

Mergers & Acquisitions/Capital Markets Update

How Much Is Your Business Worth? March 20, 2013

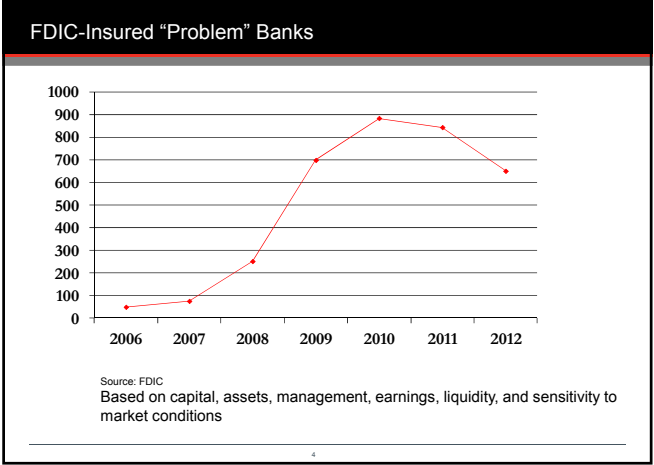
 

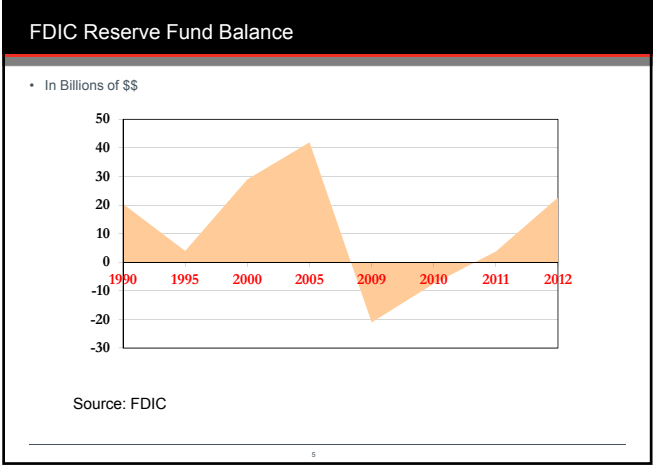
Roadmap

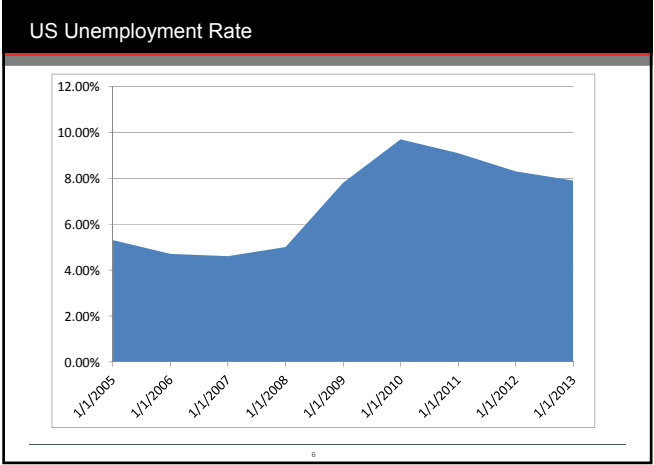
- I. Brief Economic Update
- II. Current Trends in M&A Debt Markets
- III. How to Position Your Company for Sale
- IV. What is the Value of Your Company?
- V. Questions

