A CASE STUDY FOR ROGERSON BUSINSS SERVICES

Buying and Selling a California Manufacturing Company

Abstract

Buying a selling a business can be challenging in any circumstances and might take longer than you think. In this case, extensive due diligence and seller responsiveness helped speed the transaction, even in the face of a looming global pandemic.

Andrew Rogerson

ROGERSON BUSINESS SERVICES

Introduction

“No two transactions are the same,” Andrew Rogerson of Rogerson Business Services says. “Each seller brings their own personality and values, and each buyer brings the same.” That was true in the recent sale of a manufacturing business in Santa Clara, California, TMK Manufacturing, Inc. When it comes to selling a manufacturing business in California, this one is a prime example of what both buyers and sellers can expect.

TMK
MANUFACTURING, INC
MULTI-AXIS • CNC MACHINING • WIRE EDM
ISO 13485:2016 Certified

The manufacturing business sold.

The Players

First, TMK is a small manufacturing company with few employees, and as manufacturing companies go, it has a pretty straightforward niche; the precision manufacture of medical components and other precision parts. This focus played a significant role, especially toward the end of the sale.



Business Seller Aaron Bennet

The owner of the business and the seller was Aaron Bennet, and he was also the businesses primary contact. That made things easier for the buyer, as they could usually get answers and responses quickly. Aaron did have an outside CPA, but one of the keys to the success of the sale was his business broker, Andrew Rogerson.

“I had a great broker, that is key,” Aaron said. “He had a lot to juggle, and I enjoyed working with him.” Aaron had been considering selling the business for about a year before he actually took the plunge. It turns out that was a pretty good call. Initially, there was a lot of buyer interest, which surprised him.

Andrew Rogerson has been a business broker in California for a number of years, and he’s sold half a dozen manufacturing businesses in six different industries during that time. “But regardless of the industry, every single transaction is different,” Rogerson states. “Add to the mix the personality of the attorneys, CPA’s, landlord, lender, escrow officer and the escrow requirements of each transaction (which in California vary for different industries), and the variables are huge.”

And it's true. In this case, the buyer was a large Private Equity Group who treated even a relatively smaller transaction like this one the same way they would have a larger one. In this case, attorney Michael Violanti was instrumental in making sure everything went smoothly on the seller's end of things. He's been involved in over 100 merger and acquisition (M & A) transactions in his career, over a wide scope of businesses.



The purchaser of the business.

For the purposes of this case study, each player in the sale was asked a series of questions that helped to inform the conclusions below. So let's get started.

The "Normal" Things about This Transaction

The sale of TMK was a purchase and sale of assets. "These are fairly typical in form, including the assignment of contracts and the premises lease, indemnification and escrow provisions for the benefit of the purchaser, and working capital adjustments to final purchase price," Mike Violanti said.

Overall, that means this was a pretty normal transaction at first glance. It was a relatively simple cash purchase.

The other relatively normal part of this transaction was that the seller valued confidentiality above all. He didn't want customers or employees to know the business was for sale until the transaction was fairly certain and a formal announcement was made.

One way he accomplished this was to take conference calls somewhere away from the office so he wouldn't be overheard discussing the sale. This is fairly common practice: news of a sale can result in disruptions to business, key employees leaving, and can even impact vendors and customers.

What Set This Transaction Apart

This transaction was different than others of similar size in the amount and thoroughness of the buyer when it came to due diligence. "I thought it was a bit excessive for a company my size," the seller stated.

"What was different in this transaction was the sophistication of the buyer and their willingness to spend a huge amount of money on legal, accounting, tax and other due diligence items," Andrew Rogerson said. "At times, it seemed like we had to be available 24/7 as there were emails or phone calls outside normal business hours."

That is because the legal, tax, and accounting teams worked over the weekend and at unusual times, but they were necessary to keep the process moving.



Attorney Mike Violanti

"Although this was "just" an approximate $3.5m transaction, the purchaser was essentially a large private equity group who was accustomed to making several larger acquisitions," Mike Violanti explains. "As a result, they retained a major national law firm and a "Big Four" CPA firm to handle the legal, tax and accounting aspects of the transaction."

While this is expected in many larger and more complex transactions, it is unusual for a rather straightforward all cash purchase of a small manufacturing company like TMK.

The Challenges the Team Faced

The extensive due diligence was only one of the challenges the team faced. The second was that toward the end of the transaction, just days before closing, a shelter in place order was issued for six California counties, and initially it looked like the business might be temporarily closed and closing would not be completed.

