

INTERPRISE M&A, LLC

NEWSLETTER

SPRING 2007 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 at www.interprisema.com.

MISTAKE #1:

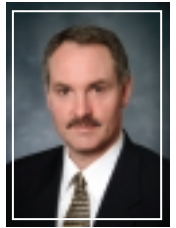
Focusing on the Past

All too often, companies that enter the market are not properly positioned and packaged and, therefore, fail to capture the interest of serious buyers. Owners of these companies focus on the past performance of the business and base its worth on valuation myths, multiples or averages that will generally result in an unrealistic estimate or perception of value.

In addition to considering their primary strategic or synergistic acquisition goals, buyers will base their decisions on the company's future earnings potential and its ability to produce the desired return on investment. Business owners seeking to maximize value should explain the past and sell the future.

BEWARE OF UNSOLICITED OFFERS

Owners of privately-held companies are often directly approached, on an unsolicited basis, by another company, equity group or individual that wants to buy their privately-held company. Owners of privately-held companies need to beware of the many pitfalls, risks, expenses and lost opportunities — resulting in lower sell prices; or worse — that may result from these situations. Seldom, in fact rarely, is a transaction ever closed as it was originally presented. Furthermore, the owner will never know if the price was the highest the market would bear, or if the buyer was the most desirable successor.



MIKE RYAN

Most owners of privately-held companies have spent a significant portion of their lifetime to develop and build their businesses. Many owners have most of their net worth invested in this one investment — their company. With such large stakes at risk, owners need to beware of the "hard cost" risk associated with beginning negotiations with buyers approaching the owners on an unsolicited basis as well as the "soft cost" risk.

Simply put: how can an owner be sure the sale price and terms are the best the market will bear if attempting to sell to only one or two buyers? How can the owner be sure the buyer is the most suitable successor? Perhaps the "best" offer comes from a buyer that shares the vision for the future of the company after the sale, yet provides for a lower or more structured sale price.

I was contacted several years ago by a gentleman that wanted to sell his company and retire immediately. He had been approached by two buyers on an unsolicited basis. Each of these buyers had made an offer to acquire his busi-

ness. Our firm was hired as M&A (Merger and Acquisition) professionals to represent this gentleman and take his company to market, while continuing to negotiate with the two initial potential buyers making the unsolicited offers.

Through careful analysis and subsequent marketing of the company, eight additional offers were received. All of these offers were higher than the two original unsolicited offers. The owner elected to accept an offer 30% higher than the original two unsolicited offers. However, the owner did not choose the highest offer. He chose an offer slightly lower than the highest offer and decided to remain with the buyer for three years after the sale in an executive role.

Even if an owner comes to deal terms with an unsolicited buyer, the road to closing is still fraught with other types of risk and pitfalls. The deal closing phase is more important than the initial negotiations that led to the initial agreement on economic terms. Due diligence and subsequent negotiations of the defin-

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

Unsolicited Offers, continued

itive purchase documents are perhaps the most critical phase of the transaction. If not properly managed, the results to the business and owner can be disastrous.

Recently I began working with the owner of a privately-held company who had tried to sell the business four years prior. The owner had been approached on an unsolicited basis by another company that wanted to acquire his business. After agreeing on terms, the buyer began their due diligence review of the owners company while the attorneys began drafting the purchase documents.

The buyer dragged the due diligence review on for six months, examining every detail of the owners business, relevant to the sale or not. During that extended time frame, key employees learned of the impending sale, as did certain key customers. Furthermore, the owner, expert at running his business but in uncharted waters with respect to selling it, was so consumed with trying to manage the sale of the business that the company's revenue and earnings performance suffered.

At the last minute the buyer tried to re-negotiate the economic terms to reduce the sell price. At this point, the owner had lost several key employees and a major customer, the company's performance was down and the owner had incurred legal fees associated the potential transaction. Rather than accept the reduced sell price, the owner chose to keep the company.

However, the damage was done and it took three years to recover.

Not all situations turn out as this one did. However, when an owner is approached directly on an unsolicited basis by a potential buyer, many more potential deals end with these types of results than close successfully, on time, at the originally agreed upon price and terms. Still, owners are not sure if the highest price was paid or if the most suitable successor has taken over the reins.

If approached by a potential buyer, the owner of a privately-held company should seek professional M&A advice. Attorneys and CPAs all play their separate roles in the M&A deal process. However, expert management of the M&A process can prevent many pitfalls and reduce most, if not all, of the hard and soft costs associated with the sale of a privately-held company.

Many owners are concerned the introduction of an M&A professional into this type of situation will alienate the prospective buyer and jeopardize the potential transaction. Nothing could be further from the truth. Most professional and serious buyers welcome introduction of an M&A professional representing the owner of the privately-held company in these situations. By having professional M&A representation, the owner is assured of maximizing return and minimizing risk while the potential buyer feels that although the purchase price will be higher, the chances of closing a deal are significantly greater.

NETTEKS TECHNOLOGY CONSULTANTS ACQUIRES A&F NETWORKING, INC.

InterPrise M&A LLC ("InterPrise") is pleased to announce the sale of A&F Networking, Inc. ("A&F"), Glastonbury, CT to NetTek Technology Consultants, Inc. ("NetTek"), Boston, MA. InterPrise acted as A&F's exclusive M&A advisor for this transaction.

The key to the transaction rested in InterPrise's analysis of A&F and the positioning of A&F in the marketplace.

InterPrise opened up the market using our proprietary buyer list consisting of 331 prospective buyers. These resources resulted in numerous interested parties finishing with ten "finalists".

NetTek
Technology Consultants, Inc.

NETTEKS TECHNOLOGY CONSULTANTS, INC.

OF BOSTON, MA

HAS ACQUIRED

A&F NETWORKING, INC.

OF GLASTONBURY, CT

THE UNDERSIGNED ACTED AS
EXCLUSIVE M&A ADVISOR AND
CONSULTANT TO THE SELLER

M&A INTERPRISE
M & A, L L C

CALIFORNIA • NEW JERSEY • CONNECTICUT • EUROPE



BOTTOM LINE:

if an owner is approached directly or on an unsolicited basis by a potential buyer, or has received an offer on his business, contact an M&A professional immediately.