M&A MARKETPLACE BY cHC℠
A BETTER WAY FOR BUSINESS OWNERS TO MEET BUYERS
QUICK, CONFIDENTIAL & COMPETITIVE

Sell Your Company in 120 Days

Issue #8

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- Middle Market Deal Volume DOWN in Q1 from Q4 2012 —page 4
- Will you attract multiple Bidders when you SELL? — page 5

Valuations and Leverage—At 10 Year Highs

By Huxley Nixon,

Huge amounts of dry powder held by private equity and strategic buyers and a much friendlier debt market have pushed the median EBITDA multiples for buyouts to 11.5 X and median leverage to 71.6% in 1H 2014. (Source: Pitchbook) While deal volume was down in 2Q, still $108 BN was invested by private equity into US companies, the fifth consecutive quarter in excess of $100 BN. Also mega deals were down with only one larger than $2.5 BN (Carlyle's acquisition of ITW's industrial packaging business for $3.2 BN) leading many to speculate that an active middle market contributed the bulk of the deal flow.

With the spike in valuations and dearth of available quality platform companies, Buy and Build is back as the leading strategy to create value for investors with private equity firms. Of the control buyouts in 2Q, 61% were add-ons vs only 40% in 2006.

A more aggressive stance by debt markets coupled with historically low interest rates has resulted in median leverage levels skyrocketing to 71.6% (a historical high), up from 54.5 % in 2011. It should be noted that smaller middle market deals that do not have access to public debt markets may not be able to obtain these levels. But senior and mezzanine lenders are also easing their lending criteria.

Armed with cheap debt' private equity has pushed median EBITDA multiples to levels that strategic buyers are unwilling to pay. Median debt to EBITDA multiples have ballooned form 4.9 X in 2012 to 8.2 X through 1H 2014!

What does the Future hold?

As long as ample capital and debt financing remain available and coupled with few quality platform companies in the market, Pitchbook analysts predict valuations to remain strong for the next several quarters.

My Industry is Ripe for Consolidation What should I do?

By Huxley Nixon

Many quality companies in niche industries are being approached by both strategic and financial buyers that have huge amounts of cash sitting in short term investments. For many strategic buyers valuations have gotten too rich so they are seeking alternative ways to utilize these cash hordes. Stock buy backs are popular with public companies and investing in infrastructure and technology to improve efficiencies are popular with many strategic buyers but few are hiring additional employees due to the uncertainties of the global and US economies.

The dearth of quality companies in the market, aggressive lenders willing to lend up to 8.2 X Continued on page 3

"Quality Companies are Commanding Pre-Recession Prices!"

Owners: Can I have MY Cake and Eat it Too?

By Huxley Nixon

Would you like to turn a significant amount of your closely held stock into CASH without giving up operational control and still have meaningful equity position remaining? Is this too good to be TRUE? *Read more to find out why this is NOT the case…*

Many owners are reaching a stage in their careers when it makes sense to start planning for what is next for them. This coupled with a huge amount of un-invested capital by Private Equity firms have created two potent forces in the middle market M&A world.

How many times will an owner sell their business? ONCE. Private Equity firm's sole reason for existing is to buy and sell companies. There are approximately 6,000 such firms in the U.S. active today representing over $1 Trillion in dry-powder to invest.

To understand how an owner can "have their Cake and Eat it too" see the author's blog "Is an Equity Recap right for MY Company?"

10 Things a SELLER should DO and 4 they should NOT! Click Here

Negotiated Sale with ONE Suitor - can cost You Dearly!

By Huxley Nixon

This article assumes that your company is READY for a Sale. Will you attract multiple bidders when you are ready to sell ? Buyers look for 10 Key Value Drivers that make them excited about your company (click here to download detailed list). Buyers are looking for a strong management team, stable & profitable past performance and good growth potential.

