

A large, stylized, dark blue 'M' logo with a white outline, positioned on the left side of the slide.

M&A MARKETPLACE

BY CHCSM

A BETTER WAY FOR BUSINESS OWNERS TO MEET BUYERS
QUICK, CONFIDENTIAL & COMPETITIVE

DATE

A large, faded, light blue 'M' logo, centered in the background of the slide.

ABC WIDGET MANUFACTURING

DILEMMA

- ❑ Why sell NOW when values are down and my Business has NOT returned to its pre-recession High Water Mark?
- ❑ Why not WAIT five years until things settle down?
- ❑ My company is MY Identity – What will I do if I SELL?

WHAT FORCES DETERMINE VALUE?

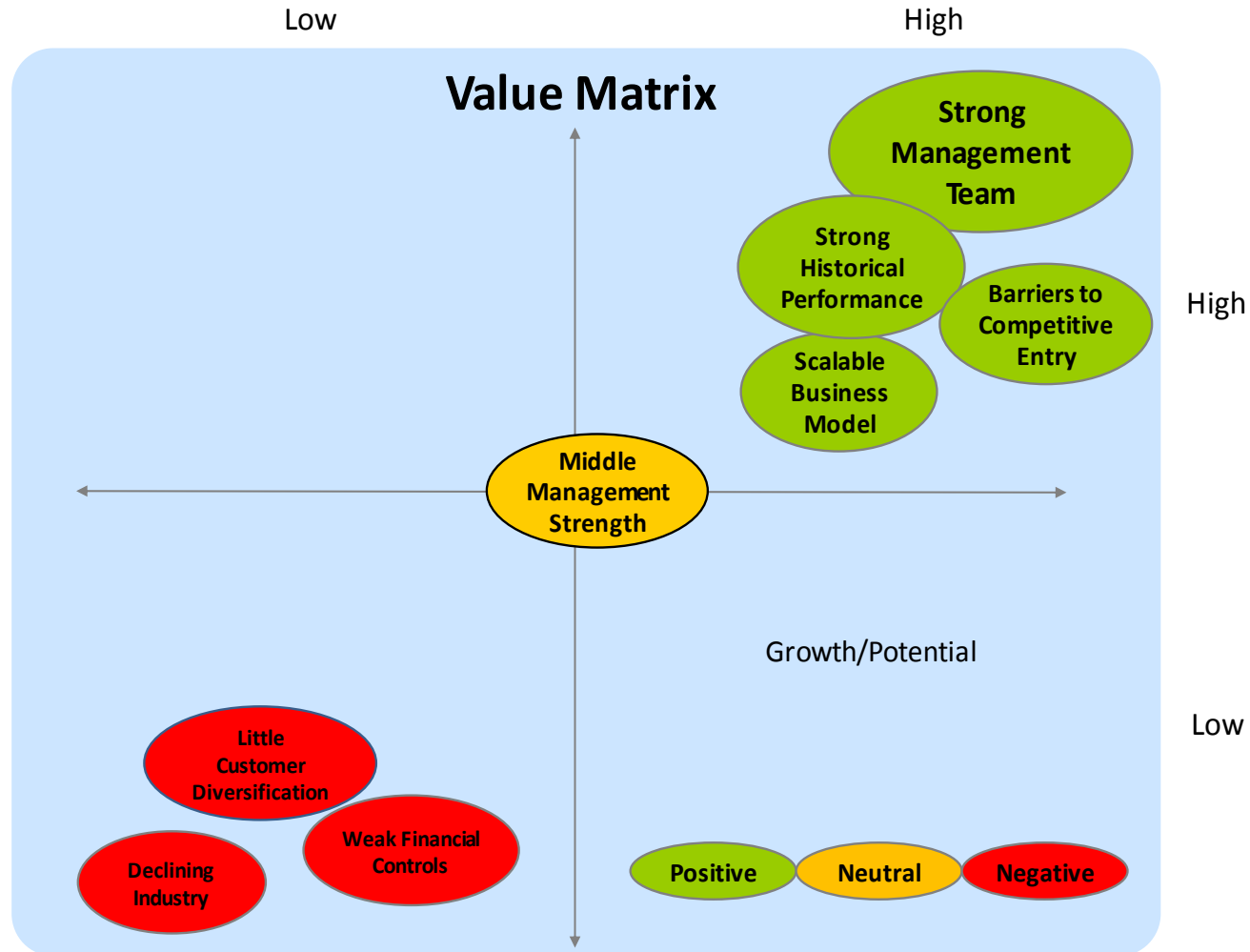
- INTERNAL**
- EXTERNAL**
- EXIT PROCESS**