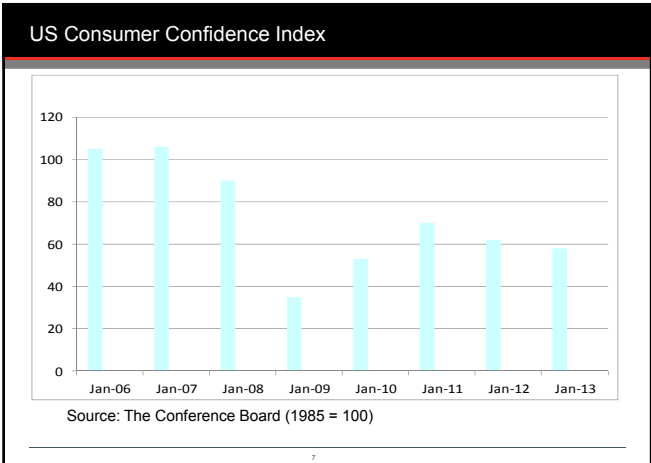
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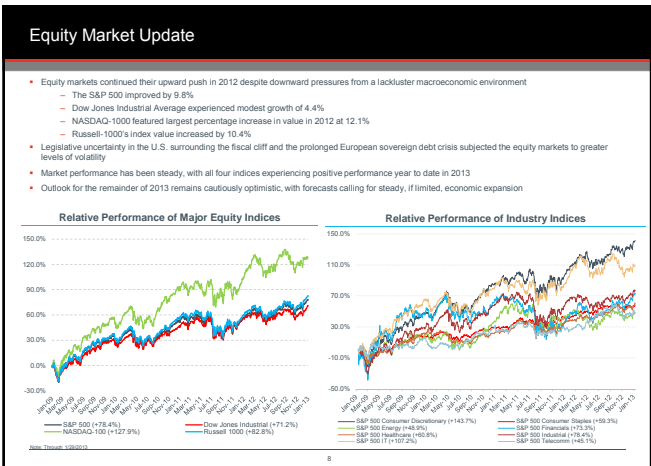
I. Brief Economic Update



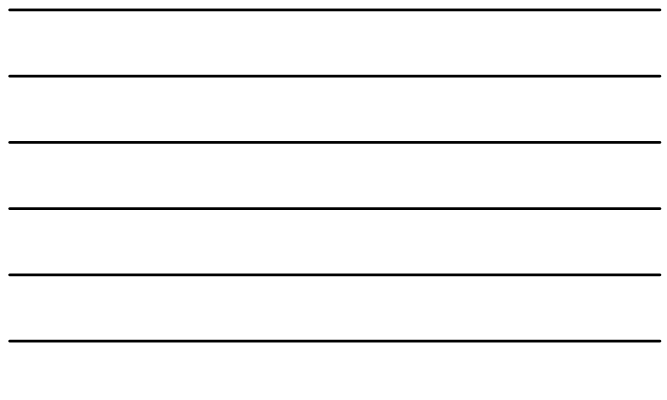
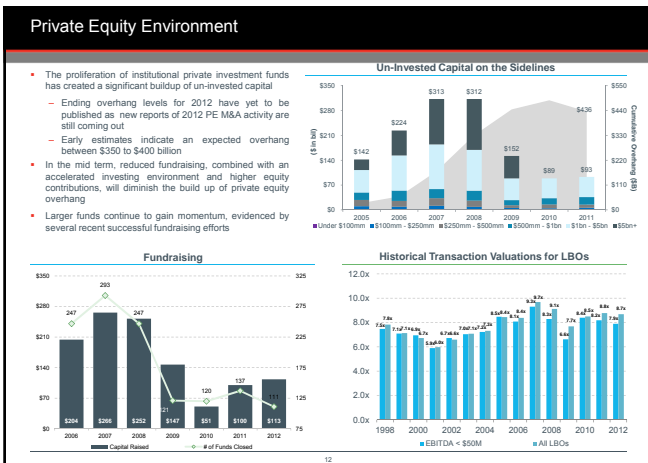
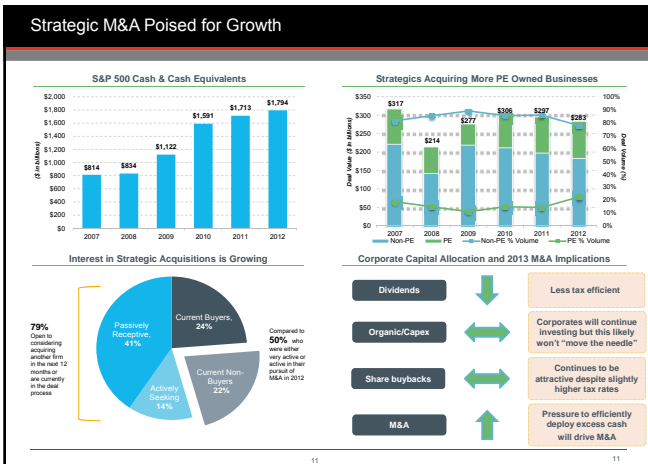
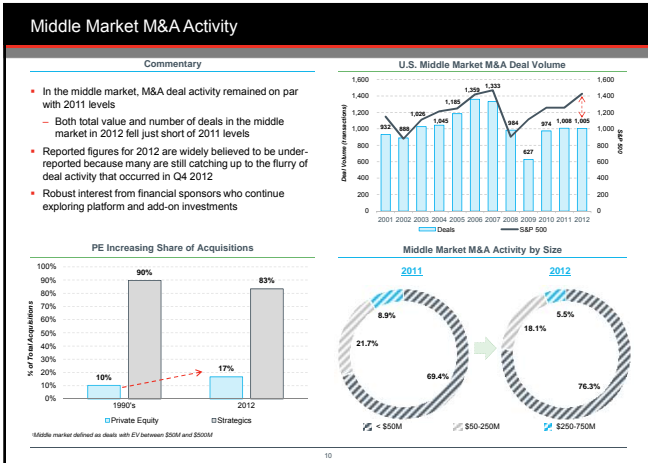








