

# Today's Topics

- Welcoming Remarks
- Introduction, M&A Markets, Common Mistakes
- Business Valuation and Sale Process
- Panel: Steps in a Sale Process
  
- Tax Planning for the Transaction
- Wealth Management Planning
- Getting to Finish Line
- Panel: M&A Wrap Up
  
- Questions & Comments
- Wine & Cheese Reception

# M&A Markets and Sale Process

Jack Selman

President

Selman Munson & Lerner, P.C.

SELMAN MUNSON & LERNER



ATTORNEYS AT LAW

# Current M&A Market Conditions

**Overhang of private equity**

**Capital gain rates still low**

**Financial uncertainty**

**Low interest rates**

# M&A Market Conditions

- **Market Defined**

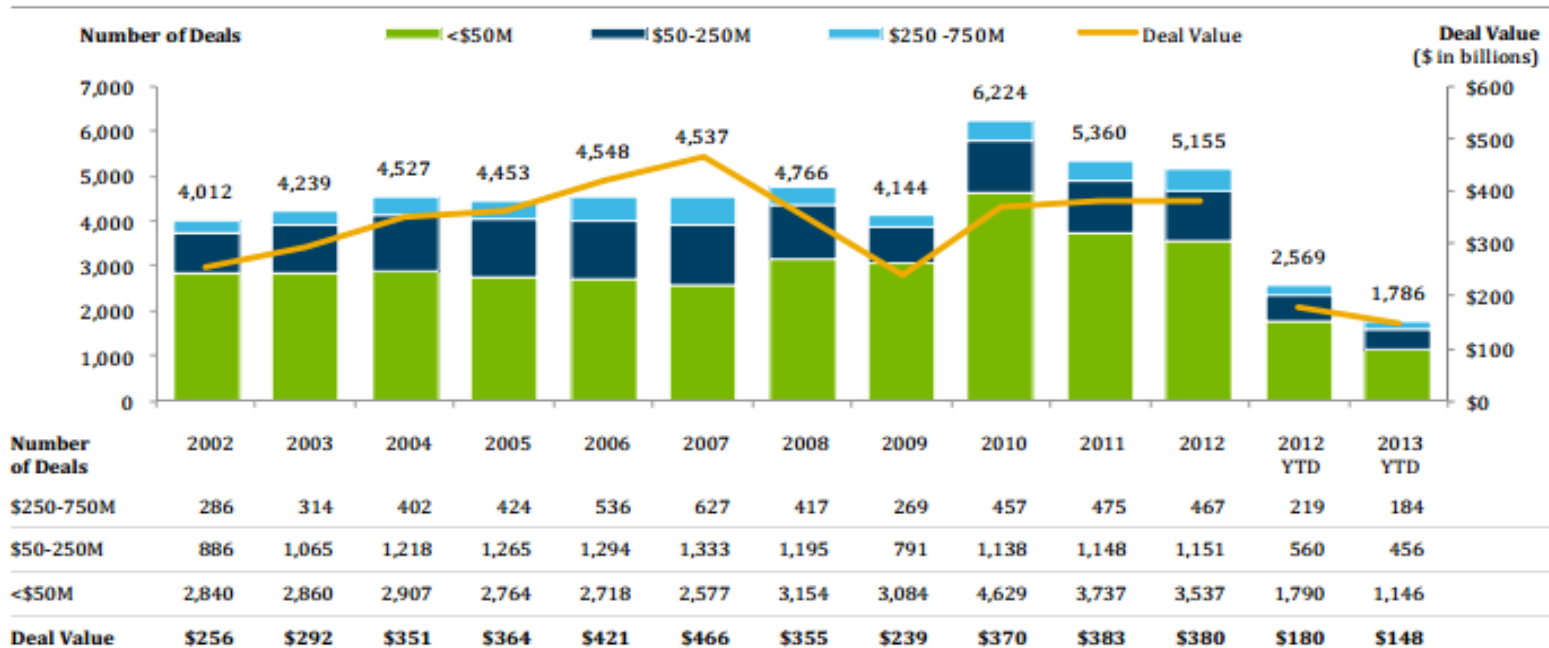
- Privately-held businesses
  - Revenue from \$500,000 – \$75,000,000
  - 5 to 200 Employees
- Approximately 99% of all businesses in the U.S.



# North American M&A Activity Remains Strong

Transaction volumes have risen 77% from beginning of 2009 to the end of 2012.

