

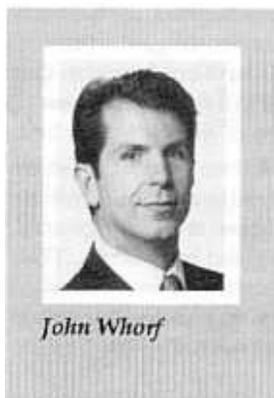
## Selling From a Position of Strength: New England Business Exchange, Inc.

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*Editor's Note: Three years ago, M&A Today featured New England Business Exchange, Inc. (NEBEX) as a successful middle market investment bank. Since then, from early January of 1997 to the end of 1999, NEBEX has completed 38 transactions. Not bad for a firm with two managing directors, no associates, and a part-time secretarial service. What we learned previously about NEBEX's criteria for success can be summarized as follows:*

- *Run an exhaustive auction process that adds significant value to the sale process, but charge economical rates.*
- *Represent mostly sellers that, when properly positioned by NEBEX, will particularly appeal to large companies or private equity groups.*
- *Unless extremely attractive, do not aggressively pursue family businesses, which inherently have emotional considerations.*
- *Deliver an M&A assignment from initial research to closing by experienced dealmakers without "handing-off" part of the project to junior associates who can make a costly mistake due to inexperience.*
- *Utilize "street smarts" and industry knowledge to benefit the client instead of depending upon academic methodology for valuations and deal structure.*



### Momentum

In revisiting NEBEX recently, *M&A Today* learned that the firm's fifteen transactions in 1999 ranged from \$2 million to \$174 million, with an average purchase price of \$20 million. While the deal size is considerably larger than that of three years ago, the size of the Wellesley, Massachusetts office is the same, and the two owners, John Whorf and partner Steve Madden, still work as a "virtual corporation" without a full-time support staff. While NEBEX's reasons for success highlighted in the introduction above are still evident, *M&A Today* now feels that since our interview three years ago, there are additional reasons for their continued success. Perhaps most important is ... momentum.

### Competitive Advantage

One of the reasons NEBEX is so efficient is its incredible database, accumulated over ten years by industry, foreign buyers, private equity groups, etc., which is continually updated and often has more than one person per company contact. Secondly, Madden and Whorf believe they have built strong relationships with buyers, of which 70 percent are corporate and 30 percent financial, such as private equity groups. Thirdly, Madden and Whorf believe that potential buyers appreciate their direct no-nonsense approach to selling a company. As Whorf recreates a conversation with a potential buyer after an extensive auction process: "We believe, based on the market, that the strike price for this company is between \$20 million to \$22 million. We are talking to you because we believe you are a serious buyer. At this point in the process, it is first-come, first-served. It's your deal if you can step up to the plate." Maybe the previous simulated conversation is somewhat intimidating, but Whorf is convinced that buyers respect that they talk with purpose and are respected for their candor.



### Qualifying Clients

While NEBEX has increased its retainers and its minimum transaction fee, it continues to charge an economical success fee. If a selling company is willing to pay NEBEX's minimum fee, Madden and Whorf will accept the assignment, provided the sellers agree to a realistic price and are perceived to be trustworthy. NEBEX will even undertake the sale of underperforming companies — companies losing money or just breaking-even. In these situations, NEBEX often presents the company by showing the income statement with just the sales and gross profit, obligating the buyer to apply their own overhead burden but benefiting from the incremental revenues. In many cases, NEBEX positions the underperforming company so that strategic buyers

are compelled to "buy market share or intellectual property" in order to block competitors from strengthening their position in a market. In other words, NEBEX overcomes negative circumstances by properly positioning their sellers.

NEBEX believes they truly add value for their clients. Their motto, "Deals beget deals," is perpetuated with the use of their tombstones. NEBEX communicates their closing success, especially in light of the fact that the two managing directors generate a dozen closings per year on average. This is done in part by mailing out tombstones. So how many tombstones does NEBEX mail out every year? About 100,000, according to John Whorf. Every time NEBEX mails a search letter, a selling memorandum, a promotional letter or an announcement, Madden and Whorf enclose a list of current tombstones. The following overview tracks the approximate annual mailings of the tombstones:

#### Approximate Tombstone Enclosures Mailed Annually

Purpose	No. of Mailings	Average Pieces of Mail	Total Mailed
Sell-side Assignments	16	5,000	80,000
Selling Memorandums	16	75	1,200
Business Contacts, etc.	16	1,000	16,000
<b>Total Mailings Annually with Tombstones</b>			<b>97,200+</b>

Let's analyze the effect that these cumulative tombstone mailings have on the recipients. Of the average 5,000 letters that are mailed for each sell-side assignment, about 3,000 are sent to the professionals at private equity groups (PEGS); the balance would be received by companies in the same or related industry of the seller. Professionals at PEGS will receive a letter almost every three weeks from NEBEX announcing "another" acquisition opportunity. The reaction is usually: "Wow, these guys Madden and Whorf have good

deal flow. Furthermore, it is obvious NEBEX sells many businesses, so the companies must be desirable."

Interestingly, NEBEX may mail the same announcement not to just one professional at a PEG, but perhaps three or four different people. The rationale is very logical, if one realizes that getting the word out is a major part of the effort by the investment banker. Sometimes a professional at a PEG will not have a direct interest in the company for sale, but will know someone else who would be interested ... and he follows through accordingly.

The cumulative effect of receiving one letter after another announcing, yet again, a good company for sale and another deal closed, is very convincing - this investment bank is on the ball. As Steve Madden says: "The process of continually showing buyers good companies for sale, whether these businesses are synergistic or not builds on itself. After a while, the recipients

of these announcements of companies for sale realize that, sure enough, most of these properties are sold within a few months. The next time around, the buyers will react to the company for sale with a sense of urgency. In fact, it becomes a matter whereby buyers anxiously look for the next letter from the New England Business Exchange."

#### Operations

To help better understand why NEBEX is so successful, Madden responded to *M&A*

*Today* as follows:

- "We are very focused on serving sellers and providing the highest quality divestiture services available. We run the auction from start to finish. We control the economics of the deal.
- Our clients benefit from our deal experience, which amounts to approximately 100 transactions over the last ten years. We may have peers in the *M&A* business who are older or work for larger firms, but few have been able to complete as many deals, from start to finish, in a ten year period.
- We have been told by clients that, compared to other investment bankers, we have not become arrogant with success. We have not forgotten that we are in a service business. The clients' interests come first.
- As two owners, we share 50/50 in all remuneration without any disagreement or greed between us. This allows us to focus our attention on pleasing our clients and not some boss."

#### Conclusion

*M&A Today* strives to report on successful investment bankers such as New England Business Exchange partly to enlighten others as to how such firms have achieved success. *M&A Today* believes that our subscribers would be interested in a partial list of buyers of NEBEX's clients: Berlitz International, General Electric, Ingersoll-Rand, Koehler Manufacturing, Newell Co., Textron Inc., Thermo Electron, Unilever, and Westvaco Corp. As Madden states: "We truly sell from a position of strength to the strongest buyers."

*New England Business Exchange* is located in Wellesley, Massachusetts. Phone: 781.431.0909 E-mail: [jwhorf@nebex.com](mailto:jwhorf@nebex.com).

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