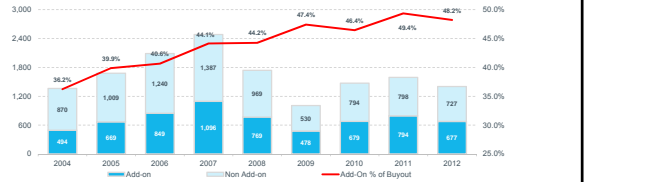
II. Current Trends in M&A Debt Markets



Add-on Activity Continues to Represent Almost Half of All PE Deals

- Private equity firms completed 677 add-on acquisitions in 2012, a 15% decline from 2011 levels
- 2012 add-on activity represented 48.2% of PE acquisitions
- In today's economic environment, add-on acquisitions are an increasingly common approach employed by PE firms to attempt to increase their overall return to investors
 - PE firms are placing a greater emphasis on add-on acquisition targets with measurable and immediately realizable synergistic features

Private Equity Add-on Activity Continues to Outpace Historical Levels



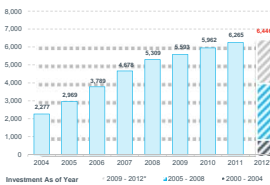
Notes: Only includes acquisitions classified as either add-on or non-add-on. Reported deals executed as add-on acquisitions may not be classified as add-on.

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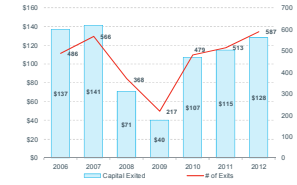
Record Levels of Portfolio Companies Will Sustain High Exit Activity

- Record levels of PE-backed companies will continue to drive high levels of exit activity
 - 4,000 U.S.-based companies were acquired by PE firms between 2000 and 2008
- Exit activity increased in 2012 as PE began to transition out aged portfolio companies
- PE firms completed 171 exits in Q4 2012, a 19% YoY increase
- Despite the robust exit activity in 2012, record levels of PE backed companies remain
- Approximately half of the 6,446 U.S. companies backed by PE firms were acquired between 2005 – 2008 while approximately 15% were acquired during 2000 – 2004
- Firms will continue to closely monitor the market environment to identify advantageous exit opportunities

Number of Private Equity Backed U.S. Companies



U.S. Private Equity Exit Activity

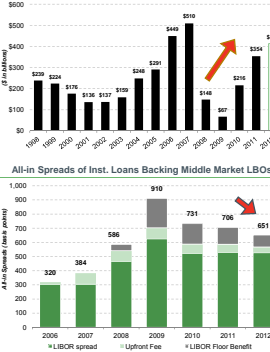


Investment As of Year

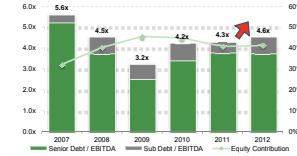
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The Leverage Markets are Improving – With Pockets of Strength

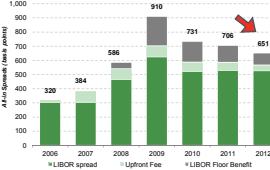
U.S. New-Issued Leveraged Loan Volume



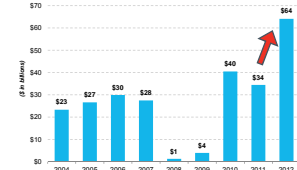
Average Debt Multiples of Middle Market LBOs



All-in Spreads of Inst. Loans Backing Middle Market LBOs



2012 was a Record Year for Dividend Recaps



All-in Spreads (base plus fees)

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III. What is the Value of Your Company?

