

Five Things to Look for in an M&A Partner for Smaller Deals



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Community banks are vital partners for smaller M&A deals. That's because senior lenders at large national banks and regional banks typically shy

away from financing M&A deals below certain thresholds. That leaves lower middle market acquirers reliant on senior lenders at community banks for M&A financing.

But not every bank is alike and not every community bank is equipped to finance M&A deals. Similarly, there are nuances to choosing a bank that make finding the ideal fit feel like trying to find a needle in a haystack. How do you know if you or your business has found a right fit? Consider these five things to look for in a financial institution – especially if you're targeting an M&A venture in the range of \$1 to \$3 million EBITDA (earnings before interest, taxes, depreciation and amortization).

1. Strong Financial Position

Community banks that are well diversified in their lending portfolios, as well as their deposit base, reduce risk in M&A deals. The community bank you work with should be well-diversified and well-capitalized with access to multiple sources of liquidity—including the Federal Reserve's recently established Bank Term Funding Program (BTFP).

To thrive, a strong community bank should have significant financing and capital resources. Banks achieve this by serving a diverse customer base of consumer as well as commercial account relationships. Also, private community banks may have an advantage over publicly traded banks that are subject to unexpected stock market fluctuations in times of market volatility.

2. Experience in Smaller M&A Deals

There's no one-size-fits-all for smaller or lower middle market M&A deals. For example, a deal for two large hospitals merging shouldn't be structured the same as a smaller family business merging with a same-sized competitor. It's like comparing apples and oranges.

Look for a senior lender at a community bank that is willing to invest the time to tailor a financing package just for your M&A—no matter the size. The right senior lender should have a long conversation about your goals, know how to get you over the finish line and customize the structure for your specific transaction.

3. Willingness to be Flexible

Many banks try to do cash flow-based M&A deals, but they want tangible things like real estate as collateral. That can be problematic for service providers in industries like information technology (IT) and others that don't have strong hard assets like equipment or real estate to secure the deal.

Look for a community bank with senior advisors that can be flexible and creative with cash flow-based deals. Seek out a banking partner that is willing to be creative when structuring amortization. In the end, flexibility can help you overcome obstacles when there is a lack of assets that would normally be needed by a Senior Lender.

4. A Great Communicator

The level of communication should not depend on the size of the financing. An experienced banker that keeps you informed every step of the way is a must. For example, some business buyers don't want to pay an independent accounting firm for a quality of earnings (QoE) report that evaluates how a business accumulates revenue. Your lender should tell you how you might benefit from this information or what alternatives might be appropriate. This kind of unbiased review can help a buyer get a better price if the seller didn't do their own due diligence.

Also look for a lender that knows how to assemble the right team, including

an attorney that knows M&A transactions. An attorney that did your taxes or estate planning – or even your business continuity planning – may or may not have the expertise needed for M&A deals. Your lender can assist you with identifying an experienced legal resource.

5. A Highly Rated Reputation

Reputation is crucial in community banking. Look for a community bank with a 5-star rating from an independent rating firm for assurance that your M&A deal is in good financial hands. Ask about their experience with M&A financing and the types of transactions they have successfully completed.

Big Thinking for Small M&A Deals

Smaller M&A deals, in the \$1 to \$3 million EBITDA range, require a different skillset and mindset than larger transactions. They also require a custom approach based on your unique deal needs. With a highly reputable, financially strong community banking team on your side, smaller M&A deals can go just as smoothly as midmarket and large deals. Plus, you'll enjoy more flexible financing and thorough communications throughout the process.

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Hangge is a senior commercial banker at Highland Bank who primarily serves lower middle-market commercial and real estate clients. With nearly 20 years of experience, he offers a broad range of expertise in all types of commercial banking. Throughout his career, Hangge has provided well over \$175 million in new financing for his clients. He holds a Bachelor's Degree in Economics, Finance and Marketing from Bethel University, St. Paul, Minnesota.



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