Most owners do not think about a transaction until they are approached by a potential buyer or an intermediary out-of-the-blue. Their gut reaction is usually—"my company is not for sale". But lets say that you do agree to sell and sign a Letter of Intent outlining the business deal (price, structure, diligence, contingencies, etc.). The signed LOI has just potentially cost you the ability to gift low basis stock prior to a sale because you have agreed to a value much higher than you might have been able to claim otherwise.

Let's look at the profile of both buyer and seller:

Buyer—typically has acquired many other companies (especially Pvt Equity Groups), strong team of advisors familiar with the M&A process.

Seller—Only sells their company ONCE! Advisors may be good for general corporate needs but may not specialize in M&A transactions (less competent team).

Since the playing field is usually tilted in favor of the buyer they desire to pursue this advantage by insisting on a negotiated transaction under the guise of confidentiality requirements and easier and shorter process. So what is the usual result for the seller?

Negotiated Sale, continued from page 2

1. A substantially LOWER price.
2. Less Attractive Terms—a large component of the sales price may be contingent on difficult to meet performance targets POST closing when the company is no longer controlled by the seller.
3. Loss of control of the deal Timeline—typically results in a lower re-negotiated price. Seller's management team is focused on satisfying diligence requests of the Buyer which results in the Seller's top management NOT focused on operations which can cause a decrease in performance. Without competitive tension to keep the buyer's diligence requests reasonable there is little leverage the seller can bring to bear to speed up the closing timeline. The BIG problem for the seller is if performance numbers are being missed they can expect the buyer to Re-Negotiate the Price! Time is NEVER a friend to the deal.

To read an actual case study of the sale of a $220 MM revenue value add distributor the author was involved in please click here to read more about how valuable a competitive process is for a seller.

My Industry is Ripe for Consolidation–
Continued from page 1

EBITDA and historically low interest rates have created the highest average prices paid in the past ten years (11.5 X EBITDA). Definitely a sellers market.

This is creating a dilemma for owners of these quality firms. They do not necessarily desire to sell but they are being approached by aggressive financial buyers that what to consolidate the industry niche. Owners are being told by these buyers that they want to partner with management to be the platform to help the private equity firm execute this acquisition growth strategy. The problem is if the target declines the offer to participate they may find themselves a second tier player in five years because the buyer will approach competitors if not successful with their first choice.

What should the owners do?

While you may be at the top of the pyramid today this could change in the future as some of your competitors elect to participate and broaden their product offerings, resources and geographic reach. Secondly, if you do participate you want your company to be the platform that acquires others – versus being acquired (huge difference in valuation and ability to retain your culture and employees).

There are many different deal structures that can be used to bring in an outside partner and it depends on the goals of each party to be able to truly align the interest of both. However, before you get into these details you need to determine what is your company is worth? Hiring an expert in business valuations of middle market companies and is familiar with your industry will provide you a realistic bench mark to expect and greatly assist in price negotiations with a buyer/investor.

Another rule is to pick the best! Just as you do this in selecting your vendors it also applies in selecting your professional team of advisors and your new partner. This may NOT be the firm offering the highest initial valuation. If you are seeking a partner to help you to profitably grow and you are looking at a second liquidity opportunity in the next five to seven years, you want to select the one with the right culture that has a proven track record of success of creating value post closing.

