



BILLOW BUTLER & COMPANY, L.L.C.

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*Mergers & Acquisitions*

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# **BILLOW BUTLER & COMPANY OVERVIEW**



## BILLOW BUTLER & COMPANY, L.L.C.

*Mergers and Acquisitions*

### **OVERVIEW**

Billow Butler & Company, L.L.C. (BBC) is a boutique investment bank serving business owners in connection with the sale of their companies and providing other merger and acquisition (M&A) activities, including leveraged (or liquidity) recapitalizations. Throughout our respective careers we have dedicated our efforts to maximizing the net proceeds realizable by our clients through a sale or recapitalization transaction.

### **CORPORATE CREED**

To provide our clients with highly personalized, strategic intermediary and M&A services. To deliver these with professionalism and care, excellent service, the utmost integrity, and superior dedication to the achievement of the best results.

### **OPERATING PHILOSOPHY**

To manage the transaction process of our clients' companies in a manner which:

- ◆ preserves confidentiality
- ◆ structures a strategic marketing campaign to achieve premium pricing
- ◆ achieves results quickly and deliberately
- ◆ avoids undue interference in the business
- ◆ minimizes imposition upon our client.

This process typically culminates in multiple offers for client review, from which the best price and optimum structure and terms can be negotiated by us, your exclusive M&A advisor and advocate. Having our own names as a corporate identity represents your assurance that we personally stand behind our company's goal of your successful closing.

### **SERVICES**

BBC has a specialization and a focus. Our specialization is serving as an M&A strategist to business owners seeking to sell all, or a portion, of their company. Our client base is one which, over years of experience, we have come to know, understand and respect. Our focus is middle market manufacturers and distributors where the estimated transaction value will exceed \$10 million.

BBC will counsel clients on the expected market value outcome of a transaction and merits of particular timing considerations. The professionals of BBC are experienced in the preparation and delivery of marketing materials to accomplish marketing objectives with professional integrity.

We believe that the primary focus of our marketing efforts should be directed to identifying bona fide strategic buyers. Therefore, our approach to the marketplace is based upon a customized, intense market intelligence effort. In this way, we feel we can best assure that the outcome of our efforts will be premium offers from qualified cash buyers.

Finally, with world-class professional backgrounds in law and finance/accounting, BBC is uniquely qualified to facilitate smooth due diligence proceedings, coordinate contract construction and negotiate optimal terms on our clients' behalves.



### ***TRACK RECORD AND CREDENTIALS***

During our combined experience of over 50 years, we have served our clients in the successful closing of many challenging business sales and recapitalizations. We have distinguished ourselves as leaders in our careers as investment bankers and previously as corporate transactional lawyers, bankers and financial consultants. We have each been honored repeatedly with the highest accolades awarded by our former colleagues. We are proud to have collectively served in over 200 transactional assignments.

You are invited and encouraged to contact all of our references. Our former clients will be happy to directly communicate to you their high levels of satisfaction in the quality of our results and our excellent representation and efforts on their behalves.

### ***RESOURCES***

Over the years, the owners of BBC have developed their own capabilities and resources (financial and intellectual), particularly for buyer prospecting. A network of thousands of corporate personnel (including CEO's, CFO's, and Corporate Development Officers) and professional service providers (lawyers, accountants, and bankers) provides BBC with the necessary real time market intelligence to deliver maximum value-added service to our clients.

Fully recognizing today's information demands, BBC has invested in a sophisticated Windows NT Network environment. The system features secure remote access, computing horsepower to satisfy rigorous research and analysis needs, and capabilities to accomplish sophisticated document production and deal marketing. Additionally, BBC will access and utilize the services of research sources including more than 3,000 online databases, 2,000 periodical subscriptions, hundreds of directories and reference works, the Internet, and most importantly, more than 1,000 research professionals worldwide. BBC's philosophy of utilizing the foremost available resources is, and will remain, uncompromising.

### ***TIMING***

We understand the hazards that can befall a deal over the passage of time. These may arise from economic changes or developments within our clients' businesses or markets. Accordingly, we offer our clients fast service without compromise in quality or results. Our clients are in a position to track our progress with as much frequency and scrutiny as they like.

### ***FEE STRUCTURE***

Our fees are based on a modified Lehman model, appropriate to middle market transactions. At our client's request, we are willing to give consideration to incentive fee formulae.

### ***BBC CORPORATE LOGISTICS***

Billow Butler & Company, L.L.C. is an Illinois Limited Liability Corporation founded in January, 1997. As a reflection of its principals' vision, the Company's spacious corporate headquarters is located in a prestigious high-rise building in the heart of Chicago's financial district.

