. That's the potential macro factors that could impact the business, so we've had a couple in the last year where supply chain has been a big issue and supply chain has been a factor that now buyers are very concerned about. So that's one example I'm on the macro side. The other is, you know, think about the story that you want to tell as the seller or the seller's representative from an investment banking perspective, because what we like to do is think about what is the story that we need to try to either confirm or refine. That's our job is to help tell that story in a compelling, data-driven, defensible way. So those are two, I think, two pretty big pieces that are important for us. I don't know if you have anything.

Russel I totally agree with telling the story. And when it comes time to craft the narrative, I would encourage the investment banks to sit down with their management teams and let them tell it in the vernacular. This is who we are. This is what we do. This is why we're better. This is where the market is heading. And once you have the basic structure of the story, then you come to somebody like us so that we can really add meat to the bones and make it credible. Let's remember, buyers are skeptical. They're looking for problems. They will come back and they will hit hard. So if you know what the questions are going to be and you've got the data, it will stand up.

Christopher Great. Well, that credibility line is reverberating, and I'm sure there are ways to make the data credible. It probably has to do with gathering a lot of it and making it sort of overwhelmingly compelling. So I appreciate your time, John, and your time Russ. In parting, I'll just ask, you know, how our listeners might need a piece of strategy, consulting work or specifically a market study, south side market study. How do they find you?

Christopher It's acclaropartners.com, or you can always find me or Russell on LinkedIn. We're always there.

Russel And I would encourage the listeners to understand this is a no risk opportunity. It's a pick up the phone, give us a call. We have plenty of examples of our work. We have dozens and dozens of satisfied customers. Let's engage in a dialogue and you can understand quickly if there's a good fit or not.

Christopher Yeah, I think a redacted example of your work product actually goes a long way. Yeah. OK. Good. Well, thank you, both, I appreciate your time.