

Middle Market Review

*In 1986, Beatrice Mitchell co-founded the respected middle market investment bank **Sperry, Mitchell & Company**. Giff Constable sat down with her to discuss the founding and evolution of her firm, as well as her insights on the current market.*



GC: How did Sperry Mitchell come about?

Beatrice: Paul Sperry and I were working for Victor Niederhoffer back in the 1980's, when he was doing M&A. His interests shifted to trading futures, and M&A became an orphan in the business. We saw the opportunity to create a new firm. I think one is born an entrepreneur, and I had always wanted to start a company. I had actually started a magazine in college. Paul Sperry came from a family of entrepreneurs.

GC: Were there challenges getting the business off the ground?

Beatrice: The key is just to work like a dog. It's not rocket science. We had referrals and some business from our previous firm. We had enough of a track record to generate opportunities. It was very hard work, but a lot of fun.

GC: How has Sperry Mitchell evolved?

Beatrice: Our work product is so much more sophisticated than it was twenty or thirty years ago. We have great systems now — databases and processes that we have tailored to our needs. When we want to approach a buyer, we typically have a detailed history on their prior deals and how they act in a process. We have developed a strong analyst and associate pool, so we have the resources to create more sophisticated presentations and analyses.

GC: How has the external environment changed?

Beatrice: Everything happens so much faster these days, from completing Purchase/Sale documents to completing due diligence. The deal process timeline has become incredibly compressed. Of course, the basic process of selling a business has not changed, but our buyer base has. When we started in the early 1980's, we were primarily dealing with strategic buyers. Back then, financial buyers were basically "boot-strappers," putting very little equity into deals, financing transactions through the few asset-based lenders willing to provide leveraged lending. Today, the whole structure of the market has changed. Buyers are much more aggressive, and there are many more of them. PE sponsors have been breeding like rabbits. And now, a host of family offices are getting into the game.

GC: You've kept Sperry Mitchell an industry generalist — why is that?

Beatrice: We think it is a huge advantage to be a generalist. By avoiding the lulls in any particular space or sector, we experience less cyclicity. We also get a broader, more macro view of the world. Rather than defining our "market" vertically by industry sector, we choose to define it horizontally, by focusing on private, family, or owner-operator businesses. Deals involving private companies are just fundamentally different; they require different skills and a different approach to the marketing process.

GC: What are some important lessons learned over the years?

Beatrice: This is one that nobody wants to hear, but the biggest mistake that owners make is not selling. Business owners often view their companies to be on a permanent growth trajectory. Yet, trees don't grow to the sky. Company performance is always subject to competitive threats and business cycles. Like with all good investments, business owners should sell at a certain point. I talk to many owners who say, "Talk to me in a year." When we come back to them in a year, their business is down. You also never know what uncertainty is around the corner — just look at the tariff situation right now. I view us as 50% bankers and 50% psychiatrists. We give people a lot of advice on when to sell, and how to position themselves to be ready to sell.

GC: The senior ranks in banking and PE still have so few women. What needs to happen for that to change?

Beatrice: Culture takes a long time to change, and change is usually ignited by external forces. As institutional investors demand more diversity, change will occur, just as it did at law, accounting, and consulting firms. However, no one is going to hand this to women — they have to force it. But if women get tired of the institutional bias and the lack of respect, I counsel them to go start their own businesses, like I did. That way, they get to set the rules. Personally, I think being a woman in finance is a huge advantage. Women are good listeners and good negotiators. It's always surprising to me that more investment banks and PE funds haven't picked up on this.

GC: What's your perception of the current market environment?

Beatrice: There is obviously a lot of cash out in the market. 18 months ago, there was a perception among PE sponsors that the market was too frothy and they didn't want to participate. Now they've accepted and internalized this situation as their new reality. To get deals done in today's market, PE sponsors need to be willing to pay market-clearing prices and move quickly to close. Buyers are going into deals at very high prices, and everything will need to work to near perfection for them to get their returns. On the other hand, it is certainly a *great* time to be a seller. In thirty-five years, I have never seen the pricing that we are achieving for our clients today.

GC: We've also seen the rise in family offices going direct. What are you seeing there?

Beatrice: Family offices run by former entrepreneurs are very appealing to our client base, and they are winning deals over PE funds. Our seller clients see these fellow entrepreneurs and think, "These guys are the real thing." A lot of PE firms are trying to differentiate themselves by bringing operating partners onboard, but too often there is a mismatch. They choose operating partners who come from large companies, not entrepreneurs who have built up small ones. Additionally, some business owners believe that family offices have a huge advantage over PE sponsors, in that they can hold portfolio companies indefinitely, as opposed to the typical 3-5 year "flip" period with PE funds. Family offices' long investment horizon can be very appealing to owners who spent years building their companies and want to see as little disruption to their businesses as possible. However, for owners who have reinvented proceeds back into their company with a PE sponsor, the certainty of a sale with 3-5 years has great appeal, as it provides assurance of liquidity.

GC: Is there anything else interesting you at the moment?

Beatrice: It's interesting how manufacturing is having a resurgence in the USA. The big challenge right now is lack of labor. Everyone has a "help wanted" sign outside their factory. This is not just for blue collar jobs, but also engineering, marketing and finance roles. Lack of trained, available labor is really hurting business. Automation can only help alleviate some of these shortages.

For more information about the interview or Sperry Mitchell & Company, please contact:

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