**Robert D. Billow, Managing Director and Principal**  
**Darrell M. Butler, Managing Director and Principal**

**BILLOW BUTLER & COMPANY**  
**TRANSACTION PROCESS**

## **INTRODUCTION TO THE CONDUCT OF THE TRANSACTION PROCESS**

Over the past many years the principals of Billow Butler & Company (“B.B.C.”) have served a great number of business owners in connection with the successful sale and recapitalization of their companies. We take pride in providing our clients with the utmost in personalized service in connection with the professional sale of their businesses. Each business we undertake to represent is special and unique; and it is recognized as such by us.

Accordingly, in order to accomplish each transaction on the most beneficial terms possible for a client, we devise a strategic plan specifically suited for that client’s business. This plan will vary depending on the goals and objectives of our client. We believe that through its design and implementation we will provide our clients with the greatest financial rewards, with confidentiality and speed.

Since the sale of a business is such a critical milestone event for both the owner and his company, we have prepared the attached brief description of the transaction process for your review. It highlights our role throughout the major phases that are preliminary to and ongoing during the transaction. The essence of our transactional philosophy, as you will note, is to manage the transaction process of your company in a manner which:

- preserves confidentiality
- structures a strategic marketing campaign to achieve premium pricing
- avoids undue interference in the business
- minimizes imposition upon our client
- achieves results quickly and deliberately

Because we think it is important that you become well acquainted with your investment banker, and his successful contribution to accomplishing your objectives, we welcome the opportunity to personally discuss these matters with you in more detail. To that end, we would be happy to visit with you in a confidential setting convenient to you.

## OVERVIEW OF THE SALE OR RECAPITALIZATION PROCESS

### Phase I Preliminary Analysis

- Task 1: Evaluation of Shareholder Needs
- Task 2: Preliminary Business Review
- Task 3: Confirmation of Business Valuation

### Phase II Marketing

- Task 1: Preparation of Confidential Information Memorandum
- Task 2: Prospective Buyer Research
- Task 3: Active Marketing
- Task 4: Buyer Visits and Solicitation of Offers

### Phase III Letter of Intent to Closing

- Task 1: Evaluation, Selection and Signing of Letter of Intent
- Task 2: Due Diligence Facilitation
- Task 3: Negotiation and Legal Documentation
- Task 4: Closing

### Timing

### **Phase I - Preliminary Analysis**

#### **Evaluation of Shareholder Needs**

At BBC we believe it is critical to understand the goals, motivations, needs and desires of our clients in order to best serve them as an advocate and advisor throughout the transactional process. While timing and value considerations are of paramount concern, post-transaction issues such as employment continuation and liability exposure are other examples of important issues that need to be addressed.

#### **Preliminary Business Review**

History has shown that our rigorous preliminary business review of a client's business will minimize surprises and difficulties throughout the transaction process. We have a comprehensive review procedure which includes collecting and evaluating important financial, operational and legal information, together with conducting various interviews with the owner and key executives (as confidentiality permits).

In this phase we look to uncover and mitigate the perceived and real transactional risks that may cause a buyer concern.

#### **Confirmation of Business Valuation**

Prior to initiation of a marketing campaign effort, we believe it is imperative to have a "meeting of the minds" between ourselves and the client as to the expected market value of his company. Toward that end, we will develop an estimate of value of the company using customary valuation techniques.

In evaluating the business, BBC will:

- restate the company's financial statements to determine and properly reflect its past financial history;
- assist ownership in developing revenue projections and pro forma financial statements for the company;
- conduct the pertinent macro market analysis of the company's industry and markets; and
- undertake appropriate market intelligence efforts to the limited extent permitted by confidentiality constraints.

In order to properly evaluate the company in the context of its industry, and the economy as a whole, BBC will utilize numerous research sources. These will include more than 3,000 online databases, 2,000 periodical subscriptions, hundreds of directories and reference works, the Internet, and most importantly, more than 1,000 research professionals worldwide. BBC's philosophy of utilizing the foremost available resources is, and will remain, uncompromising. These analyses are further supported by our unique market intelligence methodology which provides current industry-specific parameters that may influence value.

## **Phase II - Marketing**

### **Preparation of Confidential Information Memorandum**

The professionals of BBC are experienced in the preparation and delivery of marketing materials to accomplish marketing objectives with professional integrity. Based on the information gathered and evaluated in Phase I and on the owner's decision to proceed with a Transaction, BBC shall prepare an information memorandum (Confidential Information Memorandum or "CIM") and collateral materials for distribution to potential buyers/investors. Among other matters, the CIM shall contain descriptions of the operations, markets, properties, organization, financial condition and future prospects of the business. ***No value will be mentioned in the CIM or at any point throughout the marketing process.***

### **Prospective Buyer/Investor Research**

BBC shall use its best efforts to identify prospective purchasers or investors (for recapitalizations) for a client's business. The professionals at BBC strive to identify acquirers and financial partners most aptly suited to each situation so as to maintain confidentiality, minimize deal obstacles, and maximize transaction value. We will be prepared to review with our client our assessment of the merits of the many qualified prospects we propose to introduce to the opportunity.

