INTERCAP M&A, LLC
NEWSLETTER

FALL 2005 NEWSLETTER

EXPERTS IN THE SALE OF PRIVATELY-HELD COMPANIES

The Top 10 Costliest Mistakes Owners Make When Selling Their Company

Each issue of our newsletter will present one of "The Top 10 Costliest Mistakes." The entire list may be viewed on our website at www.intercap.us.

MISTAKE #8:

Dealing with Only One Buyer

A single buyer can gain control of a transaction and weaken the seller's negotiating position. Without other prospects, the seller has fewer options and limited leverage in terms of obtaining the desired price and terms. Multiple buyers, on the other hand, create a competitive environment with a sense of urgency. This tends to maximize the market value of the business and facilitate the transaction — key benefits to the seller.

"Timing is to the sale of a company what location is to real estate."

It's All About Timing

Most business owners have taken risks and chances to start or grow their companies. No doubt there have been many sleepless nights and sweaty brows over the years. Yet, during that time, the thought of "exiting" — selling the business — typically never occurs to owners.

Privately-held companies are by their nature illiquid...the owner cannot pick up the phone and instruct their financial consultant to sell. The average time to sell a privately-held company is six to 18 months. Many things can change in that time frame, some of which are controllable and changeable, such as key metrics of the business and how they affect value; and others which are not controllable, such as availability of funding and the mergers and acquisitions market in general.

The timing of when a business enters the market can influence how quickly it sells and at what price. Selling when the market is right presents an opportunity to maximize proceeds. On the other hand, entering a market that may be less than ideal could substantially erode the selling price. Taking control of the process means being ready to act when the timing is right and avoiding the risk of being harmed by circumstances beyond the owner's control. Owners receive the greatest value when they, the company, and the M&A marketplace are all ready at the same time.

I met a prospective client several months ago. This business owner was offered $100 million in the year 2000, payable by a large public company, using the buyer's stock. As part of the purchase and sale agreement, the stock was "collared" meaning that the owner would receive not less than $85 million if the buyer's stock price dropped. The owner declined the offer, saying he was not ready to sell. He believed, in time, he could get more.

John Mullen, Managing director

In 2005 that same owner is hoping to get $5 million for his company...and that will be difficult. This is an extreme example to be sure, but an example nonetheless of the effects that timing can have on the selling price of a company.

The lesson to be learned is that timing is to the sale of a company what location is to real estate. The key to reducing the likelihood of winding up like my prospective client is to be prepared, knowledgeable about the M&A market, and in touch with a professional M&A advisor. A capable, professional M&A advisor can alert owners not only about markets and how they affect value and selling price, but can also recommend operational changes to a business to increase value.

Operational changes can take one to two years to implement. That timing, when combined with the statistical average of six to 18 months to sell a company, means an owner who is considering selling needs to seek professional M&A advice at least 18 months prior to selling, and at best, three years in advance. ■ *John Mullen*

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BRINGING WALL STREET RESOURCES AND EXPERTISE TO MIDDLE-MARKET PRIVATELY-OWNED COMPANIES

InterCap M & A, LLC

Experts in the sale of privately-held companies.

What's Happening in the M&A Market?

The M&A market for privately-held companies continues to be strong, with values at continuing highs. The average EBITDA multiple on US middle market deals between $1 million and $500 million was 10.4 for Q3 2005. This is a slight decline from an average 10.8 EBITDA multiple in Q3 2004, but an increase from an average EBITDA multiple of 9.7 in Q3 2003.

Both strategic and financial buyers are active, yet each seems to a degree to be adopting the traditional characteristics of the other. Strategic buyers seem more cautious, while financial buyers seem to be more focused on add-ons to platform companies rather than acquiring stand-alone portfolio companies. Both, however, are paying premium prices for quality companies.

Total disclosed M&A dollar volume of privately-held companies for the first 3 quarters of 2005 increased to $120.8 billion from $53 billion compared to the first three quarters of 2004. For that same time period the total number of transactions increased from 3,929 to 4,024 closed deals.

Regionally, the mid-Atlantic and Northeast continue to be hot, accounting for 28% of announced transactions in the privately-held markets for L3M 2005. California was actually the leader with 316 announced deals. But if California is factored out, the mid-Atlantic and Northeast states account for 34% together.

How long will it last? The current market, which started in the first quarter of 2004, seems to be continuing unabated. Rising interest rates and increased energy costs may eventually have some effect on the privately-held M&A market as indicated by the slight decrease in average EBITDA multiples for Q3 2005. However, the environment is still strong for sellers who can act decisively.

Frequently Asked Questions

Each issue of our newsletter will present one of several Frequently Asked Questions. The entire list may be viewed on our website at www.intercap.us.

What is the first step we need to take to move forward?

Consult with an InterCap M&A professional. Is the timing right from a personal, business sector, industry, company performance, and overall economy perspective?

Initially, InterCap will analyze all aspects of your company to develop a professional offering memorandum known as a Confidential Business Review (CBR). The CBR will incorporate the tangible and intangible aspects of the business and capture its upside potential. Professionally prepared material makes a powerful first impression and sets the tone moving forward with premium buyers.

If you are considering selling your company within the next three years, now is the time to meet with InterCap. Timing and being proactively informed and prepared will make a substantial difference in the proceeds you receive from the sale.

"The ideal time to prepare a company for market in January is between Thanksgiving and the New Year. Timing matters."

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