

Company has a strategy for your business

Strategic Equity Group, founded in 1989, works with middle-market companies on exit strategies, business valuations and financial options, along with corporate finance and workout, and turnarounds to further position companies in the marketplace.

Since its founding, Strategic Equity has been in a growth mode for a self-labeled "boutique" shop. It now has nine employees and among the leading companies Strategic Equity advises are Quiksilver, Fat Burger and New Horizons.

Christopher Kramer, managing director with Strategic Equity, was interviewed by Press-Telegram business reporter Felix Sanchez.

Q: What's one of the areas where interest is picking up for your com-

pany?

A: Mergers and acquisitions. We see the mergers and acquisitions market heating up and we expect to be a big player in that market.

Q: And tell us why that area is hot.

A: On the sell side, businesses are looking for exit strategies. We're seeing an uptick in the interest level of those business owners. When the economy starts to improve out of a downturn, more business owners are at least open-minded about the prospect of selling a company. When a company goes sideways or down, most business owners look at shoring up the business. Going into a downturn, they understand that performance won't let them command the highest price.

Q: What about on the buyer's side?

A: On the buyer's side, there are a number of things happening that are driving the demand for companies. One is the continuation of private equity funds having significant capital to invest and deploy. Many buyout funds have raised money and have not been able to deploy. The second big factor, banks are starting to lend money again ... so there is some cash for lending available.

Q: And what does the third factor involve?

A: With the rebound in the stock market — clearly over the last year and year and a half it's recovered dramatically — when that happens, public compa-

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BIZ BIO



Christopher Kramer

Occupation: Managing director with Strategic Equity Group in Long Beach
Background: Kramer advises client companies on exit strategies, mergers and acquisitions, and the value of businesses. He is a chartered financial analyst and has worked in advertising, real estate, insurance and financial services.
Education: Finance degree from Cal State Northridge and an MBA from USC.

Q&A: Helping mergers happen

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nies whose stock prices are higher than a year or two ago, are more willing to use stock as currency in acquisitions.

Q: Some companies, especially in aviation/aerospace, have diversified during the downturn in commercial flight. Is that a reason for a lot of activity? Diversification so that a company is not reliant on one core product or service?

A: The primary driver for acquisitions is still the desire to grow the business. There's geographic expansion, product line expansion ... I see less merger and acquisition activity driven by a pure desire to diversify from an industry. Certainly it's a driver, but most of our clients who are acquiring a company are looking for geographic expansion. Our firm is a boutique firm. We're not Goldman Sachs. We're not dealing with the Boeings of the world and the IBMs of the world. Our clients typically are in the \$10 million in revenues to couple of hundred million in revenues range.

Q: Where are many of your clients from?

A: The West Coast: Southern California, some in San Francisco, Las Vegas. Clearly we have a Southern California mar-

keting focus. We used to have more clients in Long Beach but we don't have as many as we might like to have. Long Beach has a lot of wealthier smaller and large businesses. But it doesn't have a lot in between. If a company is doing a couple of million in revenues, it probably is too small. If it's a billion (dollars) or more, they've outgrown our capability.

Q: What are some of the missteps that a company might make when trying to merge or acquire another?

A: When merging, they haven't thought through the strategy deeply enough to effectively integrate the target. They underestimate the difficulty and the complexity that the acquisition and integration is going to require, especially if it's a relatively small company. They may not have the internal resources to ensure it happens smoothly. Things like merging computer systems, assimilating customers.

Q: What about someone who has founded a business, watched it grow, and now is confronted with an opportunity to sell it. What are some precautions he or she should take?

A: Actually, the question I would ask would be about private business owners, who are

successful beyond their wildest dreams, who have grown their company to a significant level, who are in their 40s, 50s or 60s, what are their options?

One is to sell, but many times they don't want to sell the company. There's an emotional attachment. So what are some ways to get liquidity without giving up control? One strategy is an employee stock ownership plan, the partial sale of a company to a trust to benefit an employee.

Another option for mid-size companies is recapitalization. The partial sale of the business in exchange for some new security for cash payment.

Q: Do you find business owners reluctant in the end about selling something they started up?

A: The first question we always ask a prospective client who wants to sell is why? Why do you want to sell? What are you going to do after the employment agreement runs out? Have you dug deep inside of yourself? Are you emotionally ready to part with your baby?

There are people who say they've got to keep their business. They say "it's my whole identity." There's a sense of loss not that different from when you lose loved ones. There are people whose identities are tied to what they do, their business.