

Friday, December 4, 2009

People First

Dealmaking's makeover

The financial crisis changed the way M&As are analyzed, for the better

Dallas Business Journal - by Ashley Forbes Kellogg Contributing writer

Everyone has been bumped by the current economical storm, but the world of private equity has received a considerable jolt. Shocks can be helpful: They get the blood flowing.

The 1980's gave permission to a group of people — mostly investment bankers — to believe that they were the answer to failing commerce, and in large part they were. Attitudes of self-importance casually crept in, as they often do during periods of great success. Arrogance began to overwhelm values such as mutual respect and collaboration. Technology had transformed the playing field to the point that the need for a personal relationship among the people involved in the deal had become less necessary, if not completely. The art of building business through relationships had become almost obsolete — but not quite.

“We can take refuge in the fact that nothing stays the same. Trends are forming that will move the private equity markets forward in 2010,” said Robert Kipp, a partner with BKD CPAs & Advisors LLP. Fellow team members David McCully and Anthony Rosich agree: “We see strong positive trends emerging in the private equity markets.” Some of those trends include:

- Private equity groups are becoming more selective in their investment criteria.
- Buyers expect to be more involved in active management.
- Investors are placing a higher value on the strength of the management team.
- Sellers are accepting more rational valuations, which are spurring deal flow.
- Credit markets are improving for deals that have a solid track record.

Developing awareness

Brent D. Williams, managing director of The Halifax Group, posed this question at a CEO conference in November 2008: “Where do you think your business will be in 2009? Down, up or flat?” About 95% responded they felt their business would be up 5%. “Their lack of awareness was astounding,” said Williams. “They didn’t have a clue how current events would affect them.”

Williams says for deals to be successful for all involved, there must be a genuine meeting of the minds.

Halifax has a business model that stays clear of day-to-day operations but works constructively within the management team through an active board.

“We enjoy the process of finding partners that want to build a solid business,” Williams said, “where both sides of the table are aware of their strengths and weaknesses, can establish respect and work toward a common goal. When both parties are aware of and agree on a game plan, it’s a home run.”

But Williams said finding a good match in business is as risky as finding the right mate in life. He said the frustration that buyers and sellers feel has a lot to do with getting to know the new partner — which the markets have made increasingly difficult. Williams added that the making of deals today resembles the way deals were crafted 15 years ago.

Here are some key questions to consider in a deal: Do we know each other? Do we trust each other? Do we want the same outcome? And can we work together?

The PE influence

Private equity groups in recent years have stepped up and become active partners in deals. One active local group is Wingate Partners of Dallas, which manages four funds with total capital of about \$500 million. Bradley K. Brenneman, principal of Wingate Partners, said businesses were challenged in 2009 because of lack of accountability, discipline, trust and thoughtful care.

“Wingate’s chief responsibility is to support the development of great leaders. The right answer will only matter if the leadership and culture are right,” Brenneman said.

Brenneman brought up a book that speaks to this, “The FIVE Dysfunctions of a Team” by Patrick Lencioni. This book is a guide to successfully building a company through real partnerships — which are critical for any merger or acquisition to succeed. Among the topics discussed are building trust, mastering conflict, achieving commitment, embracing accountability and focusing on results.

The reality of the next successful deal ultimately comes down to practicing a small set of principles over a long period of time — and embracing common sense with uncommon levels of discipline and persistence.

Ironically, business succeeds because it’s so human, depending on employees and clients. But business also fails because it is so exceeding human.