

LANDSCAPE: The eBays Of M&A



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AxialMarket Usage		
	Companies listed for sale	NDA's signed by potential buyers
Jan. 2010	3,400	1,443
June 2010	4,010	4,106
Apr. 2011	5,472	9,147
Source: AxialMarket		

NEW YORK (Dow Jones Investment Banker)--Two new web-based platforms for selling businesses have launched in Europe in the past month, competing for a market where U.S. incumbents such as AxialMarket Inc already operate. Their proponents contend they will give boutique banks more competitive muscle and change how multimillion-dollar deals are sourced by private equity and strategic buyers. They have a point.

Data rooms, deal flow management tools, communication features and listings for multimillion-dollar businesses take these marketplaces a big step up from their antecedents, which were little more than bulletin boards for dry cleaners and other small shops.

Online business exchanges certainly began on the fringe, buying and selling small businesses that ordinarily wouldn't attract the attention of advisers. Two of the first to launch in the U.S., about a decade ago, BizBuySell.com and Bizquest.com, are now part of LoopNet Inc, an online marketplace for commercial real estate that earned about \$16 million on \$78 million in sales in 2010. Today, business listings account for "a minority" of those figures, according to Mike Handelsman, group general manager. "We serve what we define as the Main Street business for sale: restaurants, gas stations, dry cleaners, retail stores, smaller manufacturing businesses," he says, most of them with Ebitda under \$1 million.

The new marketplaces set their sights higher. Robert Goldsmith, CEO of BCMS Corporate LLC, an advisory boutique, used AxialMarket in 2009 when advising on the sale of a controlling stake in Precision Pipeline Solutions to Sentinel Capital Partners LLC, a \$21.5 million deal, according to Capital IQ.

Goldsmith has a second, \$100 million deal pending where the buyers were found through AxialMarket. Incorporated in 2007, AxialMarket raised \$2.36 million in a private placement in November 2010.

Rupert Gather, partner in the corporate finance advisory firm Wellstone Partners LLP in London, will be using the new marketplace Asset-Ex, which launched on April 5, to seek investors in a renewable development project in Cuba, which will need \$1 million during the initial development phase and perhaps \$100 million during the construction phase in about a year.

"This is exactly the sort of asset that Asset-Ex lends itself to," he says. "There could easily be interest from India, China, the Middle East, South America. We're a fairly small but sophisticated corporate finance house in London, but we don't have the global reach that would enable us to get into the Indian or Chinese market."

The new marketplaces do more than provide listings. In addition to a billboard, Asset-Ex provides virtual buyer and seller data room to simplify at least the initial stages of due diligence.

Alex Vukajlovic, founder and CEO of Cape Capital in Zurich, designed his firm's new DealMarket platform "to create an open, transparent market for buyers, and allow users to rate each other like Amazon or eBay," he says. DealMarket allows users to put up past deals and past affiliations for free so that users can benchmark their deals against others.

DealMarket is the lowest priced of the new markets, with a subscription fee of only \$100 a month for sellers. Asset-Ex charges sellers a \$2,000 annual subscription fee plus a commission of 3%, according to founder Jamie Apold. AxialMarket charges sellers a variable subscription fee of up to \$18,000, according to CEO Peter Lehrman, and its affiliated broker-dealer, Tangent Capital Partners, may also earn a commission.

These new markets probably won't be the last to emerge. Cloud computing makes it much cheaper to set up a marketplace than it was a decade ago. Eventually, one of the entrants will likely attract most of the eyeballs and become the listing venue of choice.

Expect two consequences. First, open and transparent markets will make it more difficult for private equity firms to develop proprietary deal flow. Second, a global network may become less of a competitive advantage for larger investment banks, as online exchanges allow boutiques and startups to find buyers or sellers worldwide. A disruptive innovation is one that transforms a market -- and these platforms seem to be a good bet to do so.