

Volume 6
Number 2

February
1997

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Deals Beget Deals with New England Business Exchange

Editor's Note: The following article is the third in a series of interviews with investment bankers which in each case the firms have a unique approach to how they address the mergers and acquisition business.

BACKGROUND

As this article unfolds one might feel that this is a Horatio Alger story about two young entrepreneurs who come from two entirely different vocations, meet at the Babson MBA Program, and start a business together at 30 years of age. Steve Madden spent several years as a dealmaker for a small Connecticut boutique investment bank. At the same time John Whorf, a graduate of the Maritime Academy, was a Captain on a semi-submersible oil drilling vessel in foreign seas. Fate brought them together at Babson and upon graduation in 1988, they founded their business in Wellesley, Massachusetts.

BREAKTHROUGH

All businesses are difficult in the embryonic stage; New England Business Exchange was no different. Madden and Whorf started by cold calling on business owners and after some success in selling businesses, they were on their way. Like many successful



John Whorf

businesses, a particular breakthrough transpires that significantly enhances their future. Such an occurrence happened with New England Business Exchange. At the time, they had a client that was interested in acquiring a small retail chain. Being pro-active, Whorf called the CML Group in Acton, Massachusetts to inquire whether the New York Stock Exchange Company would divest Placewares, a small retail chain. From this initial engagement, CML had several other divest-

ments for Madden and Whorf to handle. At the time, CML was a premier stock with a market capitalization approaching one billion dollars. The success of these early assignments placed New England Business Exchange clearly on the map.

BUILDING RELATIONSHIPS

From the beginning, the two MBA graduates realized they were in a competitive industry. What they lacked in contacts, they more than made-up in energy and tenacity. According to Whorf: "We run out every ground ball (return every phone call), we are willing to advise people initially for no charge and we take the time to get to know our potential clients." They approach people with a long-term view of doing business.

A FOCUSED APPROACH

Madden believes that one aspect to their success is the ability to focus. New England Business Exchange does not conduct valuations nor raise capital; they specialize in completing mergers and acquisition transactions, mostly for sellers. They are disciplined. They turn down assignments that are too small, or companies that are not really saleable, or



Steve Madden

"These high multiple transactions are apt to be companies with a product brand name which enhances the value of the company considerably."

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companies that have a commodity product or service. One of their criteria is to represent sellers which would appeal to large corporate buyers or buyout groups. They do not typically represent family business owners who may have sellers' remorse and emotional difficulties in selling their company.

Whorf emphasizes that their business formula works, just the two of them, a virtual company, with temporary secretarial services on call. Madden and Whorf do not intend to add partners or associates, but rather they will stay focused by doing the entire transaction themselves. Whorf emphasizes that closing a deal is just the byproduct of intense preparation and attention to detail. Both Madden and Whorf promote "senior attention" to their clients and stay in control of the deal from start to finish from the initial research to the closing, and thereby control the entire transaction without any "hands-off" to junior staff.

TRANSACTIONS

Since New England Business Exchange's inception in 1988, they have completed over fifty transactions. From their humble beginning in which the deals were relatively small, the firm is now engaged by several substantial public companies. West Coast Entertainment, the third largest video chain, delegates the negotiation of video chain acquisitions to New England Business Exchange. The Stanley Works of New Britain, Connecticut, with sales over \$2 billion, has divested

four small divisions through New England Business Exchange, i.e., Stanley Creative Rivet, American Brush, Direct Safety, and Marco Paper and has recently hired New England Business Exchange to divest another.

The Stanley relationship is of particular interest in the way it unfolded. Some years ago, one of Madden's business acquaintances became Director of Corporate Development at The Stanley Works. When The Stanley Works decided to divest a number of companies, they contacted several investment banking firms on Wall Street, all of which quoted very high fees to complete even small transactions. Thinking that there must be an alternative, The Stanley Works engaged New England Business Exchange. Moving quickly and aggressively, Madden completed the first selling memorandum, researched the potential buyers and went to market within two weeks. All four divestments were sold in just four months.

REFLECTIONS

Since starting their business eight years ago, Madden and Whorf have learned that their clients are most interested in the integrity of the process of buying or selling companies, even more than the ultimate price. Depending on the situation, New England Business Exchange might do a massive mail campaign between 3000 to 5000 letters or contrarily restrict the process to a relatively few buyers in an auction process. Whorf explains: "We have learned not to over-posture the deal, to

trust our instincts, not to lose control of the deal to attorneys and accountants, to listen to all ideas, and in the end, to stay focused on completing the transaction."

FOREIGN TRANSACTIONS

Of the ten transactions completed in 1996, four were to foreign buyers. Whorf says that for the past two years the market has been overheated with EBIT multiples escalating up to ten times with foreign buyers, from Germany, Britain, and Japan. These high multiple transactions are apt to be companies with a product brand name which enhances the value of the company considerably. Madden has been able to source these foreign buyers through the international internet and then download the information. Over the years Madden has compiled 800 names of foreign contacts, principally directors of corporate development. Using this resource, it is a matter of "working the telephones" to surface the right buyers.

SUMMARY

As part of the interviewing process, Tom West has these comments:

"These are two guys who really understand their business.... and the mergers and acquisitions business in general. They know what works and what doesn't. They stay focused. I have seen so many intermediaries get involved in valuations, consulting, etc., that overall it diverts from their core business. Steve and John do what they do best and don't do anything else. I think that's a big reason for their success.

I am impressed that they concentrate on companies that are divesting on the sell side, and concentrate on buyout groups on the buy-side. Family businesses often have too much personal emotion tied up in the business which frequently obstructs closure.

Another reason for their success is that they get right to market without spending so much time in preparation that they forget why they were hired in the first place... to sell the business.

And lastly I was intrigued by the fact that New England Business Exchange wants to stay the same size. They don't see a problem in not growing. They see growth in larger deals and being more efficient in what they already do. They are living proof, so far, that the old adage that you either grow or you fall behind isn't always true. Staying small and personal, providing good service and realizing your capabilities and your limitations works."

Madden and Whorf have certainly learned their trade. They package their clients properly and then market them aggressively. They attribute their success to knowing the pulse of the market, being street smart, energizing themselves and representing enough clients at one time so they can walk away from negotiations knowing that it is not their last meal ticket. From a humble beginning, New England Business Exchange has earned the respect of the investment banking community. ■