

URL: <https://stvp.stanford.edu/blog/videos/the-ma-market>

Roizen believes the M&A market has always been a primary source of liquidity. She explains why big companies examine burn rate and ways to cut cost before they purchase smaller companies who may not be breaking even.



Transcript

I think that the M&A Market has always been, except for the last couple of years, the primary source of liquidity for the community.. I think that what happened of course is the "whompom", as we call it, which is the stock of the acquiring company, got very expensive to them, right? Their price came down when they had PEs.. Some of them didn't even have Es, so they had crazy numbers.. You could buy a company and you could do this funny math that somehow you were worth more as a result of buying the company even if no matter what you spend.. And so there was some crazy math going on with the stock.. And at the end of the day, now that the companies have all come crashing to Earth and they have to pay real dollars, you do have to validate the potential for a transaction on real math with real dollars, not stock dollars.. Now that said, I think there are some great opportunities out there.. I think that for the companies that achieve a steady state, that can manage to sustain themselves by revenue off of their burn.. If I'm particularly a company, especially a public company, and I want to acquire a private company, the first thing I've got to look at is what kind of effect their burn rates are going to have on my quarterly numbers.. So a lot of times, you look at these things and say, "I don't care if you have the greatest product in the world but you're still spending more money than you make..

I can't afford to buy you because you're going to hurt my earnings." If you can get to break-even or better, and if an acquiring company can be convinced that they can eliminate cost or they can turn your angle up in terms of your revenue ramp, then I think there will be some things happening there.. I also think you're going to see a wave of consolidation of like, well I had one leg chopped up and you had one leg chopped up but maybe if we go like this, we can walk somewhere...