WHAT FORCES DETERMINE VALUE?

□ INTERNAL

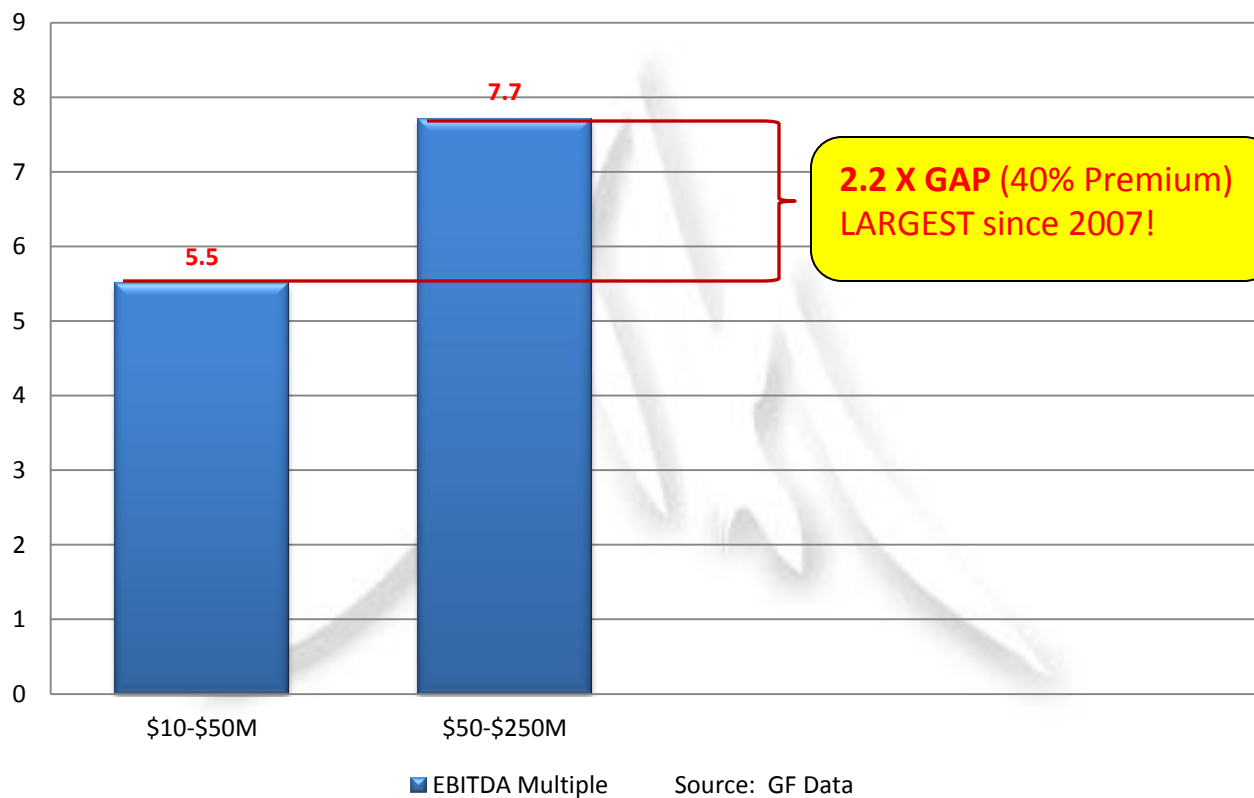
WORK “ON” YOUR BUSINESS – NOT “IN” YOUR BUSINESS!

