

Prepare for an Unexpected Sale

In these troubling times, mergers and acquisitions will accelerate as the true value of food companies are reevaluated.

Despite the challenging economic environment, the world's business affairs have not come to a screeching halt. The dramatic changes in the financial world call for a significant adjustment in the way companies adapt to the new realities of the market.

Although numerous business articles, research reports and charts underscore the decrease in acquisition activity in the food industry, transactions are still being done with activity expected to increase as valuations are recalibrated, thus taking into account the current financial marketplace.

According to New York-based Capital IQ, a division of Standard & Poor, 151 food-related deals were completed in the United States last year with 72 occurring during the final six months of 2008.

Snack manufacturing and baking companies should develop an informed, confident response before a prospective acquirer comes knocking.

At some point, most successful snack producers and commercial baking operations will be approached by a potential acquirer, and the market is rife with private companies that are responding to unsolicited approaches from some of the largest buyers in the industry looking to quickly and quietly address specific strategic needs.

Strategic and financial buyers find the current M&A environment attractive since they would rather approach prospective

acquisition candidates directly versus participating in a more traditional auction process where a seller is marketed aggressively to many prospective purchasers simultaneously. Consequently, potential sellers are being challenged to respond quickly in a coordinated and confident way.

Snack manufacturing and baking companies should develop an informed, confident response before a prospective acquirer comes knocking. While it is important to assemble data to provide a prospective purchaser with an accurate picture of the business and its prospects, there

also is a need to address potential "issues" that may undermine the overall valuation of a company or hurt the prospects of consummating a transaction. Such issues could be related to product recalls, employee matters, financial controls, trademark registration status or mismatched commodity and product pricing.

However, by far the biggest issue for buyers remains the quality of the production facility. If bakers and snack producers had



Steve Tardio



Rob von Furth

just one area to devote preparedness resources to, it would be plant upkeep, including sufficient production capacity, the ability to increase volume and environmental, Occupational Safety & Health Administration and Food and Drug Administration matters.

On the other hand, companies should not underestimate the positive impact on a transaction, including the valuation, resulting from having quality financials as well as the company's corporate governance policies.

Ultimately, buyers want to understand the business, its financial performance and its potential for growth. As a result, they need a complete history of pro forma financials, taking into account non-recurring items. They also like to see potential synergies with their company and financial projections reflecting an understanding of valuation drivers. Providing a view of its growth prospects and the cost of getting there will help create a range of values that will be vital in the discussions among shareholders and prospective acquirers.

Everyone is cost conscious, especially during the current environment. However, some measures can have significant impact

Continued on page 94

Guest Column

Continued from page 92

on the seller's net proceeds. For example, they can have discussions with the company's accountants regarding effective tax planning to examine the impact of selling shares versus assets. Or they can talk with attorneys, for example, about existing contracts to ensure the legal documentation can withstand buyer scrutiny.

Moreover, a conversation with an investment banker regarding value drivers also could assist in pre-deal preparation, resulting in a smoother transaction and a higher valuation.

All of this should be in place sooner rather than later, and ideally before a potential acquirer shows up on the seller's doorstep.

Making all of these preparations might seem daunting, especially in light of the fact that most CEOs need to focus on the day-to-day business activities.

However, in most instances, owners of private businesses have a disproportionate amount of their wealth tied up in

Firms Team Awrey's Up With Atkins

New York-based Monomoy Capital Partners and Northbrook, Ill.-based Hilco Equity Partners, which both own Awrey Bakeries, have acquired the assets and operations of Atkins Elegant Dessert.

Noblesville, Ind.-based Atkins will work closely with Livonia, Mich.-based Awrey Bakeries to provide high-quality baked goods to foodservice and retail channels. Terms of the transaction were not disclosed.

Atkins is a niche manufacturer of cheesecakes, layer cakes and brownies for the foodservice industry, national restaurant chains and large retail customers. Common ownership of the Atkins and Awrey bakeries will expand the reach of the *Atkins* product line into Awrey's national sales and distribution channels and will enable Awrey's to expand its offering into cheesecakes and other premium dessert items, according to the companies.

"We are thrilled to expand the *Awrey* product line and customer base through this partnership with Atkins," says Bob Wallace, Awrey's CEO. "Atkins produces an industry-leading cheesecake for the foodservice and in-store bakery markets and provides an ideal extension to Awrey's broad portfolio of fully baked, frozen bakery products."

their business.

As a result, do not view these preparations as being done solely in anticipation of a sale, but rather as a tool in your arsenal to manage the business. **SF&WB**

Editor's Note: Rob von Furth and Steve Tardio are managing directors at HT Capital Advisors, LLC, a privately held investment banking firm focused on middle market mergers and acquisitions and advisory services. They have offices in New York and Chicago and representation in Paris and Boston.