ACT Capital Advisors

ACT Capital Advisors is considered by many experts to be “the Facebook, Google and Apple” of Mergers and Acquisitions “sell-side” services, helping business owners optimize the sale of their business for the lower mid-market or businesses with $5-100M in revenue.

The firm – which has 10 offices across the U.S. – has the most extensive network of quality buyers in the industry, about 35% of them private equity firms, 60% companies that are seeking a strategic advantage against competitors, and 5% individual investors.

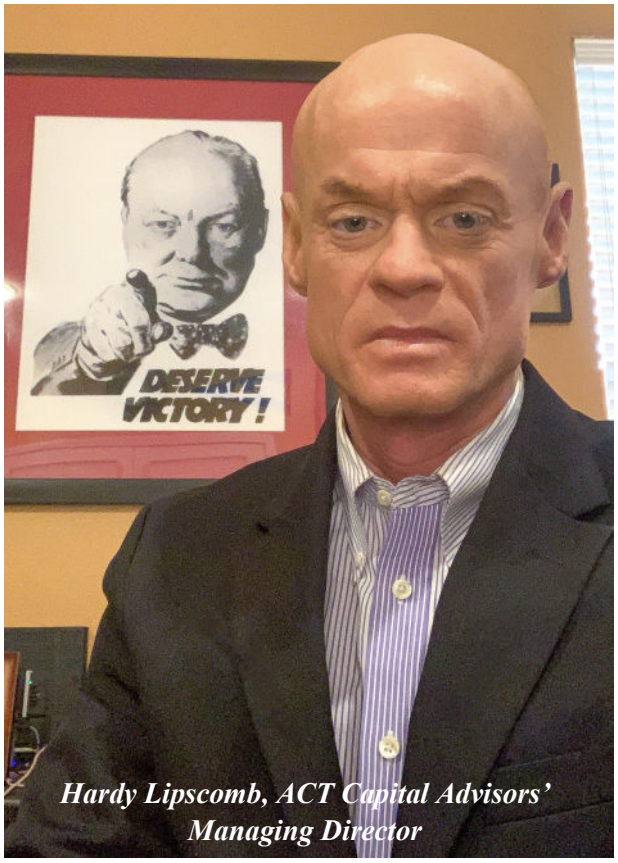
The firm also has a 90% success rate, "compared with the 25% industry standard," says Hardy Lipscomb, the Managing Director responsible for Southern California and leading the company's technology practice.

"The lower mid-market ($5-100M revenue) is an underserved segment by the investment banking community," he adds. "These are the business owners 50 to 75 years old who have been building up their companies for decades. They have provided well for their children, who are often planning to become lawyers or doctors, instead of taking the helm of the family firm.”

These owners have often been thinking about selling their business within five years, but the pandemic has made some decide to speed that up. “They want to do other things, perhaps travel, spend more time with their spouse, their grandkids, travel, or pursue a hobby. I want to enable them to monetize their life's work, not so they can just retire, but to open a new chapter in their lives."

ACT Capital is the pioneer of creating an innovative methodology for helping entrepreneurs optimize business exits by delivering “an unmatched 90% success rate,” says Lipscomb, noting that the firm has closed over 200 deals worth over $1.5 billion in the past 25 years, on average getting 20-30% more for the seller than they originally expected.

"We spend more time getting to understand our client's business upfront than most of our competitors," he says. "Sometimes we advise clients not to sell right away if there are important developments that need to take place first to reach an optimum valuation. That’s something you would never hear from others."



Hardy Lipscomb, ACT Capital Advisors’ Managing Director

One reason ACT Capital does so well is because it takes a holistic look at the business and the potential to service new markets, not just its traditional ones, a potential that can be leveraged in negotiations. One might think this is a buyers' market because of panic about what the coronavirus has done to global business, but that's not the case, Lipscomb says.

“In fact, for profitable businesses, it’s a seller’s market, with an unusually large amount of investor capital available to purchase profitable companies. Businesses are selling for higher multiples as investors compete to buy them. Companies that were sold for 2.5-4x EBITDA seven years ago, are selling for 5-8x EBITDA today,” he explains. “There is the view that any

firm that has done well under the circumstances of 2020 either has something special or is very resilient."

As business owners reflect on 2020 and plan for 2021, they will be adding a few additional considerations to their decision making. The first is the realization of "how short life is and that acts of God can occur at any moment in time," Lipscomb says. "That can derail the best laid plans. Even when vaccines bring the pandemic under control, they recognize that there could be other unexpected factors that could cause their valuation to decline."

Another consideration for planning a business exit in 2021 is the very real possibility of higher capital gains taxes in 2022, which The Biden Administration has advocated. Selling a business for a $10M profit in 2021 would have you paying $2M in taxes and $4M in taxes if you wait until 2022.

What about companies that have pivoted and thrived during the pandemic? "We work with some business owners that have doubled and tripled revenues through serving the special needs that have arisen from the pandemic." One of Lipscomb's clients used to make specialty wallets and pivoted to producing personal protection equipment (PPE), doubling revenue from 2019 by October 2020. While this business and others like it are thriving, they also understand that the gold rush won't last forever, and that it is prudent to consider selling "at the peak" then waiting for the revenue curve to flatten.

About 10% of owners can't agree on the cash valuation, he adds, but they are willing to sell at a higher price based on an earn-out over the next year or two based on milestones in forecasted revenues. "A business is only worth what someone is willing to pay for it and sometimes an owner has to go through the 'five stages of grief' to come to terms with the realities of the market," notes Lipscomb, who advises those who are contemplating selling to start with the basics, such as making sure their website is easy for customers to understand and has glowing customer testimonials. Sales processes should be formalized with standard performance metrics and benchmarks. For instance, if the company has 100 qualified leads at the top of the funnel, eight, on average, will turn into customers.

"Entrepreneurs are the backbone of America and heroes to anyone who is a dyed-in-the-wool capitalist like myself. I'm here to serve and ensure my clients get top dollar for the value they've created," Lipscomb says.

After graduating magna cum laude with a B.A. in economics from the University of California, Davis in 1987 and earning an MBA from U.C.L.A. in 1993, Lipscomb worked at a variety of firms before joining Cisco Systems in 1999. In the last two years there, he led the global go-to-market cloud solutions effort for strategic partners. He left in 2012 for an opportunity to create a partner ecosystem for mobile tech management firm Sybase, part of SAP, and in 2015, joined software company Rimini Street to lead its partnership strategy.

"Big corporations know they need to keep innovating, but rather than developing the capabilities inside, it is often easier to outsource this, either by partnering with a company that is already a leader in their target market or acquiring a firm with those capabilities," Lipscomb says.

"I learned that there is often a gap in communication between large companies and smaller customers and this can extend to firms they want to acquire. I worked on 30 acquisitions at Cisco and was tasked to assess how these would impact global demand for the new services for Cisco and how this and other factors might lead to a valuation offer lower than the owner thought was fair. I found that being completely transparent and quickly informing both sides of good and bad news is essential to resolving obstacles."

Business owners who are considering a business exit in 2021, and have revenues of $5M or more, and are profitable with net income of $1M or more, "I'd like to share the value we bring in guiding you through the process, how we've earned our 90% success rate and how we always deliver more than expected." — By Scott S. Smith, California Business Journal

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