A MULTI-COMPANY SERVICE FIRM ACQUIRES A THIRD BUSINESS BY SIMPLY ASSUMING SOME LEASES. TOO GOOD TO BE TRUE?

Two very aggressive owners of a two-company service firm sought help after acquiring a third business. They were able to acquire the ongoing business, complete with clients by simply assuming some leases. In many respects, the deal made sense because the three businesses were all customers of each other, and the acquired company also had its own outside clients.

Our tailored ideation sessions created a great deal of enthusiasm for where they could take the two original businesses, but the newly acquired business appeared to be a problem.

As we continued to study the lagging business, it became apparent that the information presented to the owners when they decided to acquire the business was erroneous. There was no feeling that this was intentional; rather the business model was one that worked in the past, but was no longer relevant to today’s conditions.

An analysis of the next quarter’s financial results showed that our conclusions were correct. The business was running major losses, and when we revised the financial forecast to reflect reality, we discovered the business would never make money based upon the going rate for its services.

We strongly recommended closing the business, pointing out that to operate the business the following year would require a major cash injection that they could not afford to make. Our advice was taken.

Later, one of the remaining two companies attracted a buy-out offer. Wingspan’s five-year financial projections for that business provided a basis for negotiating a fair value for the sale.