Over the years, the owners of BBC have developed their own databases, capabilities and resources (financial and intellectual), particularly for buyer and investor prospecting. A network of thousands of corporate personnel (including CEO's, CFO's, and Corporate Development Officers) private equity firms and service professionals (lawyers, accountants, and bankers) provides BBC with the necessary real time market intelligence to deliver maximum value-added service to our clients.

### **Active Marketing**

BBC conducts a selective, but extensive and pro-active campaign to approach buyers and investors. BBC requires the client's prior written approval of potential buyers to be contacted and of the CIM and all other marketing materials. Potential buyers will receive the CIM only after the execution of a Confidentiality Agreement. Through the use of our Automated Prospective Buyer ("APB") Tracking System, our clients are in a position to review our marketing progress with as much frequency and scrutiny as desired. As interest in the transaction is fostered, BBC will screen prospective buyers based on their level of interest. Written indications of value will be requested from buyer candidates in order to assist the client in judging the merit of conducting a visit with a particular party.

Buyer Visits and Solicitation of Offers

Once it has been determined that a buyer visit is warranted, we will work with the client to coordinate the setting, timing and agenda to maximize the positive perceptions of the buyer. While each case is unique, we often prepare a formal presentation that the business owners can communicate to the buyer in a conference setting. We have found that this keeps the visit focused, assures that we cover those highlights that are important in the transaction context and creates an atmosphere of professionalism that often buoys value.

In most transactions, we seek to attract sufficient interest so as to conduct several buyer visits and to elicit multiple offers. One of the most important aspects of the marketing phase is to attempt to keep all prospects at the same stage in the process with comparable information. We generally intend to communicate a call for offers to all bona fide parties at one time. Each buyer is instructed by BBC, in writing, on all matters appropriate to be addressed in their proposal.

### **Phase III - Letter of Intent to Closing**

#### **Evaluation, Selection and Signing of Letter of Intent**

Generally, we find that each offer (or Letter of Intent) is unique with respect to pricing, structure, terms and conditions. BBC will counsel you on the advantages and disadvantages of each and attempt to provide a comparison on an “apples to apples” basis. Once you have selected a particular party with whom to proceed, we will negotiate on your behalf and work with your legal counsel and accountants to clarify issues and maximize financial and other benefits.

#### **Due Diligence Facilitation**

With world-class professional backgrounds in law, finance and accounting, the principals of BBC are uniquely qualified to facilitate a smooth due diligence process, coordinate contract construction and negotiate optimal terms on your behalf. We work with your other professional advisors to minimize the intrusion on you and your day-to-day business requirements. In some cases, depending on the nature of the buyer and its funding sources, we may be active in facilitating due diligence being undertaken by the buyer’s lender, as well.

#### **Negotiation and Legal Documentation**

Whether an asset or stock sale or a recapitalization, BBC is well versed in legal documentation and the myriad ways in which to optimize the position of our clients. Ultimately, you must rely on your attorney’s advice, but BBC acts as “quarterback” to balance the business and legal issues and to negotiate a “win-win” scenario for all involved.

#### **Closing**

Once you are satisfied with the purchase agreement documentation and the buyer has satisfied its due diligence and other requirements, we will orchestrate the closing. Upon the signing and closing of a definitive purchase agreement by all parties our project will be successfully completed, as you will have met your transaction objectives.

### **Timing**

We understand the hazards that can befall a deal because of the passage of time. These may arise from economic changes or developments within a client’s business or the markets as a whole. Accordingly, we endeavor to offer our clients fast service without compromise in quality or results. Once we have familiarized ourselves with the client and its business, we are generally able to anticipate the length of time that a transaction would take. However, there is no guarantee in deal timing. We are often fortunate to close deals in a shorter period of time when the sophistication level of the buyer and seller expedites information transfer and due diligence. On the other hand, if there are delays in receiving required information, delays in arranging meetings between principals, the involvement of a foreign buyer, or a bank financing to purchase the company, the time to close may be extended.

## **PROFESSIONAL CREDENTIALS**

## ***TRACK RECORD AND CREDENTIALS***

During our combined experience of over 50 years, we have served our clients in the successful closing of many challenging business sales. We have distinguished ourselves as leaders in our careers as investment bankers, and previously as corporate transactional lawyers, bankers and financial consultants. We have each been honored repeatedly, with the highest accolades awarded by our former colleagues. We are proud to have collectively served in over 200 transactional assignments.

