Acquiring a Trade Exchange

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The purpose of this article is to share my experience acquiring and selling trade exchanges over the last 30 years, and to help foster 'best practices' for the acquisition process in the barter industry. I completed my first acquisition of a local barter competitor in Seattle, Washington in 1990. Since that time, I have purchased and sold 50 exchanges, paying and/or receiving more than $20 million*, ranging in single digit thousands to $4 million.

Every acquisition is different, but the basic components of an acquisition are not. The goal of the transaction should be to provide the acquired member base the opportunity to continue to utilize a trading community to spend positive trade balances and offset negative balances with sales, for the buyer to generate transaction and monthly fees to offset the purchase price and the seller to receive a fair price with ability to move on. For a successful acquisition you need:

- A capable buyer and a willing seller
- Decide on an asset purchase (most common) or purchase the corporation
- Fair valuation of the business
- Timing and method of payment
- Binding documents.

The acquisition process is emotional for both the Buyer and Seller.

A fair valuation is the best deal for both parties.

Working out the details of an acquisition is 'not a walk in the park' event and can be a grueling, stressful and emotional process for both the buyer and seller, and can, in many situations, cause negotiations to fail. Sellers often have separation issues and buyers fear the unknown return; both have valuation anxiety - sellers believe the assets are worth more, buyers believe less. Covid has made acquisition even more risky.

The probability of a successful acquisition increases significantly and the process much smoother if the buyer and seller recognize at the onset of discussions that each will have their own interests, anxieties, and concerns regarding the transaction; that the process will likely have high and low points; and a fair deal is the best deal.

*Excludes ubarter.com $45,000,000 transaction in 2000

For the seller:

First, determine you really want to sell the business and understand the reason why – is it time to retire, are you lacking the energy to grow the business, or is time to pursue another opportunity. No one likes a 'tease' and if you start seriously talking about selling and then remove yourself from the process because you changed your mind, you will have cost the buyer hours of lost time, potential legal costs, and you may lose future credibility.

Second, determine a fair price for your business. Factor in your ability to walk away from the exchange, and no longer responsible for servicing all the positive balance member accounts (trade liability). Overvaluing a business can end discussions before they start, so be realistic. Your goal is to sell the business to a buyer that will treat your members well and be paid in full; it is not to repossess the business, sue for default (if the deal was financed), or to be sued for misrepresentation. Consider other acquisitions in the barter industry and understand the depth of potential buyers with the experience integrity and financial where-with-all to buy your business. There are very few 'qualified' buyers.

Reach out directly to the owner of an exchange you believe will have the best fit for your member base and the means to pay you a fair price. If you are anxious about contacting the owner directly, have a mutual acquaintance make the call. Prior to, or right after, the first conversation, sign a mutual non-disclosure agreement (NDA). This is a very good business practice and binds both the buyer and seller to keep all conversations and disclosures confidential.

Be prepared to provide the following initial documents to the potential buyer:

- 3 years of income statements
- A current balance sheet
- 2 years of bank statements
- Your sales price, and
- A member list with trade and cash balances, fee plans, and last transaction/payment date

For the Buyer:

The primary purpose for any acquisition should be to strengthen your organization's operations, sales, revenues and cash flow. If you have any concerns that an acquisition could potentially hinder your organization or sense the seller is withholding information, walk away.

Most exchanges have declining revenue and member count over the last three years. A seller may try and explain reasons the decline is temporary. Most sellers will state there is a lot of opportunity, they love their members and staff, and no issues exist that they are aware. Take all of this with a grain of salt being careful not to insult the seller; declining exchanges are a fact of life, just like lines at the DMV.

Key things to think about when looking at an acquisition:

- How much has transaction volume, cash collected, and new member registrations decreased over the last three years (seldom are any of these metrics increasing).
- What is the breakdown of revenue, transaction fees vs monthly fees and other fees?
- Will the acquired member base integrate well into your operations – proximity to your current members, fee plans, and amount of trade liability acquired (sum of the 'members positive balance accounts).
- Understand the litigation history of the seller. Are they sued often, or do they sue others? Either point is a red flag.
- What is the seller's desired role after the sale? Usually, the owner moves on.

Due diligence is essential to making a successful acquisition. Don't be afraid to ask the seller for documents and members information (see partial list above), review everything thoroughly, ask for more documents or explanation if necessary, and make an informed decision.

There are ALWAYS some skeletons hidden in any exchange - bad transactions, real or perceived promises by the seller, and sometimes outright fraud.

Buyers should never overstate their ability to pay as this could damage your reputation and negotiating power. Always state the truth and the facts Honor the NDA and never speak about the transaction outside of your closest advisors. The discussions are serious, almost sacred. They impact emotions, commitments, reputations and fair play.

Finally, never allow the seller to have a fee free account. In fact, all house, staff and family accounts should be paid off and/or closed. If the seller wants to open an account, they should sign a new membership application agreeing to your standard fees. I strongly suggest you do not allow this to occur for a minimum of 6 months after closing the transaction. Sellers must also agree to not start another exchange or join any exchange (except yours) for at least a 3-year period.

If you have any questions about this article, please give me a call at 425.463.4001 or email, steve@itex.com.