

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 at www.TransitionCompanies.com.

MISTAKE #8: Not Clearly Understanding Buyer Motives

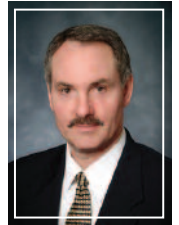
Understanding the buyer's motives — and why a particular company may be important to them — can be of great benefit to a business owner when the goal is to optimize value. For many corporate buyers, acquisitions are an integral part of

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WHAT'S HAPPENING IN THE M&A MARKET?

BUSINESS OWNERS, LIKE MOST PEOPLE, are in tune with the business news and the current economic situation. Many people gather news and form their views based on reports from major news sources like CNBC and the like. On an overall or a "global", top line basis, the news is the news — that's it.



MIKE RYAN

It's important to recognize that one cannot learn the nuances of a market from a two-minute television segment. Markets are segmented and stratified and cannot be typified correctly with a broad stroke of the proverbial brush. For example, the reported real estate crisis and meltdown has occurred to a much greater degree in Florida than in Texas. The Florida real estate market is in chaos while Texas is stable.

What does this mean to the owner of a privately-held company? News reports on the credit crisis and the steep decline in the merger and acquisition market are entirely correct for the larger high-end deals. The middle-markets and lower middle-markets, while affected, are still

vibrant with profitable companies being sold at healthy values.

The reasons are multi-fold, but usually center around the fact that larger transactions are more institutional in nature, and lending at the high-end institutional level is slow. Lower middle-market transactions tend to be more private from a funding

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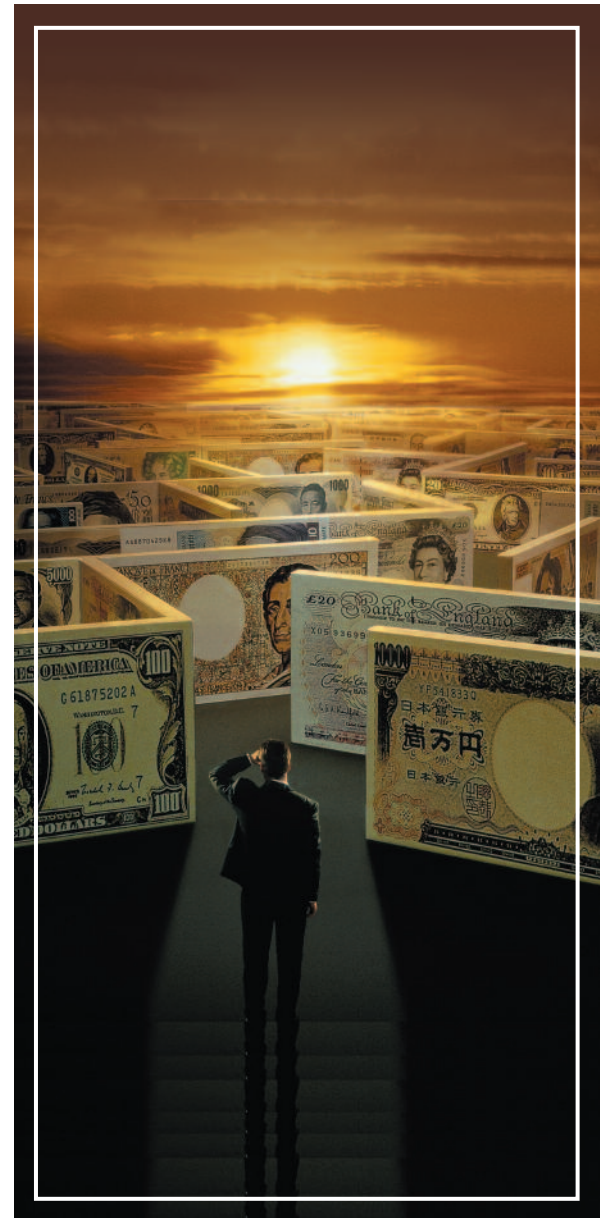


M&A Market News, continued

standpoint, and buyers are willing to inject more equity, borrow less, and be more creative from a deal structure standpoint.

What's happening in the lower middle-markets now?

1. Private Equity Groups (“PEGs”) are still actively seeking acquisition opportunities, especially those with private sponsors or family trusts. PEGs that depend on leverage through borrowing are less active, but...
2. The current amount of PEG overhang – the difference between funds raised that need to be invested and actual investments/acquisitions – is \$400 billion. Private money is still looking for opportunities.
3. Stock-for-stock transactions have increased 9% for the trailing three months of May 2009 over 2008. This method of payment helps the buyer reserve cash and mitigates taxes for the seller.
4. Payment methods have also migrated, driven by market conditions to include more owner financing and transaction structure. This provides for higher transaction value while permitting buyers to keep some cash reserves.
5. The breakout of different types of buyers active in this market has changed, with private buyers (38% of activity L3M 5-31-09 compared with 21% L3M 5-31-08) more active than public buyers (35% similar time frame compared with 42%). Private money is seeking private opportunities rather than stomaching the volatility of the stock market.
6. Interest rates remain low, for the moment, allowing buyers to grow by acquisition, which is easier and more cost effective especially in a very competitive market.
7. Based on empirical data as of June 30, 2009, values of privately-held companies, based on offers for those companies in market, have not changed materially, if at all, in this market.