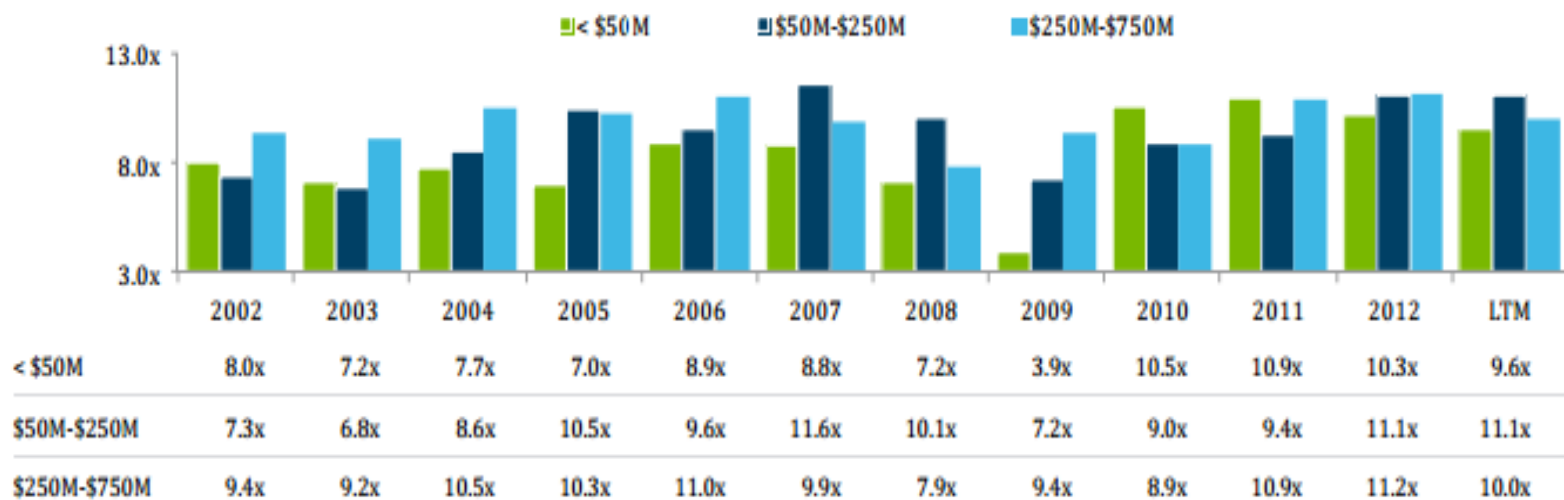
## U.S. Middle-Market M&A Activity



Note: Middle market is defined as deal value under \$750 million

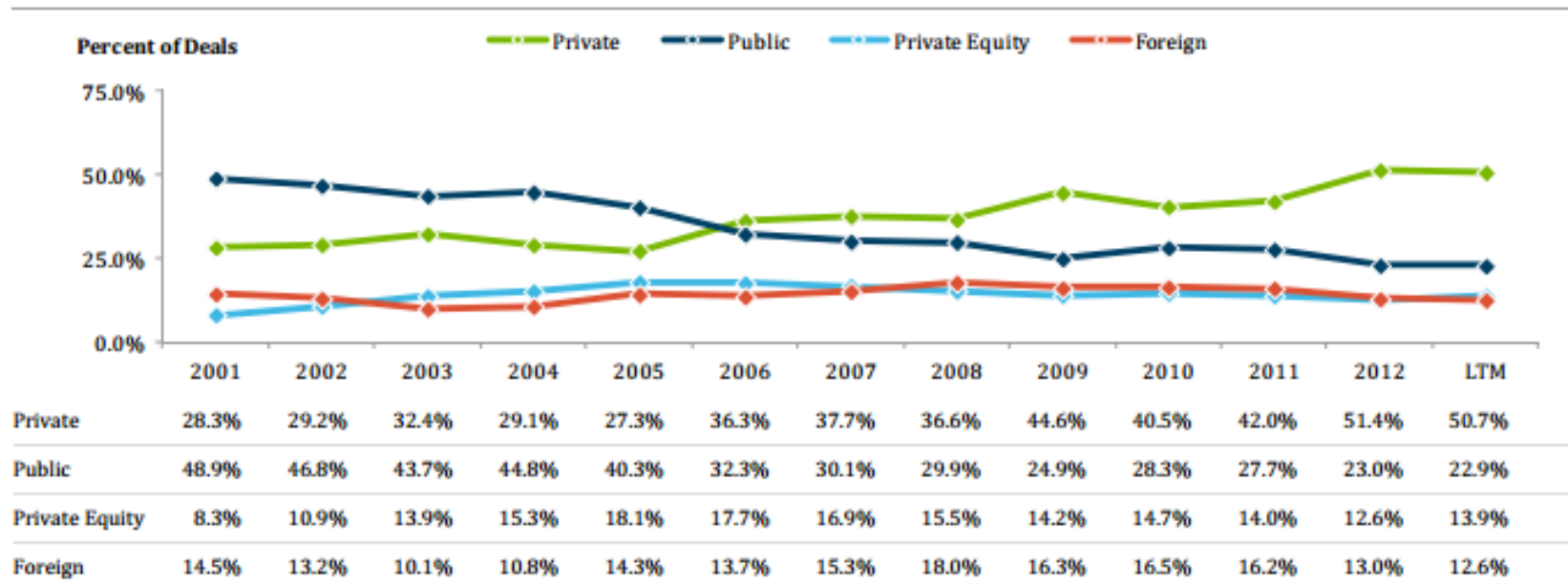
Sources: Dealogic and William Blair & Company, L.L.C. Mergers and Acquisitions market analysis