### ***Robert D. Billow Managing Director and Principal***

Mr. Billow is responsible for originating and executing middle market divestiture and sale assignments. He has over 25 years of merger and acquisition experience through his roles as a corporate attorney and as an investment banker. He has participated in more than 150 transactions in a wide variety of industries ranging in size from several million dollars to over one billion dollars. He has been a welcomed lecturer and panel participant before various state and local bar associations and continuing education forums and has presented talks before numerous gatherings of business analysts, lawyers, accountants and business owners.

Prior to founding Billow Butler & Company, Mr. Billow served for 10 years as a decorated dealmaker at a national middle-market investment bank. During each of his final two years at the firm, his deal team, which included Darrell Butler and Shane McDaniel, (see below) earned the firm's "Top Gun" award, which recognizes the firm's most prolific deal team. In addition, Mr. Billow earned other coveted accolades, including the "Gold Max" and "Crystal Max" awards for his ability to generate and close transactions. For 12 years prior, he practiced law at Winston & Strawn, a leading national law firm headquartered in Chicago. Mr. Billow specialized in business mergers, acquisitions and sales for major publicly-traded clients, as well as privately held companies. As a partner, he enjoyed responsibility for a significant number of transactions consummated by Beatrice Foods. In 1981, he became the youngest person elected to the firm's partnership at that time. In addition to the energies he has devoted to these professional endeavors, Mr. Billow is very committed to active leadership in the community and many philanthropic organizations.

Mr. Billow graduated magna cum laude with a B.A. in Economics from Northwestern University where he was a member of the honorary society of Phi Beta Kappa. He received both his M.B.A. and J.D. degrees from The University of Chicago.

***Darrell M. Butler***  
***Managing Director and Principal***

Mr. Butler is also responsible for originating and executing middle market divestiture and sale assignments. He has been involved in mergers and acquisitions for more than 11 years, participating in more than 100 transaction assignments ranging in value from \$3 million to \$200 million. Mr. Butler has spoken before members of the Institute of Management Accountants, the Chicago Bar Association, The Southeast Prepress Association and industry trade associations on topics involving corporate finance and deal-making.

Prior to co-founding Billow Butler & Company, Mr. Butler was an accomplished Associate/Vice President at a national middle-market investment bank. There, he was formally recognized as Top Associate for leading the company in deals closed and fees generated. Mr. Butler spent more than seven years at Arthur Andersen as a financial consultant to Fortune 1000 clients. In addition to earning consistently outstanding marks during his tenure at Andersen, he is proud to have received the Sequoia Award for mentoring in support and development of his staff. He is currently the treasurer of a not-for-profit educational corporation and previously served six years as treasurer of a \$1.2 million not-for-profit corporation.

Mr. Butler holds an M.B.A. in Financial Management and Strategy from The University of Chicago Graduate School of Business and a B.S. in Finance, with honors, from the University of Illinois-Urbana/Champaign.

***M. Shane McDaniel***  
***Vice President***

Mr. McDaniel joined Billow Butler & Company in October 1997. With extensive business valuation experience, Mr. McDaniel has been involved in more than 30 transaction assignments ranging in a wide variety of industries. Notably, he has developed a specialization in the Printing/Packaging, Plastics, Telecom Infrastructure, and Technology & Software. Prior to joining BBC, he was on the same deal team as Mr. Billow and Mr. Butler as an Associate/Vice President at a national middle-market investment bank. Mr. McDaniel began his professional career through his roles as a Senior Consultant with Arthur Andersen's Corporate Finance Group gaining domestic and international merger and acquisition, turnaround and troubled company consulting experience with a Fortune 1000 customer base. With 8 years of total merger and acquisition and financial consulting experience, Mr. McDaniel has spent the past 6 years advising and marketing private businesses in exclusive sell-side assignments.

Mr. McDaniel was most recently elected and will be serving on the Board of Directors (Treasurer) for the Young Executive's Club. YEC is a twenty-eight year old professional association whose mission is to promote leadership among new executives. Involved as a member since November 1998, and having assisted on the Current Membership Committee, Mr. McDaniel hopes to contribute to the growth and advancement of the club. He has also participated on the Board of Directors for the National Eagle Scout Association, Chicago Area Council Chapter.

Mr. McDaniel holds a B.A. in Economics and Finance from the University of Illinois-Urbana/Champaign. Mr. McDaniel is currently pursuing his MBA from The University of Chicago Graduate School of Business Evening M.B.A. Program.

***Dale Heims***  
***Vice President***

Mr. Heims serves a transaction execution role, responsible for financial analysis, industry and buyer research and marketing. He has 8 years of finance and banking experience through his positions with Citibank, M&T Bank and the National Futures Association. As a Senior Associate at Citibank, Mr. Heims spent over two years arranging over \$12 billion in acquisition-related financing for multi-national clients in the bank's Consumer Products Group.