General Commentary

- To Whom? Your Spouse? The Bank? Your Brother-in-Law? The IRS? A Buyer?
- Don't overlook the obvious: Your business is worth what someone is willing to pay you for it!
- Your business is not worth what you think it is worth, if you can't find someone to pay you that amount.

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Discussion of EBITDA

- Earnings Before Interest Taxes Depreciation Amortization (EBITDA)
 - Adjustments to EBITDA
 - Excess/Dearth of Owner Compensation/Perquisites
 - Excess Rent
 - Non-Recurring Expenses (litigation expenses, new facility expenses, etc.)

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How Are Businesses Valued?

- Book Value
- Valuation Multiples
 - Multiples of sales/revenue
 - Typically, a Multiple of EBITDA
 - Current or Future EBITDA?

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How Are Businesses Valued (Continued)?

- Discounted Cash Flow Method
 - Expected future cash flow over a period of years discounted to present value with rate of return
- Comparable Company/Transaction Analysis
- Public Company Analysis
- Asset Approach – What is the value of the Company's underlying assets (users)?
- Rebuild Value/Replacement Cost – What will it cost me to build/replace the same thing?

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Commentary on Value Drivers

- Repeated Periods of Positive (and Increasing) Earnings - Predictability
- Growth Potential
- Product Diversification
- Quality of Management
- Expected Synergies for Strategic Buyers
- IP Advantages
- Customer Diversification/Loyalty

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Commentary on Value Drivers (Continued)

- Quality of Financials
- Capital Intensity
- Barriers to Entry – Regulatory or Other
- Recurring Revenue Streams
- Will the Owner Stay or Go? Will the Owner Continue to Invest in the Company?
- Cult of Personality?

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IV. How To Position Your Company For Sale

What Potential Sellers Should Be Doing Now

- **Organize Your Company.** Having an organized company makes you more attractive—buyers are putting more time, money, and effort into diligence, and the easier you make it for them, the better.
- **Conduct a Sale Analysis of Your Business.** Conduct a "readiness" assessment to determine the steps necessary to bring your company to market, and then complete those items.
- **Get Your Financials In Order.** Make sure your financials reflect reality. Buyers don't want to find out in diligence that the financials are wrong/incomplete/sloppy.
- **Get Your Management in Order.** Who will run the business after the sale? Don't assume your buyer will want to insert its own people. Do you have non-compete/confidentiality/proprietary rights agreements in place with management/sales/developers/others?
- **Sales/Use Tax.** Make sure you are clean. Do an audit.
- **Get Your Legal Documents in Order.** Do you know where your customer/vendor contracts are located? Do you know *if* you have customer/vendor contracts? Has it been awhile since you have talked to your corporate lawyer?

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What Potential Sellers Should Be Doing Now (Continued)

- **Protect Your Assets.**
 - ▶ Work to solidify and diversify your customer base.
 - ▶ Identify key employees, and sign them to lock-up deals (could require change of control bonuses/stay bonuses, etc.).
 - ▶ Identify your intellectual property and protect it (through patents, assignments of intellectual property, properly drafted license agreements)
- **Consider If You Are Willing To Seller Finance or Accept an Earnout.** Seller financing and earnouts are more and more common in uncertain markets.
- **Know Your Reason For Selling.** Your buyer will want to know.
- **Don't Lose Track Of Your Business.** Selling your business is difficult and time consuming. Don't take your eye off of the operations of your business.

What Potential Sellers Should Be Doing Now (Continued)

- **Retain the Right Experts To Help.**
 - ▶ **Lawyers:** Your general corporate lawyer might be great for most of your legal business, but you need an M&A lawyer to help you with your deal.
 - ▶ **Accountants:** Are you comfortable that your potential buyer will be confident in your accountant?
 - ▶ **Bankers/Brokers/Business Advisors:** Are they experienced enough in your size of company and your industry? Do they have outside "go-to" help if needed?
 - ▶ **Tax Advisor:** Make sure you understand how much Uncle Sam is going to take.
 - ▶ **Valuation Expert:** Do you know what your company is worth?

Questions

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