INTERNAL VALUE DRIVERS



MIDDLE MARKET M&A LANDSCAPE

SIZE Premium GAP by Deal Size (as of Q4 2011)



WHAT FORCES DETERMINE VALUE?

- ❑ **EXTERNAL – things you do NOT control**
 - Market Influences – U.S. and GLOBAL
 - **UNCERTAINTY** – paralyses market
 - Supply & Demand, Taxes, Interest Rates, Inflation, **Demographics**
 - Globalization
 - Technology Advances

WHAT FORCES DETERMINE VALUE?

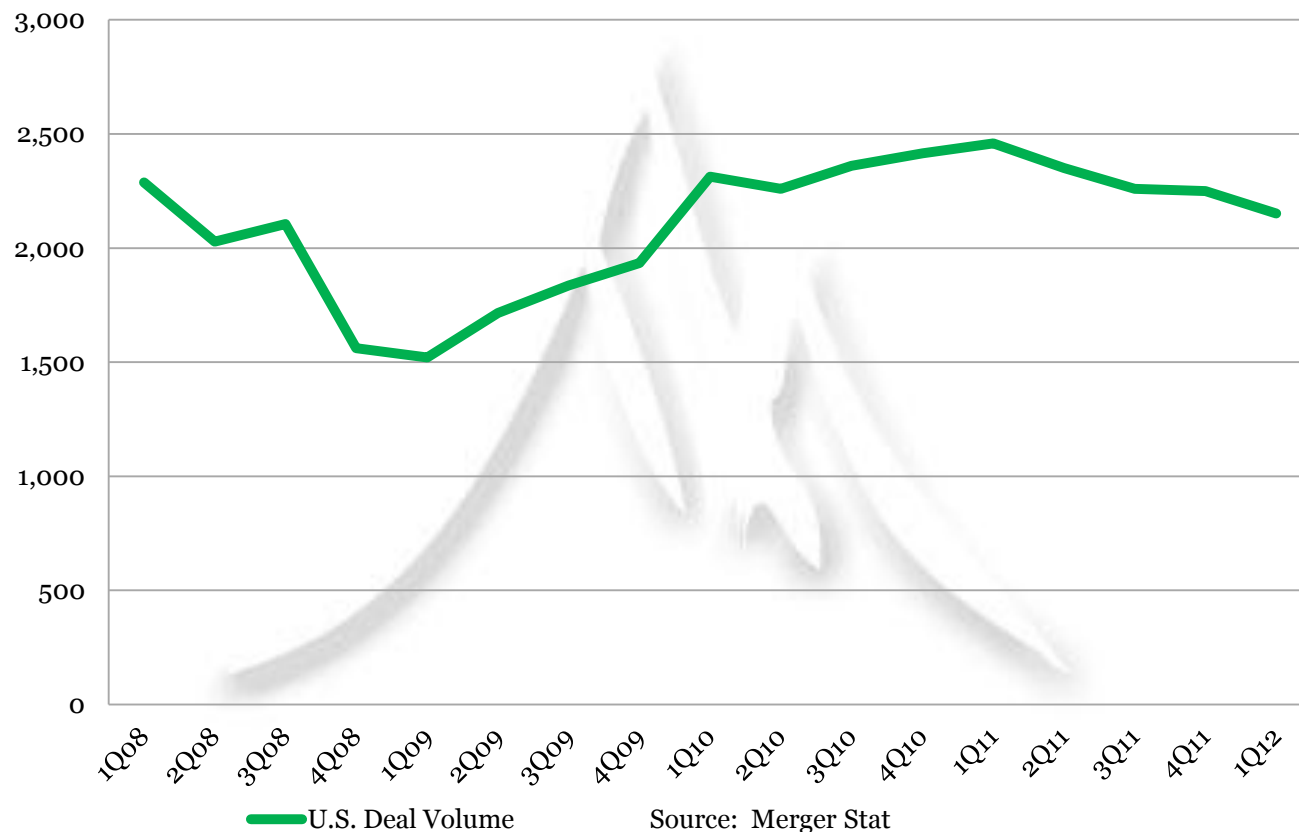
□ EXTERNAL

- WHERE IS M&A MARKET IN 2012?
- FUTURE MARKET INFLUENCERS?

