



MERGER & ACQUISITION ADVISORY SERVICES SINCE 1982

# Planning the Successful Sale of a Privately-Held Company

ASG Partners  
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# Agenda

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- Introduction to ASG
- Succession options
- Overview of a third party sale
- Pre-sale planning strategies
- What to do with an unsolicited offer
- Current market conditions

# ASG: Lower Middle Market Specialists

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- Founded in 1982
- Completed hundreds of successful transactions
- 5 principals with more than 100 years of collective experience
- Seller representation (exclusively)
  - Manufacturing, service and distribution companies
  - Established, profitable enterprises with revenues from \$3-100 million
  - Client emphasis in the Pacific Northwest: WA, OR, ID, AK & HI
- More than 15 published articles in the last 2 years
- Primarily compensated in the form of success fees



# Succession/Transition Alternatives

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- Business owners with a desire to exit can:
  - Install management and continue ownership
  - Transfer the operation to family
  - Sell to a key employee or group of employees
  - Pursue a third-party sale



# The ASG Process for Maximizing Value

## Key objectives:

- Maximize price
- Maximize cash at closing
- Maximize after-tax proceeds
- Minimize litigation/other risks
- Minimize burden on the client/company

Step 7: **Transaction Closes**

**Post-Closing  
Activities**

Step 6: **Closing Activities**

Step 5: **Buyer Evaluation & Selection**

Step 4: **Marketing**

Step 3: **Packaging**

Step 2: **Valuation**

Step 1: **Pre-Sale Planning**

MAINTAIN CONFIDENTIALITY

# Characteristics of Attractive Companies

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- Sustainable competitive differentiation
- Consistently high gross margins
- Predictable, recurring revenue; potential for growth
- Revenues diversified by:
  - Customer and/or industry
  - Geographic region
  - Product or product line
- Stable management
- Relative absence of significant legal challenges

# Longer-Term Focus (3+ Years)

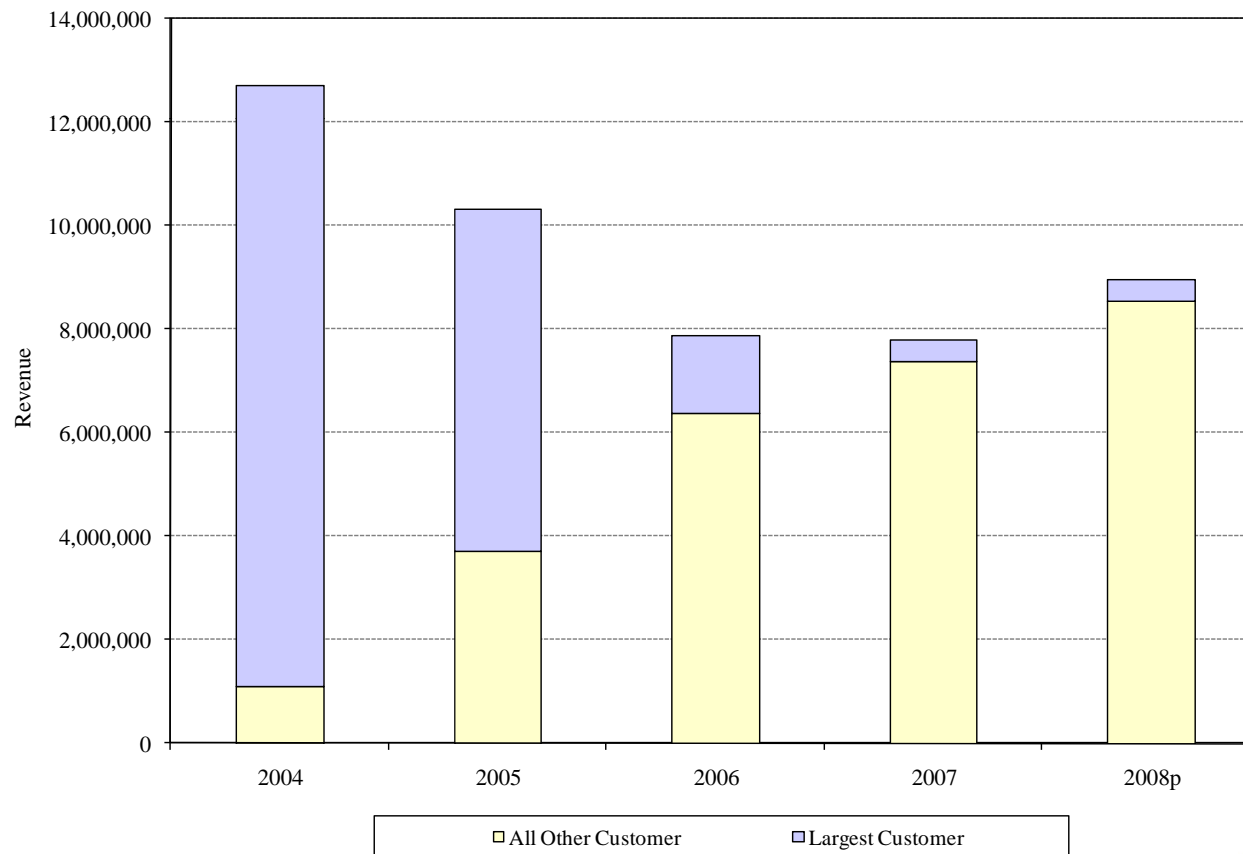
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- Assess corporate structure (C Corp conversion)
- Evaluate real estate options
- Build and execute a management succession plan
- Address customer concentration
- Identify and pursue opportunities for fundamental business improvement
  - Proprietary products or services
  - Potential for recurring revenue
  - Improved competitive position
- Clarify strategic vision; demonstrate potential for growth