Mr. Heims holds a B.B.A. in Finance and Accounting from the University of Iowa and an M.B.A. from the University of Rochester William E. Simon Graduate School of Business.

# **TRANSACTIONAL EXPERIENCE**

# Billow Butler & Company, L.L.C.

## Transactional Experience

Target	Target Line of Business	Industry, SIC	Buyer
Har Technologies Elk Grove Village, IL	High-volume producer of ultraclose tolerance precision-machined parts for the automotive and aerospace markets	Industrial Machinery 3599	Autocam (Portfolio Company of Aurora Capital)
Privately-Held Franchisor San Diego, CA	Nationwide service franchisor	Membership Clubs 7997	Undisclosed - Privately Held
COMCO Machinery Milford, OH	Manufacturer and worldwide supplier of flexographic printing presses and converting systems	Printing Equipment 3555	Dover Industries (NYSE: DOV)
Ameriduct Worldwide Springfield, MO	Manufacturer and distributor of polyethylene pipe and related products.	Plastics Pipe 3084	Lamson & Sessions (NYSE: LMS)
Coyote Exhibits & Design Hanover, IL	Designer, manufacturer and logistics provider for a wide range of trade show exhibits	Business Services 7389	MIGG Capital
Victor Automotive Products Des Plaines, IL	Marketer and packager of automotive accessories, parts and supplies for mass merchants and specialty automotive retailers	Motor Vehicle Parts 3714	Barjan Products (Portfolio Company of Pflugsten Partners & Goense Bounds)
RCS Dayton, OH	Provider of point-of-sale (POS) software solutions for national and worldwide-international retail merchants	Software 7372	NCR (NYSE: NCR)
Erie Steel Treating Toledo, OH	Provider of heat-treating services to the heavy-truck, aerospace and construction industries	Metal Heat Treating 3398	FPM Heat Treating (Portfolio Company of Equity Group Investments)
Talema Electronics St. James, MO	Global manufacturer of toroidal transformers and related electronic componentry.	Specialty Transformers 3612	AMVECO Toroidal Power Products
Major Custom Cable Jackson, MO	Manufacturer of fiber optic and copper cable assemblies for the data and telecommunications industries	Wire Products 3496	Undisclosed - Privately Held
Web Tool & Manufacturing Elk Grove Village, IL	Manufacturer and assembler of computer server enclosures, subracks and chassis	Metal Stamping 3469	Pentair, Inc. (NYSE: PNR)

# Billow Butler & Company, L.L.C.

## Transactional Experience

Target	Target Line of Business	Industry, SIC	Buyer
Copy-Mor, Inc. Chicago, IL	Full-service commercial printer	Commercial Printing 2759	Consolidated Graphics (NYSE: CGX)
Stencil Aire Green Lake, WI	Manufacturer of high-quality, precision laser-cut products	Advertising Specialties 3993	High Street Capital
Freedom Plastics Joliet, IL	Custom injection molder of plastic components to the appliance and automotive industries	Plastics 3089	Western Industries, Inc. (Portfolio Company of EXOR)
The Bun Basket Grand Rapids, MI	Institutional baker	Bakery Products 2053	Wind Point Partners III, L.P.
Day's Molding and Machinery Constantine, MI	Custom injection molder of plastic components to the medical and furniture industries	Plastics 3089	Day's Acquisition, L.L.C.
American Corporate Resources Springfield, IL	Electronic publisher of corporate financial and operating information	Information Retrieval 7376	Navigant Consulting, Inc. (NASDAQ: METZ)
Mail Order Distributor Location Undisclosed	National electronic media mail order distributor	Distributors 5040	Entertainment Software Manufacturer - Private
Concord Plastics Corporation Grand Rapids, MI	Custom injection molder of plastic components to the automotive and furniture industries	Plastics 3089	Wellcore, Inc.
Hamilton-Pax Dowagiac, MI	Manufacturer of specialty automotive brake parts	Automotive Parts 3714	Autocam Corporation (Formerly NASDAQ: ACAM)
Dowagiac Manufacturing Dowagiac, MI	Manufacturer of industrial valves	Industrial Valves 3491	Autocam Corporation (Formerly NASDAQ: ACAM)



**ARTICLE ON “THE STRATEGIC BUSINESS SALE”  
AUTHORED BY ROBERT BILLOW**

***THE STRATEGIC BUSINESS SALE***

**by**

**ROBERT D. BILLOW  
MANAGING DIRECTOR  
BILLOW BUTLER & COMPANY, L.L.C.**

**Presented at**

**THE “NEW MONEY FOR NEW BUSINESS” CONFERENCE  
SPONSORED BY INSIGHT INFORMATION INC.**

**TORONTO, ONTARIO**

**JANUARY 29, 1997**

# THE STRATEGIC BUSINESS SALE

For over twenty years I have been representing owners in the sale of their companies. These owners have operated successful businesses, throughout the U.S., Canada and Mexico, in a wide array of industries. Clients' industries and processes have ranged widely within general manufacturing from machining to fabrication, and from metalworking to plastics. Certainly, important clients have also included wholesale and catalog distribution operations and service firms, as well. Markets served have covered a wide scope from automotive to consumer to scientific products.