MIDDLE MARKET M&A LANDSCAPE

Deals Less Than \$250 Million in Enterprise Value

U.S. M&A Activity

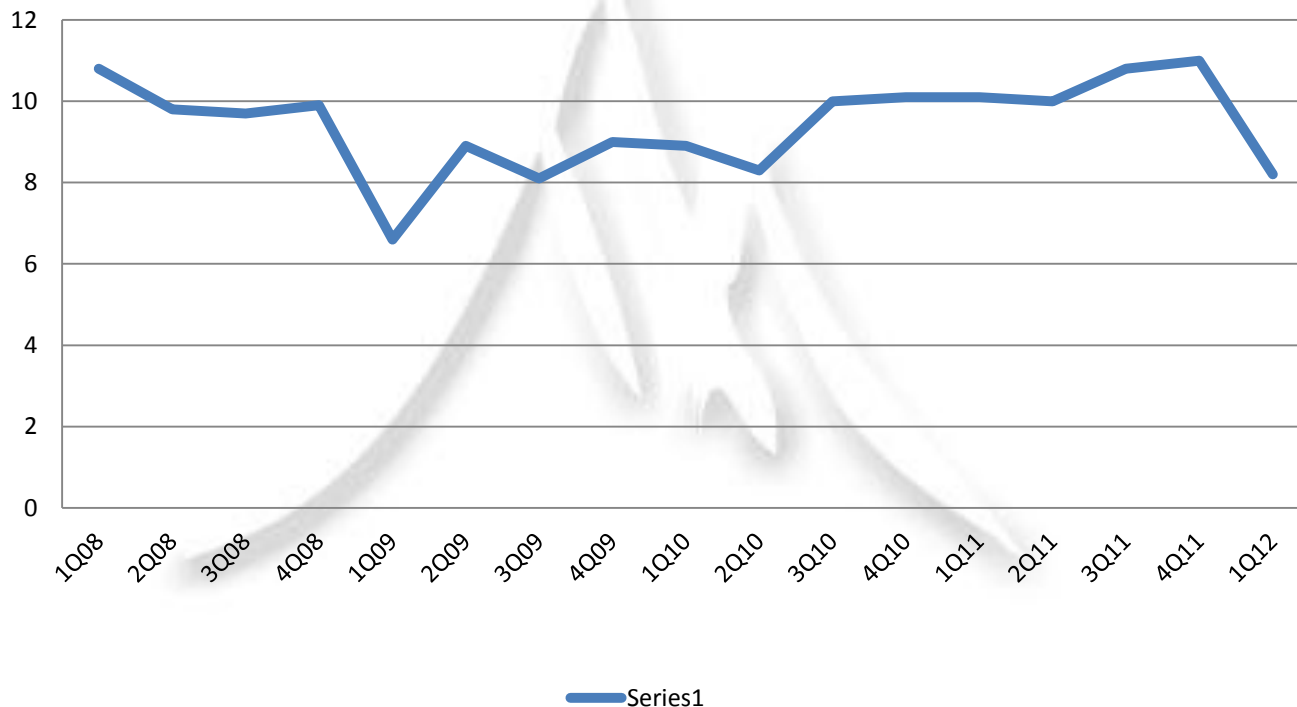


MIDDLE MARKET M&A LANDSCAPE

Deals Less Than \$250 Million in Enterprise Value

