Interprise M&A, LLC
Newsletter

WINTER 2008 NEWSLETTER

EXPERTS IN THE SALE OF PRIVATELY-HELD COMPANIES

What's Happening in the M&A Market?

Middle market deals are alive and well — for the moment. "Mega" deals that are highly levered have basically come to a halt, and the "R" word has finally morphed into the full blown recession word. Notwithstanding the middle market remains alive and well. The question is, for how long? Eventually, trends in the larger mega markets trickle down to the middle markets.

The resiliency of the middle market can be credited to the activities of private equity groups ("PEGs") and foreign buyers. In 2007, PEGs raised a record $302 billion, up from $254.7 billion in 2006. In 2008 and into the near future, PEGs will be looking for investment vehicles for these funds. With the highly levered mega markets at a virtual standstill, these funds may be chasing middle market companies.

With the US dollar exchange rate at all time lows, American companies are on sale to foreign buyers and investors. However, with a recession looming on the horizon, if performance by US companies suffer, so will their value and this will limit the premiums that owners may realize when selling to an overseas buyer.

Bottom line: while the middle market is strong now and seemingly less affected than the mega markets, these

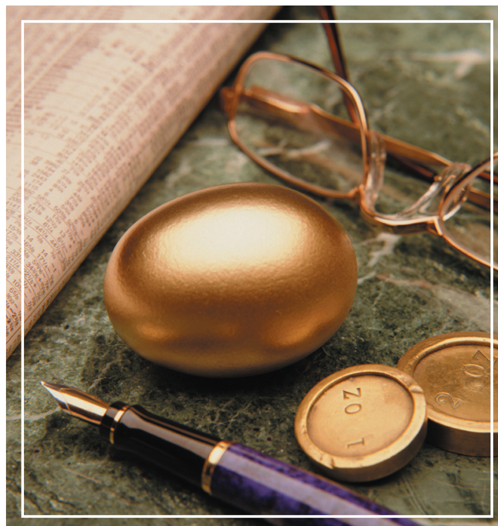
continued on back

"Delivering a Company"... Know What the "Price" Includes

If not properly represented or advised, many business owners will accept an offer on their company and proceed through the due diligence process, only to get a huge and usually unwelcome surprise before closing. "What's included" with the company, and how it is "delivered" at closing of sale and "handing over of the keys" can have a tremendous affect on the overall deal value and "walking away" money to the owner.

Mike Ryan

Theoretically, a company is delivered to a buyer on a cash-free, debt-free basis with adequate amounts of working capital. At closing, in theory, the owner/seller will receive the purchase price of the company, while all long term debt and lines of credit will be paid directly from the sale proceeds. The owner/seller will then sweep the checking account and keep all the cash. Hence, "cash-free, debt-free basis". Typically, unless otherwise excluded, the purchase price includes all the furniture, fixtures and equipment: "FF&E".



Easy, right? But, what are "adequate amounts of working capital"; in fact, for these purposes; how do we define working capital? Furthermore, how is working capital different from book value of the company for sale purposes? These issues become complex and are best determined up front and prior to agreeing on overall terms of a deal.

As an owner/seller begins the process of selling their company, it is best to keep focused on what is included in the delivery of the business to the buyer, and what is not included. While there is an overall purchase price for the business, this can be materially different from the actual proceeds the owner/seller walks away with, the "Net to Owner".

Depending on the nature of the business, manufacturing, service, IT or distribution, the working capital definition may vary slightly, but the affect on the Net to Owner will still have a large impact. Typically, in a transaction, the working capital is defined as accounts receivable ("A/R") plus prepaid expenses plus inventory, minus accounts

continued on back

INTERPRISE M&A, LLC • NEW JERSEY 973.543.1100 • NEW YORK 607.756.4073 • CALIFORNIA 714.544.0355
VISIT OUR WEBSITE AT WWW.INTERPRISEMA.COM • ©2008 InterPrise M&A, LLC all rights reserved

Delivering a Company, continued

payable ("A/P") and accrued expenses. Therefore, the transaction usually includes some level of these amounts and values included in the sale price.

Straight forward, right? Sometimes; but what if some substantial portion of the AR is aged and not collectible? What is the value of the inventory? What if there was an unusual and non recurring sale that caused a brief increase in the value of the AR? Should that go to the buyer? The answers to all these is, it depends. However, in all cases these factors will affect the Net to Owner.

Often, an owner will evaluate an offer and look at the "sticker price" while focusing less on what's included in that "sticker price". Sometimes a buyer will develop their own analysis of adequate amounts of working capital to be included in the delivery of the company, and other times the buyer will simply pick these amounts off the most recent Balance Sheet. How, and more importantly, when should these issues be discussed and resolved?

Earlier is always better; in fact, when an owner/seller is evaluating and negotiating the offer is the key time to ascertain what is included in the delivery of the company. Without professional M&A advice, owners/sellers may proceed through the sale process, spending months of resources, only to get a rude awakening right before closing.

When evaluating offers, owners should:

- Look at the purchase price put forward in the offer.
- Consider treatment of the company's cash position.
- Define components and amounts of working capital up front.
- Know what the buyer expects in terms of adequate amounts of working capital.
- Ascertain treatment of excesses or shortfalls of working capital at closing.
- Understand treatment of long term debt and lines of credit.

Notwithstanding capital gains tax, the aforementioned factors will have a material affect on the amount the owner ultimately receives, which in the end is all that counts.

Since there is no such thing as a theoretically perfect transaction when selling a privately-held business, owners need to give due consideration to what is included in the delivery of the company. Often, given the size and nature of the business, these components may results in a "go or no-go" decision on the part of the owner.

The M&A Market, continued

are uncertain times. Volatility in financial markets and a potential recession, combined with the possibility of increasing capital gains taxes next year given a change in political parties in US government, should have owners wary and poised.

Source: MergerStat

VERITEXT LLC PURCHASES PRIORITY-ONE

InterPrise M&A LLC ("InterPrise") is pleased to announce the sale of Priority-One Court Reporting Services Inc. ("Priority-One") of Staten Island, NY to Veritext LLC ("Veritext"), Florham Park, NJ. InterPrise acted as Priority-One's exclusive M&A advisor for this transaction.

The key to the transaction rested in InterPrise's analysis of Priority-One and the subsequent "packaging" and positioning of Priority-One in the marketplace.

InterPrise opened the market using our proprietary buyer list consisting of 397 prospective buyers. These resources resulted in numerous interested parties finishing with 4 "finalists". The shareholders of Priority-One were able to choose the transaction with the buyer that best met their personal objectives.

VERITEXT L.L.C.
National Court Reporting Services

VERITEXT LLC
OF FLORHAM PARK, NJ

has acquired

PRIORITY-ONE
COURT REPORTING
SERVICES, INC.
OF STATEN ISLAND, NY

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

CALIFORNIA • NEW JERSEY • NEW YORK • EUROPE

 ©2008 INTERPRISE M&A, LLC ALL RIGHTS RESERVED