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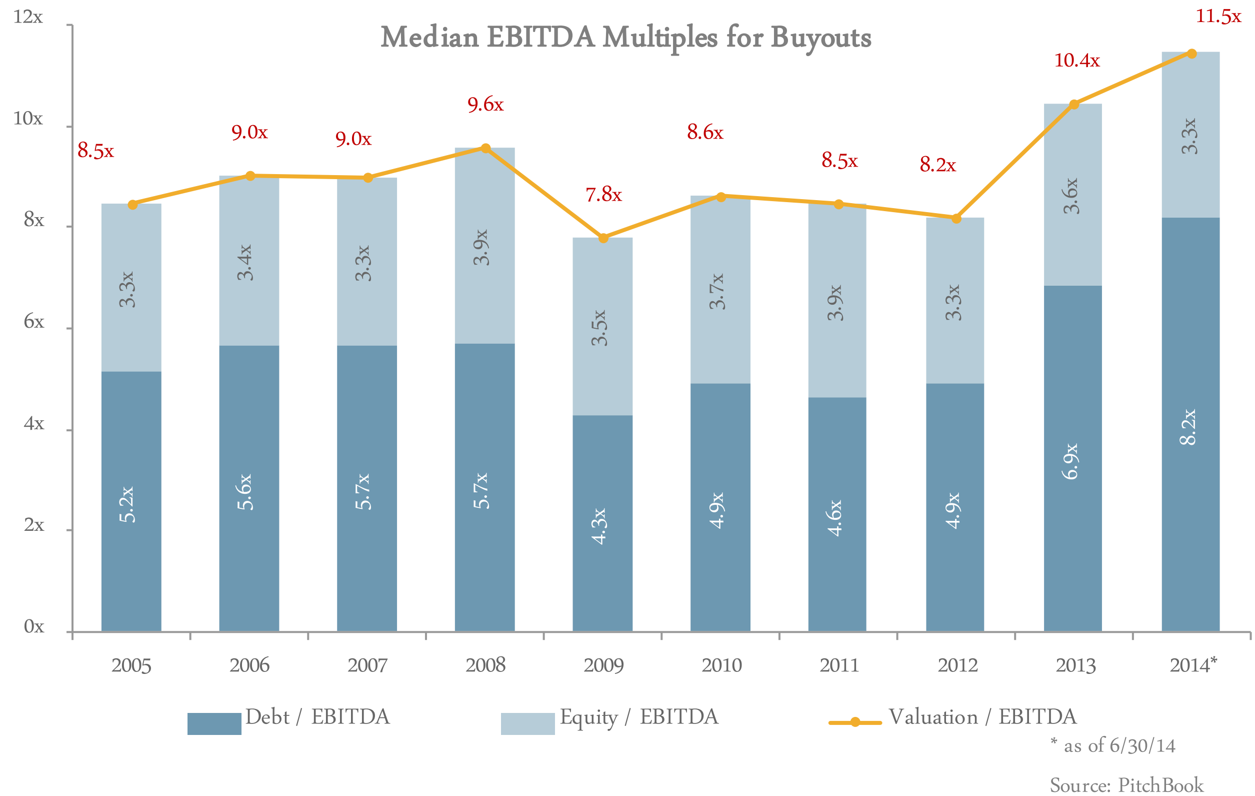
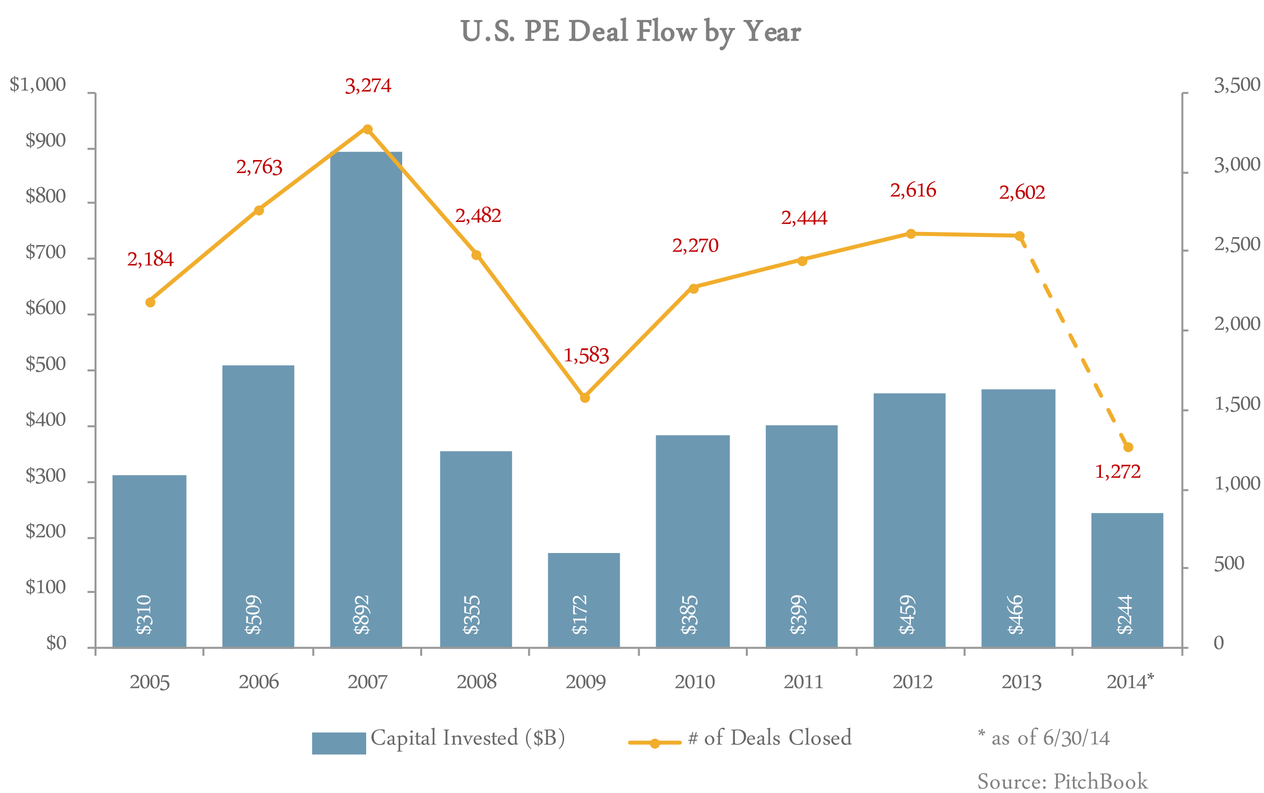
"This is a popular structure of private equity firms for companies that qualify where an owner can convert a majority of their closely held stock into cash and still retain management control …" To learn more about how a leveraged equity recap might be right for you, click here

