

WOW... That's a big number!

Something has been eating at me for the last few weeks that I feel the need to discuss. Two large southeast wholesaler deals hit the press over the last couple months... one in Florida and one in North Carolina. Chatter on the street was that the prices were extraordinarily high relative to what the market has seen in the past. As in many situations, these types of dramatic events have lasting impacts. This type of chatter certainly doesn't help the often discussed "price gap" between buyers and sellers that has helped stall consolidation in the beer distribution network.

Let's be honest... in the two circumstances mentioned above, two well-capitalized buyers seemingly stepped up and met the seller's price. I suspect the buyers saw synergistic benefits from implementing a different, likely more profitable, operating model. They probably also saw significant strategic benefits for owning that particular territory. Maybe they wanted to plant a flag that would lead to greater growth opportunities down the road.

From the outside looking in, we may never know the real reasons for the prices these buyers paid, but we do know one thing: they didn't buy the past performance of the business; they bought the cash flows they think they will extract going forward. Figuring in these benefits to the buyers, you might have a different perspective of those big numbers. By the way, to the sellers, I say **CONGRATS**, your stars were seemingly aligned.

So what does that mean for the rest of you? Is that knight in shining armor out there for you? Well, I hate to say it, but the answer is maybe, maybe not. Don't get me wrong, there is in almost every circumstance an optimal buyer. You have to bear in mind, however, that you may not be in the sexiest of locations. As such, the strategic premium might not be available to you. Remember what I said earlier, buyers pay for the cash flow they think they will generate in the future from your brands or business. If your business cannot provide a buyer that upside, sorry, but you may not be able to get the big number.

Finding premium buyers is not easy and can take time. You may need to cast a wider net and you may want assistance in this process. Remember, your business can suffer if the market finds out that you are for sale. I strongly suggest you (and your representative) do your homework. Find out what your business is really worth... and more importantly, figure out how much your business is worth to someone else. That doesn't mean looking at a few headlines and saying I think my market is worth the same as Bob's. Prices do vary significantly and comparing your business to certain markets simply is a classic case of comparing apples to oranges.

Do your homework and get help from someone who knows the industry. Buying or selling a business is not something to take lightly... your net worth is at stake. Let me repeat that, **YOUR NET WORTH IS AT STAKE**. If a representative says "you know what these things trade for" then **RUN AWAY!** For a relatively small cost, you can get professional opinions of your business value whether you are a seller or buyer. Furthermore, these professionals can determine this value discreetly. Even if you are a buyer, it doesn't hurt to get an assessment of what your business is really worth in the open market. You never know...maybe someone can hit your number!

- John O'Connor

First Beverage Group is a full-service financial services firm dedicated exclusively to the beverage industry. First Beverage focuses on providing growth solutions to leading operators in all segments of the beverage industry through a comprehensive range of products, including private equity; merger and acquisition advisory; debt advisory; strategic and operational consulting; and real estate capital through sale-leasebacks and buy/build-to-suit transactions.

Headquartered in Los Angeles with offices in Atlanta, St. Louis, Phoenix and Portland, the First Beverage team has over 200 years of experience in the beverage industry.

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