Now you must appreciate the great privilege it has been serving as the investment banker to these owners. That is because the operators of these businesses are sharp, hard working, spirited individuals with a creative vision. Collectively, their industriousness forms a part of Adam Smith's "invisible hand" contributing in great degree to the "wealth of [our respective] nations".

Whether their companies have been middle market or larger, and whether ownership has been first generation entrepreneur or a successor to the founding members, these client firms have operated very successfully. They all face the same challenge though. At some time, most all of them must address the issue of how to best convert their success from the company balance sheet or income statement to the sum to be wire transferred at the closing.

In approaching this formidable task owners all have common concerns and issues in the business sale context. It just hasn't mattered what kind of business they run, be it a proprietary house or a custom job shop. In the well over 100 transactions with which I have had personal involvement, the following three questions had to be addressed in the successful effort to sell the business for the maximum sale price:

- I. What are those matters or attributes of my company that represent or enhance its value?
- II. What can I do to help plan and prepare for making the sale of my company successful?
- III. What is my business worth?

This paper will endeavor to offer a brief insight and response to these matters.

### **RECOGNIZING AND CREATING VALUE IN A BUSINESS**

It is probably a good start to recognize that Rule Number 1 for acquirers and investors is that they all expect to make money through accomplishment of their acquisition of the target business. The business owner has been making money and through the sale and transfer of ownership interests, it now becomes the buyer's turn. But in the transfer of ownership the owner's first step is recognizing those elements of success which the business has already achieved and how it has done so. For to capture the best price in the market he must understand the assets (irrespective of the formal legal structure of the transaction) he is selling--- the formula or recipe by which his business has had the right to command not only respect, but profits. Accordingly, an effort must be made to catalog the business' assets and strengths. (Similarly, the business owner must be prepared to undertake a review and determination of the threats and weaknesses to the business--to which further reference will be made in a moment.) Since it is important that this be done on a most objective basis, it is generally recommended that an investment banker be obtained to assist in this process.

From an internal perspective first, the analysis would evaluate how the seller's business ranks in respect to many important attributes. These could include, but not be limited to, the following matters:

1. Type of Product or Part
  - a) position in life cycle (whether house product or custom part)
  - b) steady (recurring) demand
  - c) favorable trend forecast
2. Growth in Sales
  - a) favorable historical trends
  - b) valid basis to support sustainable growth forecast
3. Cash Flow
  - a) sustain working capital needs in growth scenario
  - b) size of capital expansion budget
  - c) availability of sufficient returns on equity
4. Existence of Product or Production Proprietaries
  - a) brand awareness
  - b) trade secrets
  - c) know-how
  - d) drawings, designs, tooling
  - e) patents, trademarks and copyrights
5. Market Niche\Share
  - a) nature of competitive matrix
  - b) extent to which nature of niche position is secured or established
  - c) nature and insurmountability of barriers to entry
  - d) support for growth in niche/share

6. Intact Customer Base; Prospect Database
7. Criteria for Competition
  - a) basis by which business succeeds in selling against competition
  - b) essential competitive criteria
    - i) quality-better built product or service; more features, better designed
    - ii) more value added service -faster, expanded warranties
    - iii) pricing- the cheaper sale
  - c) risk of foreign competition
8. Intact Customer Base; Prospect Database
9. Leadership, Reputation, Accolades, Awards
10. Pricing Flexibility Through Efficient Cost Structure
11. Excellence of Intact Management
12. Stability of Employees
  - a) length of tenure
  - b) extent of training, cross-training, supervision
  - c) work ethic
13. State of Systems-Facilities-Equipment
  - a) productivity enhancements
  - b) ISO-QS certifications
  - c) reflective of management quality and care
  - d) representative of reinvestment in business
14. Cyclicity-Degree of Recession Resistance
15. Local Environment \Community
  - a) ease of transportation
  - b) freight costs
  - c) tax abatement availability

Certainly, the above listing is not intended to be a complete litany of all the elements of value resident in the company. It is also very clearly the case that not all of these factors are necessary to characterize a business as a most attractive acquisition candidate. But it is a necessary starting point for the client and his investment banker to explore the bases of value and relative attractiveness of the business from an acquisition point of view. At the very least, this exercise should accomplish (1) an understanding of the intrinsic character and orientation of the business, (2) a perspective on its core competencies, and (3) a sound basis on which to evaluate why its customers buy its products or services.

