

INTERCAP M&A, LLC

NEWSLETTER

SUMMER 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 #5:

Selecting the Wrong Buyers

Forget the obvious. Too many business owners waste valuable time and effort on potential buyers who, typically, will pay the least — vendors, customers, employees or competitors. Buyers such as these frequently lack the means and motivation to pay what a company is really worth. Sophisticated buyers who have strategic acquisition goals and are willing to pay accordingly are some of the best and unexpected buyers. Public, private and international buyers often pay premium prices to acquire seemingly ordinary businesses which offer a synergistic advantage to their current operations.

WHAT ABOUT THE EMPLOYEES?

MANY OWNERS HAVE BUILT THEIR COMPANIES OVER THE YEARS FROM THE GROUND UP. A privately-held business usually reflects much of the personality of the owner and the culture, relationships and friendships built over the years. The relationships an owner has built over the years usually include those with customers and employees. Often, owners have deep feelings towards their employees, who have been a considerable part of the reason for the success of the business.

In each and every instance that I have interviewed a prospective client business owner considering entering the marketplace, the question about the "safety" of the employees after a sale is posed. The relationships, and in many cases friendships, with the employees cause concern for their well-being after a sale. Owners are concerned their employees will be "safe" and well treated after a sale.

Many business owners have seen situations in popular films where a new owner steps into the company and pillages the business, takes the employees, pension funds, liquidates the company, and the employees are out on the street, penniless.

Nothing could be further from the truth when dealing with the sale of a privately-held business. Many tangible and intangible assets and factors contribute to the success of a privately-held business. One of the greatest intangible factors that leads to the success of the business is the talent pool of the employees currently in place. The "know how," as an intangible asset within the employee base, will be of critical importance to an acquirer.

Buyers acquire for many reasons. One of the prominent reasons is that organic growth in a highly competitive market is more challenging now than ever before. It is easier to acquire a company than grow organically. The employee base is mission-

critical to the ongoing cash stream which is the main reason for the acquisition. Therefore, a buyer is usually very concerned with maintaining the existing employee base and culture, such that those employees remain with the business after the sale.

A buyer considering an acquisition will inevitably consider the longevity and stability of the employee base. Buyers are concerned with minimizing perceived risk and growing the business. Clearly, the employees are critical to maintaining, if not growing, the business. Therefore, it is in the best interest of the buyer to develop good relations with the employees.

The owner selling the company and the buyer acquiring the business both have consistent goals in keeping the employees after the sale. If there is a cultural fit between the buyer and the company's employees, all parties should be satisfied in the long run. The transition must be handled with concern for the employees' fears and uncertainty. Clear and open communication after the sale of the company will go a long way in "greasing the skids." ■ *Michael Ryan*



MICHAEL RYAN,
MANAGING DIRECTOR





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. Lower interest rates, reduced capital gains taxes, pent up demand by acquirers from 2000 to 2003, record high corporate cash reserves and desire to grow via acquisition all have resulted in a seller's market.

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.

International buyers continue to be active in the market. Historically, most international M&A activity came from Great Britain (UK). In 2004, however, Canada (24%) surpassed the UK (20%) in M&A activity in acquiring companies located in the United States.

Total disclosed M&A dol-

lar volume for Q2 2005 was \$258.2 billion, which was the highest since Q4 2000 and exceeded the \$245 billion mark set in Q1 2005. Of the disclosed M&A transactions, 51% were private companies, 32% were divisions/units of larger companies, 10% were foreign and 7% were publicly traded.

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, but for the moment, the environment is strong for sellers who can act decisively.



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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.



Is my transaction likely to be a stock sale or an asset sale?

Buyers are usually interested in structuring the deal as an asset type transaction. In this case, the buyer is still buying the whole company. Acquirers are primarily concerned about inheriting any potential or contingent liabilities flowing from the past operation of the company. An asset type transaction theoretically precludes the buyer from inheriting these potential contingent liabilities. Furthermore, an asset transaction enables the buyer to restate the value of the assets to fair market value and receive subsequent tax advantages.

Sellers generally prefer stock type sales of their companies. If the company is a “C” corporation, it is advantageous to sell the stock of the company to avoid being taxed both at the corporate and individual levels. If the company is an “S” or “LLC” corporation, the tax liability is less than a “C” corporation.

The type of transaction, stock or asset is ultimately determined during the negotiation phase of the InterCap M&A Process. Historically, the greatest percentage of transactions were asset type. Lately, we are seeing more stock transactions, as buyers and their attorneys are becoming more comfortable with this type of transaction.