## U.S. EV/EBITDA Middle-Market Valuation Multiples



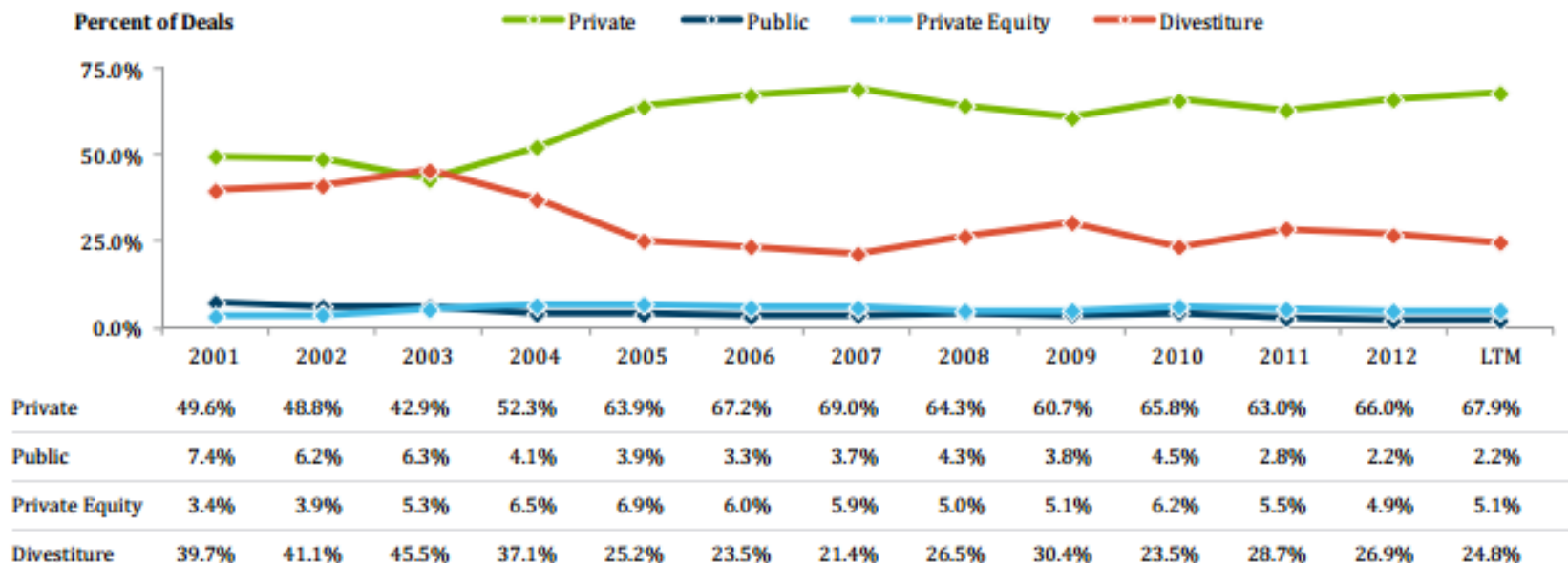
Sources: Dealogic and William Blair & Company, L.L.C. Mergers and Acquisitions market analysis

## U.S. Middle-Market M&A Activity by Acquirer



Sources: Dealogic and William Blair & Company, L.L.C. Mergers and Acquisitions market analysis