Check out our Website

MARKET METRICS THROUGH Q2 2014





How valuable is a Competitive process when selling your company?

See Huxley's Blog to find the answer .....

Huxley's Blog!

www.sellyourcompany.org

Will my Company attract Multiple Bidders?

Take our simple multiple choice online Maxi-QUIZ to find out...

My Industry is Ripe for Consolidation-

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Another point to consider is that when the second exit occurs, management may have an opportunity to co-invest with the new buyer if they are also a financial buyer. Remember, the current financial buyer wants your management to help them execute the new growth strategy. As long as there are no hiccups along the way management may continue to ride this racehorse beyond the second exit.

There are typically four types of transactions that could be offered:

- BUYOUT – Control Only
- EQUITY RECAPITALIZATION – Minority & Control
- CONSOLIDATION – Control
- GROWTH FINANCING – Minority & Control

Retaining control may be attractive but if the goal is to consolidate your niche you want to get to the best targets before others do and you may need to move on a bigger transaction sooner than initially planned. One of the advantages of not retaining a control position is that the current owners will not be required to provide personal guarantees on company debt post closing. You also want to make sure that your interest and that of the new partner are the same. If the goal is maximizing value in a five to seven year time frame by executing a consolidation strategy then you should strongly consider going with a group that has a proven track record of success and relinquish control.

However, if your goal is to deploy a defensive strategy by acquiring a couple of quality competitors to build long term value, you may prefer to retain control but use the resources of the new partner to diversify your risk. This approach allows both parties to develop trust in the relationship so when a critical tipping point is reached in the capital structure which requires a substantial infusion of additional equity to finance an acquisition, you may be more receptive to passing control to the new partner.

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