# Customer Concentration

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...can be addressed, but it takes time



# Customer Retention

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...adds to predictability, profitability and value

Number of Orders Per Year	Number of Customers	Total Number of Orders	Revenue (% of Annual Revenue)
1	584	584	2%
2-5	722	2,167	8%
6-10	317	2,411	10%
11-20	210	3,028	19%
>20	168	6,495	61%

Description	2002	2003	2004	2005	2006
Total active customers	1,933	1,922	1,934	1,994	1,972
% of sales from new customers	NA	7%	6%	5%	7%
% of sales retained customers	NA	93%	94%	95%	93%

# Shorter-Term Focus (1-3 Years)

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- Assess the financial impacts of a sale
  - Determine “how much is enough”
  - Assess value of the company
- Assemble a team (attorney, CPA, financial advisor)
- Reduce outstanding internal/external legal issues
- Ensure accuracy and consistency of financials
- Reduce owner’s day-to-day role, especially in key relationships
- Reduce revenue concentrations to the degree possible

# What to do with an Unsolicited Offer

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- First, decide if you want to sell; don't invest time unless you are ready
- Recognize that the unsolicited buyer probably knows very little about the details of the company
- Take control of the process
  - The unsolicited buyer is not the only prospective buyer
  - The first buyer that approaches you may not be the best buyer
  - You can maximize the benefits of a sale by (confidentially) engaging multiple buyers
  - Educating a prospective buyer about the company increases the probability of success

# Benefits of a Competitive Process

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- 20% to 30% increase in price, with better payment terms
- Improved tax treatment
- Reduced potential for renegotiation during due diligence
- Opportunity to select the “ideal” buyer, which is sometimes just as important as financial terms
- The presence of a backup buyer creates pressure/incentive for the lead buyer to perform
- All achieved while protecting confidentiality

Description	Number
Acquirers contacted	800
Interested responses (strategic & PE)	45
Offering memorandums sent	22
Offers received	7

# The Impact of the Credit Crunch

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- Mega-deals have been impacted, but the size of the transaction matters
  - US deal volume in 1Q2007 fell 40%
  - The number of deals announced in the first 107 days was the highest on record
- Commercial credit has remained widely available and rate cuts make the cost of capital more attractive
- 2007 was a record year for private equity fundraising, which is a leading indicator for M&A activity
- Acquisitions are still a highly attractive growth strategy – and some acquirers are moving down market

# Summary

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- Advance planning can significantly improve a company's value; the benefits of planning increase with more time
- Buyers act out of fear and/or greed; work to eliminate fear and build on greed
- Advise clients not to sell until they are ready – which will likely have more to do with personal factors than market conditions
- Consider a competitive process designed to maximize leverage by engaging multiple prospective buyers