When's the right time? You can always decline an offer but one may take three to 18 months to get. Remember the market often reacts regardless of personal timing. Preparing a privately-held company for market during the Summer months provides for a Fall launch. Owners can close a transaction in late 2009 or early 2010 and keep more of the sale proceeds prior to a capital gains tax increase, which most experts believe is coming.

In summary, every situation is different. The key to remember is that the middle- and lower middle-markets are driven to a large degree by different factors. Buyers are seeking well performing privately-held companies, while money is tending to come from more private sources than institutions. Selling a privately-held company is a process unlike the sale of shares in a publicly-traded company, which is an event. Keep informed, plan and execute.

M&A MARKET SEASONALITY



RICHARD D.
PARKER

SEASONALITY IN THE M&A MARKET? Doesn't make sense; acquiring or investing in a company is just business, right? Well, yes and no. The M&A market does show definite activity shifts and seasonal trends at various times during the calendar year. The key is to plan and prepare for seasonality to respond proactively.

The sale of a privately-held company is a process, not an event — a process of an indeterminate period. It could be as quick as three months or as long as 18. The sale of a publicly-traded company for a shareholder or “owner” is easy: pick up the phone and issue a sell order. The price is known publicly, the trade is executed, and the funds are sent to the “owner”.

Premium acquirers and investors are always looking for opportunities that can yield ROI for their investments. The acquisition of a privately-

held company, as prudent as it may be, is still a desire and not a necessity. Therefore, it *is* just business. If the acquisition opportunity yields the desired ROI (amongst many other criteria), the “buy” decision is made.

But remember, no one needs to buy a company. The axiom in the M&A market place is that companies are bought and not sold. The question then becomes, how can a seller make a buyer want to buy. There are many ways — first and foremost is hiring an M&A advisor that can package the company to attract premium buyers. In the final analysis, as desirable as a privately-held company may be, it is *not* just business. Interest will ebb and flow based on seasons.

Let's back up for a second. Once a seller decides to sell their company, their M&A advisor needs four to five weeks to analyze the company and to prepare the Offering Memorandum, target prospective acquirer/investor list, and Confidential Business Profile. Thereafter the company is launched to market, and buyer interest is developed.

Buyer interest leads to

Key to remember: market preparation time is at least four to five weeks; plan on hitting the market at the right time. This becomes more important for summer 2009 market preparation as capital gain taxes, which will reduce your net, are expected to almost double in 2010.

conference calls, buyer and seller meeting(s), negotiations over Letters of Intent, due diligence, choosing of funding alternatives by the buyer, preparation of purchase and sale documents, non-competition, and management agreements, dealing with employees, and a 60- to 90-day myriad of all-consuming issues.

There are several seasons during the calendar year that have historically shown a decrease in buyer response to new opportunities launched to market. These seasons typically are focused around holiday seasons and the vacation season. Very simply, interest in starting the acquisition process for a privately-held company declines sig-

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*M&A Market Seasonality,
continued*

nificantly as buyers are on vacation or enjoying holiday time with families.

The sale of a privately-held company is usually a three- to 18-month process, so it can and may span certain seasons. But let's consider generalities:

SUMMER

(defined as 4th of July to Labor Day) — best time to prepare for a market launch in the Fall, ideally to close a transaction in December or first quarter of the coming year. M&A activity simply slows down during vacation season, which means this is the ideal time to prepare a company for market. Buyers will close transactions, but many are reluctant to look at new opportunities during the Summer.

FALL

(defined as Labor Day to Thanksgiving) — best time to launch to market

and/or close a transaction. Markets heat up after Labor Day and provide a window to come to terms and execute an LOI prior to the Holiday season. Few buyers will look at new opportunities after Thanksgiving.

HOLIDAY SEASON

(defined as Thanksgiving to New Years) — Buyers will close existing transactions, but many are reluctant to start any new discussions or look at any new opportunities. This is an ideal time to prepare a company for market launch in January of the coming year.

WINTER THROUGH SPRING

(defined as New Years to 4th of July) — This is an ideal time to launch new opportunities to market. Buyers are hungry and ready to go after the Holiday season. Furthermore, starting the process in January allows enough time to hit the Winter/Spring market before the Summer slow-down.

**“Timing is to the sale of a company
what location is to real estate.”**

Top Ten Mistakes, continued

a preferred strategy for achieving growth and expansion goals, improving operating efficiency, and/or increasing profitability.

Many have found that its easier and more cost- and time-effective to buy

market share rather than build it internally or ‘organically.’ Business owners who can view the M&A sale process from the perspective of potential buyers tend to benefit the most when it comes to maximizing their exit options and sale proceeds.

FREQUENTLY ASKED QUESTIONS

Each issue of our newsletter will present one of our “Frequently Asked Questions.” The entire list may be viewed at www.TransitionCompanies.com.

Should we negotiate with more than one buyer at a time?

The Transition Companies M&A Process is designed to create a confidential limited auction that will maximize sales proceeds and proactively allow a seller to choose the best successor. With multiple potential buyers, the seller is in control. The Transition Companies actively negotiates with numerous buyers simultaneously. Having multiple options increases negotiating strength through less dependence on any one potential buyer.

Experienced buyers are less likely to attempt to take advantage of a situation if they perceive that there are additional interested parties.