It should be recognized that some of the most important of these characteristics are intangibles. For profits from intangibles are just as real as profits from brick and mortar. Intangibles can be more difficult for a business to assemble than even the most sophisticated equipment. For example, talented managers who are very capable of executing the corporate strategy or running the plant are exceptionally difficult to identify and retain. But for these same reasons, very often it is these assets that form that part of a business' infrastructure that is less vulnerable to the competition. The greater the list of intangibles, arguably the more attractive the acquisition candidate-since its assets are less likely capable of being resourced or replicated by the acquirer.

In addition to the analysis of these strengths, consideration must be given to the various weaknesses which characterize the business at the present time and in its current state. These can include capital inadequacy, gaps in the management infrastructure, lack of a business plan, and the absence of a sales force. Clearly though, what can impinge on a firm's success on a stand-alone basis does not necessarily present a negative to the buyer because of the potential benefit of synergies, i.e., the ability of the buyer to erase these failings through meritorious opportunities derivable from a strategic combination.

A thorough review of external factors, both opportunities for growth and threats or risks to fulfillment of objectives or achievement of the strategic plan must be undertaken, as well. Macro factors such as industry growth, consolidation and technological breakthroughs can often exert a tremendous influence on the acquisition attractiveness of companies in a given industry.

At the end of the day this whole process allows the business owner and its investment banker to determine whether the business is "built to last" following its sale and the eventual loss of its owner's vision and guiding hand. Will the firm conquer the challenge of change better than its competitors? The process will also afford direction as to which firms are perhaps the most likely acquirers due to perceived fits. It will also result in the development of an opinion or estimation of market value as to the subject business. This last accomplishment is of critical importance. Without the development of some clear measure of value, and a consensus as to the same between the business owner and the investment banker, a significant basis on which to judge the probability of a successful accomplishment of the closing is absent.

### **PLANNING FOR EXIT**

Timing is always critical to the making of a good deal. The right time to sell a business, all other things being equal, is when the M&A market is strongest, and not when the business owner's need to sell is greatest. An owner should be ready to sell when the conditions are ripe, as they are now. In the U.S., 1996 celebrated the third consecutive record year of M&A dealmaking. U.S. deal activity culminated in 10,000 transactions worth about \$659 billion. This surpassed the prior 1995 record of 9,542 deals and \$519 billion.

Global M&A activity eclipsed \$1.14 trillion up from \$950 billion in 1995. Middle market deals under \$50 million shot up 53% to about 1,700 deals last year. In fact, deals under \$20 million increased to the point that they now comprise around 20% of all acquisitions. Notably, businesses selling for under \$100 million represented about 75% of all announced transactions in 1996. Factors commonly referred to as explanatory for this hot market include: industry consolidation efforts (banking, telecommunications, and health care); low interest rates and easily available funds; high stock prices; cash rich balance sheets resulting from corporate cost cutting; global competition and the desire to gain market advantage and boost corporate wealth through external corporate development strategies. It is believed that middle market acquisitions are viewed as an especially low risk route to fill product line holes, gain technological advantages or acquire important accounts.

Given the need to sell in the right market, bearing in mind the foregoing vibrant conditions, and recognizing that the business might be approached as a target, it is important for the business owner to advance plan his exit from the business. Accordingly, following the engagement of its investment banker one of the first steps undertaken would be that advisor's preparation of the previously referred to "SWOT" (strengths, weaknesses, opportunities and threats) study. The investment banker's aid in this effort is critical because he is better able to look at the seller's business through the eyes of the potential buyer.

At the same time this advisor could undertake a substantial market and valuation study of the client's operations. This would typically be based on several different methodologies not intended to be covered within the scope of this paper. But in the end, whether the value opinion is on target in the view of the business owner or not, and whether the client is then ready to proceed to market its business for sale or not, much remains that can still be properly accomplished to prepare for its eventual sale.

For example, a next step could include working with the investment banker to develop a business plan. Beyond being adaptable for use as an offering memorandum, it enables the owner to take stock of his company. Compilation of the plan would entail further possible focus and research on the company's markets and competition. It can serve to refocus the owner as to his approach to marketing, advertising and promotion, product development, relocation, facility expansion and management additions.