## U.S. Middle-Market M&A Activity by Target



Sources: Dealogic and William Blair & Company, L.L.C. Mergers and Acquisitions market analysis



## Transaction Consideration

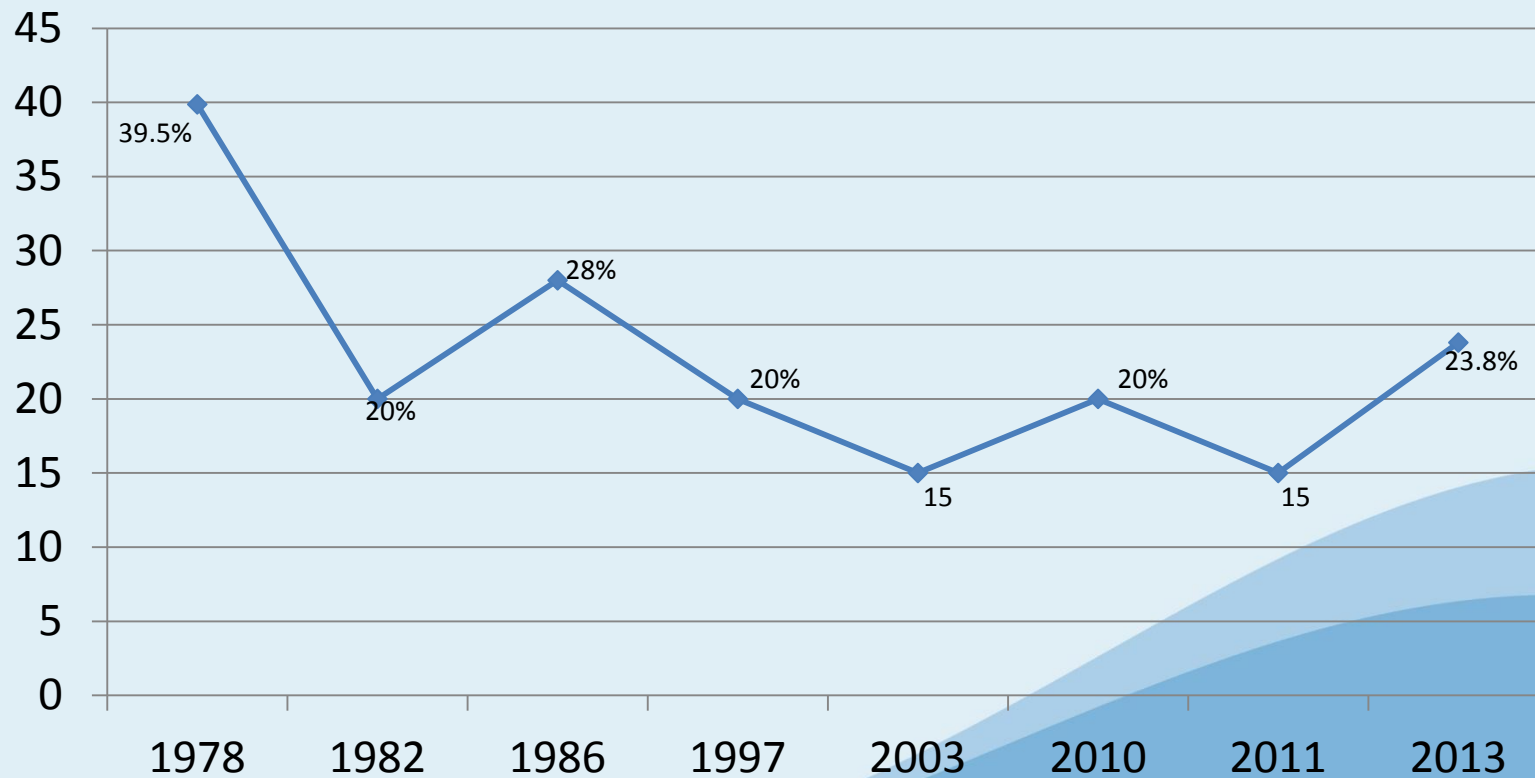


Number of Deals	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	LTM
Stock Only	29.4%	23.1%	26.7%	20.2%	19.4%	21.7%	13.2%	13.9%	18.7%	15.0%	14.9%	11.7%	13.9%
Cash Only	44.7%	57.8%	56.5%	59.0%	61.2%	65.7%	72.3%	75.3%	59.3%	66.5%	71.0%	71.5%	68.7%
Cash/Stock	23.2%	13.1%	14.8%	19.6%	18.4%	11.2%	12.9%	9.5%	19.5%	14.4%	11.8%	15.1%	14.2%
Other	2.7%	5.9%	2.0%	1.2%	1.0%	1.4%	1.6%	1.3%	2.5%	4.0%	2.3%	1.7%	3.1%