However, since TMK manufactures essential medical devices, they were issued an exception, and were able to remain open. The transaction closed anyway. The global pandemic did offer other challenges.

"When the buyers first offered their LOI to buy the business the Dow Jones Industrial Average was at 29,423.31 points," Rogerson explains. "The day the deal closed the Dow Jones Industrial Average was 19,989.92 points. That's a difference of a whopping 32.07%."

"I did not think the transaction would take place after the shelter in place order," Bennet said.

In this case, quite fortuitously, "the company was deemed an essential business and allowed to continue to operate," Violanti said. "The transaction closed as expected."

The Victories Achieved



Andrew Rogerson, Certified Business Broker

One of the primary victories achieved by the seller's team was that the transaction closed anyway despite the issues with a global pandemic and shelter in place orders. But there were others.

"Despite voluminous document and due diligence requests, maintaining an organized, methodical approach to each area of due diligence and ongoing communication with legal counsel and other professionals of the purchaser allowed for the transaction to proceed in an efficient manner from a business and documentation perspective," attorney Mike Violanti said. "It was a bit

frustrating as to some of the requests that seemed over kill given the nature of the transaction."

"One of the most important things I learned from this transaction was the importance of teamwork and with everyone focused on the same goal which was to close the sale of the business," business broker Andrew Rogerson said. "During this transaction no one was unavailable. If one person had not been available, then it would have held up or at least slowed down a key part of the transaction."

One of the keys to selling a business is the team a seller puts together. "Get the best team you can put together," Aaron Bennet said. "Your broker, attorney, bookkeeper, and accountant are essential."

What Can Be Learned from This Transaction

"Expect some bumps along the way," Bennet said, and that is true for almost anyone selling a business. "I did not expect the level of due diligence and scrutiny the buyers would want in order to transact."

This was a major takeaway for everyone involved. The expected due diligence for this type of transaction may have seemed excessive, but it does emphasize the importance of having a solid business valuation and making sure your books were in order. Overall, the purchaser was satisfied with the purchase price valuation provided by the business broker.

"Although due diligence was extensive from the purchaser, TMK operated in a very clean way with no litigation or environmental issues," Violanti said. This made the transaction go very smoothly. "This was a rather quick start to finish transaction. It took quite a bit of time and effort but working together with Andrew and Aaron made it flow very well. I wish many transactions followed this model."

"Despite the many demands on the seller's time, he worked diligently to meet the many buyer requests and follow up with his CPA, insurance provider, outsourced book-keeper and more," Andrew Rogerson said.

The key takeaways here include:

- Be sure you have a good business valuation. Your business broker is key to this.
- Be organized from the beginning and prepared for extensive due diligence.
- Be prepared to be responsive to seller requests.
- Build a good team from the start. Selling your business requires a joint effort.

Doing all of these things will ensure that selling a manufacturing business in California goes as smoothly as possible.

Selling a Manufacturing Business in California

As you can see, there are many aspects to selling a manufacturing business in California. From the business valuation process to vetting buyers to due diligence and closing, having a good team and being prepared from the start goes a long way.

Building your team starts with your business broker, who will help coordinate efforts along the way. To make that work, you need a Certified Business Broker with experience selling businesses in your industry and your area.

That's what Andrew Rogerson and Rogerson Business Services brought to the table. Knowledge and experience combined to make sure the transaction progressed smoothly. You can contact Andrew Rogerson here, connect with him on LinkedIn, or give him a call at (916) 570-2674.

Another key player is an attorney who will facilitate much of the process, and in this case that was Mike Violanti of Violanti Law. If you are in need of a business and corporate transactional attorney in California, Mike has the experience to help you. He also provides general practice and financial and lending counsel to borrowers. You can reach him by phone at (619)694-0354, email at **mike@michaelviolantilaw.com** or follow him on LinkedIn here. His offices are now located in San Diego, California after practicing in the San Francisco Bay area for over 25 years.

The role of the business seller cannot be discounted, and Aaron Bennet illustrates how important it is for an owner to be involved in the process, but to also trust the team of experts they have put in place.

Do you have questions about this case study? Are you interested in selling a manufacturing business in California, and wondering how to get started? Contact Andrew Rogerson at Rogerson Business Services. He'll get you on the right track, and be with you every step of the way, just like he was for the seller of TMK Manufacturing and has been for other business owners as well. Check out the many businesses he has sold on our website.