Even recognizing that the identity of any eventual buyer is unknown at the outset, and that the special attraction to such buyer is not known with certainty, there are several matters that nevertheless can be evaluated in concert with the investment banker as part of a forward planning program. These could include a study concerning the risks to a deal arising from matters concerning:

1. the presentation and positioning of various items in the financial statements
2. environmental remediation matters
3. formalization of contracts with third parties as to which there is material dependence
4. the potential for exclusivity arrangements
5. assignability of contracts
6. diversification of account base
7. minority ownership interests
8. security (continuity) of related party transactions
9. review of product liability coverages and self-insurance limits
10. direction of R&D efforts
11. review of capital budgets for expansion
12. investments in system automation
13. compliance with laws
14. possession of necessary permits
15. the state of employee relations and the institution of retention oriented bonus programs

Assessments and judgments could be offered on how these and other important incidents of the business could potentially impact a deal. To the extent that a material impediment appears to loom from any of these factors, the time to address it is obviously either before the game begins - or early enough in the game - to transform it from a material factor to one that is of much lesser importance or of no real consequence.

Additional matters which would clearly need some serious focus concern income and estate tax planning. These topics are well beyond the scope to be covered here. However, a seller should be wary about committing to a course of action before various trust systems and family partnerships can be explored. Executed transactional type documents that predate various estate plan instruments may vitiate or render null the desired beneficial tax effects of those plans.

Let us recognize that once the investment banker is actually authorized to market a deal the time required for a closing can range anywhere from six months to over a year. This period can depend on the subject industry, markets, need for external financing etc. Given that time line and the fact that the owner active in his business will likely be required to remain active for at least some transitional period, it is always appropriate to commence preparation for exit well in advance of when the desired actuality may be contemplated.

## **STRATEGIES FOR DEALING WITH THE DYNAMICS OF THE PRIVATE TRANSACTION MARKET**

While buyout groups enjoyed their most vibrant year since 1989, with over \$22 Billion in announced buyouts, the current period has been referred to as the one of the “strategic” deal. Sure, it can take a tremendous effort and become a substantial challenge to merge the people, systems and cultures of two wholly different organizations. Nevertheless, it has clearly been the case that horizontal (market share), backward vertical (supply source), and forward vertical (customer source) combinations, as well as other strategic buys have occurred at a fairly torrid pace over these past couple of years.

When corporate America sees attractive different capabilities in a company and that differential is viewed as either too expensive, time consuming or fraught with risk to replicate, then time and again the acquisition route has been pursued. At that time, a seller can most handsomely benefit from premium pricing. This is because synergistic pricing will entail not just the value of that single operation on a stand-alone basis. Rather, it will possibly include some measure of the potential value conferred on that entire organization by that new division.

Generally, the principals at our firm have noted a marked favorable differential in acquisition multiples paid by strategic buyers versus financial buyers. It is not true that this will happen in all cases, of course. However, we have noted that while the extent of the strategic premium will vary by industry and by deal to deal, the differential as a multiple has been as much as over four times higher in one particular deal with which I am very familiar. Other deals which we closed with strategic buyers may have more commonly involved a multiple premium of one to two times earnings.

There are many theoretical financial bases that provide justification for the synergistic premium. These would include: greater confidence reposed by the acquirer’s management in the certainty of realization of future projections; lower costs of operation realizable by the acquired operation on a going forward basis due to sharing of facilities, systems and management and the consequent reduction of redundancies in operation; greater marketing potential of the acquired firm’s product base through use of the buyer’s existing distribution and promotional avenues and channels, etc. Perhaps the greatest support for the foregoing is a 1992 analysis by MIT and Harvard professors. In their study they found that companies acquired by strategic buyers in similar industries showed higher post acquisition earnings growth than achieved by financial buyers. The proof is in the pudding. Presumably, synergies, tax and accounting (pooling) benefits contributed mostly to these greater financial rewards.

Now, the critical role of the investment banker, certainly, is to exploit the opportunity of potential synergies to the business seller’s greatest advantage in maximizing price. The typical approach used to accomplish is to market a business without an asking price-

through a carefully structured or controlled auction process. This would be the culmination of a comprehensively constructed strategic marketing campaign in which buyers were identified and screened on a selective and confidential basis. One colleague reports that by exploiting the competitive dynamics of the marketplace sellers could “expect to see an average 80% increase in share premium in cases with more than one bidder.”

### **CONCLUSION**

Probably, the best conclusion I can leave you with is that, from beginning to end, the client business owner is best advised to plan for his ownership transfer early and with proper professional assistance.. For where professionals can demonstrate the value of the subject enterprise most clearly to the buyer, and when the “enabling powers” derivable from the business combination can be understood by the acquirer to be most compelling, then the acquisition and pricing decisions can become that much easier for the buyer, and the combination will likely be realizable with that much greater certainty. It is true that the process of a business sale is complicated and time consuming, yet the expected rewards mandate the investment in the process by both sides. But with proper assistance, guidance and management the process can be made much more smooth and be fraught with much less peril to employees, customers, vendors and the success of the project itself.

Note: Statistics cited in this paper were excerpted from a January, 1997 issue of The National Review of Corporate Acquisitions, A Publication of Acquisition Research Corporation.