Sources: Dealogic and William Blair & Company, L.L.C. Mergers and Acquisitions market analysis

# Capital Gain Rates\*

Historic Capital Gains Rates



\*Source: Tax Policy Center– Brookings Institute

# Financial Uncertainty?

- Stock Market Performance
- Banking Climate
  - SBA
  - Larger Transactions have preference



# Interest Rates Are Low Today

- Most buyers will use debt to pay Sellers, particularly private equity buyers.
- Rates are at historical lows – providing rocket fuel to buyers.
- Example: WSJ Prime Rate – 8.25% in 2007. Today it is 3.25%.



# M&A Process Overview

**1. Reasons for Business Sale**

**2. Possible Buyers**

**3. Managing the selling process**

**4. Overcoming the obstacles**



# Motivations

## SELLER

- Financial gain
- Desire for liquidity
- Business loses strategic importance
- Diversification of personal assets
- Estate planning
- Health reasons
- Additional capital requirements
- Technological changes
- Defensive measures such as reducing net acquisition costs

## BUYER

- Buy versus build strategy
- Accelerate growth
- Market share
- Diversification
- Geographic expansion
- Enhance shareholder value
- Generate attractive returns on investments
- Acquire undervalued assets
- Keep up with competition
- Increase profit through economies of scale/synergies (leverage build-up)

# Dilemma

- Single largest financial transaction in most business owner's life
- No immediate ready-market for company assets/stock
- The business is a  
“NON-LIQUID ASSET”



# Objectives

## SELLER

- Maximize value
- Minimize execution risk
- Minimize business disruption
- Maintain confidentiality
- Seek acceptable buyer culture
- Expedite sale process
- Manage and control process

## BUYER

- Pay fair price
- Deal provides fit with overall strategy
- Maintain financial flexibility
- Seek acceptable seller culture
- Control/influence transaction timetable



# How Do You Get It?

In the majority of cases, the sale of a closely-held business to a third party is the most viable method for the business owner to achieve his/her objectives.

# Possible Buyers

- Family Member
- Management Team
- Employees
- Competitor (Industry Buyer)
- Financial Buyer
- Strategic Buyer

# What are Private Equity Groups (PEGs)?

## What are they looking for?

1. A fundamentally sound and durable business with a history of profitability
2. Availability of a strong management team
3. A fair purchase price in relation to historical performance
4. Opportunities for management to add value to the business over time

# What do Buyers Buy?

- Buyers buy a documented, believable future ...



# Difficulties Sellers Encounter

*Issues sellers encounter when trying to sell their own business:*

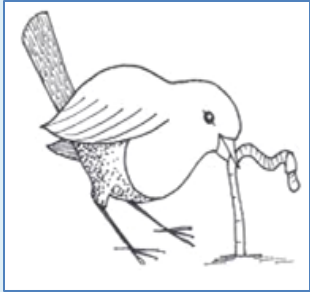
- Value
- Marketing
- Competitors
- Employees
- Deal Structure
- Financing
- Experience
- Confidentiality
- Documents
- Negotiating
- Timing
- Difficult buyer
- Communications
- Emotional Attachment

# Commons Mistakes of Sellers

- Most Sellers are not ready for a sale and need to plan-- 50% of deals fail.
- Failure to learn the value of your business
- It's not what your competitor thinks
- Understanding the tax and accounting effects of a deal -- Buyers expect some retained working capital
- Waiting too long to "Dress up the Pig" --Lock in customers; financial statements audited



# Assemble the Team



Most business owners will sell a business only once. Assemble your team of professionals, who specialize in business sale transactions, EARLY in the process. They will give you an advantage.

- Legal – Experienced in business sale transactions
- CPA – Plan to minimize tax and assure clean records
- Financial Planner – Prepare for life after sale
- Intermediary – Skilled in valuation, marketing and navigating the sale process while you run the business

# Conclusion

- Not an every day occurrence
- Many complex issues
  - Confidentiality
  - Employee issues
  - Customer relation issues
  - Supplier relation issues
  - Must maintain competitive position during the process
  - Unique contract issues
  - Complex tax issues
- Planning will increase your chances of achieving your objectives