

MINDWORKS – CASE STUDY

Date Deal Closed: July 22, 2005

THE COMPANY

Mindworks is a Northern Virginia-based educational consulting business that was founded in 1997, and utilizes 102 consultants to serve over 175 clients.

A solid brand was created by Mindworks through:

- Personalization and customization of tutoring
- Strong customer service
- Highly qualified, state certified instructors – more than 50% have Masters or PhD degrees, and all have Bachelor degrees
- A commitment to achieving results
- Providing tutoring services at locations convenient for clients

THE ASSIGNMENT

The owner of Mindworks engaged Codiligent to sell her business in order to gain time and capital to pursue other business and investing activities.

SELLER'S GOALS

- To exit an operational role in the business as soon as practical
- To obtain as much of the value for the business in cash as possible – the seller was not interested in carrying a significant contract
- To realize the best possible price
- To sell the business to a person or company that has the same commitment to customer service, positive treatment of consultants, and quality outcomes for clients

THE CHALLENGES

- When the seller first contacted Codiligent, an analysis of the business was performed and it was determined that there were things that could be done to improve the value and marketability of the business. So the decision was made to delay marketing of the business for six months.
- Changes were made to the business to significantly increase the profitability of the business, but because those changes were made in the six months prior to marketing the business, buyers may be skeptical of whether the higher margins would be sustainable long-term and may be resistant to paying a

value that reflects the higher performance because of the short history of higher margins.

- The business had few tangible assets, and the consultants it utilized were all independent contractors, so some acquirers would be concerned about how secure their investment would be (i.e. will they lose clients and consultants and will the value of the business dissolve with the departure of the seller).
- Many acquirers would want the seller to have an earn-out or hold-back of part of the sales price, with the seller only getting the remaining amount owed if the acquirer maintains a certain level of financial performance, number of clients, and/or number of consultants. This was in conflict with the seller's goal of having as much money up-front as possible, and would present substantial risk to the seller. There was the possibility that operational problems caused by an acquirer who chose to operate the business differently could erode what the seller had built, and if there was a hold-back then some of the value would be lost through no fault of the seller.
- There was a concern for strong confidentiality – if clients, competitors, and consultants learned of the sale it could cause loss of business and loss of consultants.
- Because of the lack of tangible assets to secure a loan, it would be very difficult for an acquirer to get outside financing to make this acquisition. Consequently, it would be important to find an acquirer who had the financial capability to close the deal without obtaining a loan backed solely by the business.

PRICING STRATEGY DEVELOPMENT

Before contacting Codiligent, the seller had hired an independent national business appraiser through another business broker. The appraisal contained significant errors and poor methodology (including using comparable sold businesses from the wrong SIC code).

Codiligent's proprietary analysis and valuation model was used to estimate a realistic range of value. It was anticipated that during the business marketing process, that financial performance would continue to increase, so the decision was made to price the business on the higher end of the range of value, but to present information in such a way that it would appear that the business was priced very reasonably. The client was told that every effort would be made to secure a price close to the asking price, but with the understanding that a full price offer was not highly likely unless financial performance continued to improve significantly during the marketing process.

During the marketing process Codiligent received the following feedback on its analysis and pricing from the CEO of one of the top publicly traded educational services companies in the US: "While we are not interested in pursuing an acquisition at this time, I did want to let you know that I thought your pricing evaluation was right on the money."

POSITIONING AND PACKAGING

In both the teaser package and the confidential package an emphasis was placed on the value that had been created through the strong brand that had been developed.

Information on the values, customer service ethic, highly qualified consultants, and results achieved for clients was provided. The packages emphasized that strong revenue growth had occurred and that the business was priced conservatively. The qualifications of the consultants were promoted, abundant customer testimonials were provided, and information was given that supported the claim of a strong local brand and the unexploited opportunities available to an acquirer.

Codiligent received the following feedback from the seller on comments made about the packaging from one of the acquirers that was interested in the business:

“He (a prospective buyer) RAVED about your marketing packet. To quote, ‘I have seen a lot of proposals with numerous corporations and government agencies. Codiligent’s marketing packet was the most thorough and impressive I have ever seen. I was blown away.’”

MARKETING METHODS

Marketing methods for Mindworks included:

- Codiligent researched larger education-related businesses that would benefit from acquiring Mindworks. The list was narrowed to 13 companies that appeared to be the most logical acquirers due to geographic markets served, similarity or complementary nature of services provided, growth activities, and financial strength. Teaser packages were sent to top executives at each of these companies.
- A mailing list was compiled of 2,066 people in management or administrative positions in the education industry in the Washington D.C.-Metro area. Oversized postcards were mailed to this list that included an overview of the business and a URL address that contained information on the business listing.
- Advertisements were placed on business sale websites.

PROCESS AND RESULTS

In the late spring of 2004, Codiligent performed an analysis of Mindworks and began discussing the preparation of the business for sale with the owner. The decision was made to gain a track record of another half a year of higher earnings based on improved cost controls and management efficiency before marketing the business in order to optimize its value. Between late spring and December of 2004 Codiligent worked with the seller to develop quality packaging and marketing materials and researching potential acquirers.

In January 2005 Codiligent began actively marketing Mindworks. Marketing efforts were launched with the mailing of 2,066 postcards to industry professionals and by sending initial packages of information to 13 highly targeted companies. At the same time, advertisements were placed on business sale websites that attract a large number of serious acquirers.

Codiligent received 28 inquiries from its marketing efforts. Out of the 28 inquiries 13 qualified parties signed confidentiality agreements to receive more comprehensive information, including an educational services company owner in the United Kingdom. Four parties continued to show significant interest after reviewing the more comprehensive packages of confidential information.

During the marketing process, the seller continued to improve the business' financial performance, which allowed for strong support of the asking price.

Two parties submitted letters of intent. The deal was closed at the full asking price seven months after active marketing began for 100% cash with no owner carried financing. The acquirer is a perfect match for continuing the legacy of quality tutoring and excellent customer service that the founder had built her brand upon, giving the seller peace of mind that her clients and tutors would be well cared for after her departure.