VF-101-007m
September 26, 2007

VISIONFORWARD

Woodie & FLAVORx

Woodie Neiss had always been a details guy: Financial records, papers on his desk, and to-do lists in Microsoft Outlook; even his apartment was neat and organized. When Woodie and the senior executives at FLAVORx were preparing the company for sale, Woodie's detail-orientation became a major asset.

FLAVORx produced flavorings for children's medicine. FLAVORx was the #1 behind-the-counter system available at pharmacies nationwide. It provided medically designed and scientifically tested flavorings to pharmacies, and pharmaceutical companies, to combat the bad taste of over-the-counter and prescription liquid medicines. Woodie was CFO and co-owner of FLAVORx. When the time came to sell the company, Woodie knew it would be a tremendous amount of work. He even described selling his company as a second full-time job.

The steps involved in preparing for the sale were many and detailed. First, Woodie organized an internal team to collaborate on the acquisition process. But there was a catch: Only a few individuals in the company were aware of the plans to sell FLAXORx. Because an eminent company sale can cause a great deal of tension in a company, Woodie strongly believed it was best to involve a limited number of employees. Initially, the team consisted of the CEO, the finance team, and Woodie.

Second, Woodie needed to find the right investment bank to run the acquisition process. "I spent 3 months researching banks, interviewing them, listening to their presentations and negotiating the project scope and fees," he explained.

Third was the paper. Woodie and his finance team assembled every pertinent document related to the operations of the business and loaded them into a virtual "data room." Woodie elaborated, "The data room allowed interested parties access to documents so they could perform their due diligence without interrupting the daily operations of the company."

> Case in case: Brothers Jim & Steve Reznikoff, founders and owners of IT company Microsystems Automation Group (MSAG), are backing into their company's sale price. Jim explained, "First, we said, 'When we retire, how much do we want in income each year?' Next, we figured out what amount of principal would throw off that amount of annual interest. That principal number is our target sale price. Our company strategies and goals now all lead us to that number."

Next Woodie worked with his team and the bank to write what was called "the book." "The book is like a business plan on steroids," laughed Woodie. "It provides an entire breakdown of the company, historic analysis and future potential all with detailed financials and proformas." The numbers in the book are set in stone between the time the book is printed and the time when the company is sold. "You miss a number on those published figures and your value is reduced," Woodie noted.

Woodie breathed a sigh of relief when the bank took over. In this case, the bank's job was to contact as many buyers that fit within FLAVORx's "sweet spot" (target buyer profile), as Woodie described:

> For FLAVORx, there were two types of buyers: a) Strategic - pharmaceutical companies and retail pharmacies. These were our customers. They were familiar with our product and our business. Additional strategic buyers included wholesale distribution companies, flavoring companies, and a variety of international conglomerates. The second type of company in our "sweet spot" was a financial buyer. These were venture capital and private equity firms, hedge funds, and the like.

Katherine Korman Frey and Woodie Neiss prepared this as the basis for discussion rather than to illustrate either effective or ineffective handling of an administrative or personal situation.

After contacting over 270 buyers and sending out the book to 70 interested parties, FLAVORx received 15 initial bids.

The FLAVORx team spoke with each of the potential acquirers. After reducing the list, the team made formal five-hour presentations to each potential buyer. Woodie explained:

> This is where a person really needs to perform. I often joked that a little acting class would have helped. We were put under a microscope and asked very detailed questions about the company, its financials, and how we could substantiate the projections. We also spent a lot of time talking about our successes and what we learned from our failures. This conversation was repeated over and over as we whittled the list down to find the right buyer. *Then* the hard work began.

After the selection of the buyer, a term sheet was negotiated and signed, and the buyers' due diligence began. At that point it was necessary to include many of the FLAVORx senior managers in the acquisition discussion as the potential buyer wanted to meet with them. Woodie elaborated on the interaction with the senior managers: "It was important to really explain what was happening, get buy-in to the idea of selling the company, and make sure there was incentive in it for them." In this case, all employees had options in the privately held FLAVORx. Thus, the sale of the company would provide staff with liquidity.

Fast forward nine weeks: The buyer revisited the data room, interviewed employees, called customers and vendors, and performed other due diligence. "A lot of energy was spent making the potential acquirer comfortable with the organization at that point so that the transition would be easy," Woodie explained. Also during this stage, attorneys became involved to negotiate the acquisition and draw up an agreement. Woodie elaborated:

> The document the attorneys produced turned out to be longer than *The Odyssey* and about one-tenth as interesting. However, it was critical that I read it and familiarized myself and agreed with everything in there because the team and I would be held accountable for any misrepresentations. My advice would be to pour yourself 100 cups of coffee, sit down for a long read, and try not to faint when you get the legal bill.

While performing the tasks associated with selling the company, Woodie and the entire team had to be performing at 110 percent in their "other jobs," which - in Woodie's case - was CFO. Throughout the process, he continued to manage the finances of the company, ensured FLAVORx was on budget, strategized about goals, and kept the operations running smoothly.

After almost 1 year, FLAVORx sold. Woodie described it as the most mentally and emotionally intense experience he'd ever been through. However, he learned a great deal and shared his top tip for entrepreneurs:

> My number one tip is to *be organized*! Believe it or not, we were able to streamline much of this process because we had prepared for a year or so prior to the decision to sell. Companies that don't, often take longer to sell at much lower valuations.

Woodie's final step turned out to be the most enjoyable. He put his money in the bank, interviewed financial planners, and took off for a year of travel around the world. "I'll do it again for sure," Woodie said. "It's just a question of when."

1. Are you surprised by the level of effort required to sell FLAVORx? Do you think every company approaches acquisition with this level of effort and detail?
2. Look up three entrepreneur acquisition stories on the Internet and summarize the ways in which the acquisition experiences were similar to or different from Woodie's.
3. What do you think of Woodie's decision not to disclose the plans to sell FLAVORx to the entire company? What are the potential tensions to which he alludes? What would you have done?
4. What does Woodie mean when he refers to the FLAVORx employees as having "options."
5. Woodie did not have to sign an employment agreement requiring that he stay on with FLAVORx under the management of the parent company. Why do you think this is the case?

Source: Frey, Katherine Korman; Neiss, Woodie. "Woodie" case, the Vision Forward case database, 2007.
Go to www.VisionForward.com for printable cases, more on Woodie, plus additional exercises and resources.