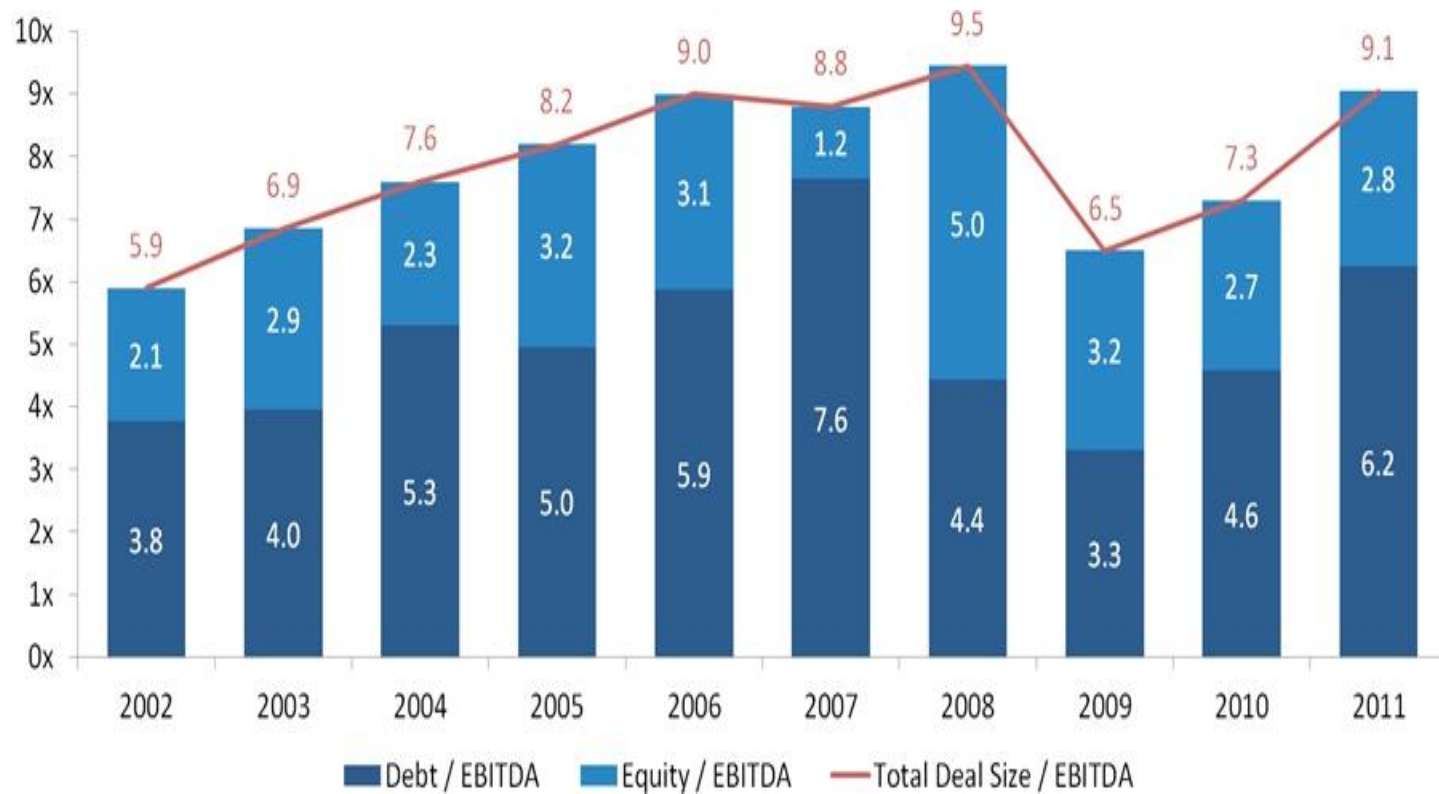
U.S. EBITDA Multiple Trend

Enterprise Value < \$250 MM



MIDDLE MARKET M&A LANDSCAPE

Private Equity Buyout Purchase Price Multiples (Deal Size/EBITDA)



Source: Pitchbook

CURRENT ENVIRONMENT

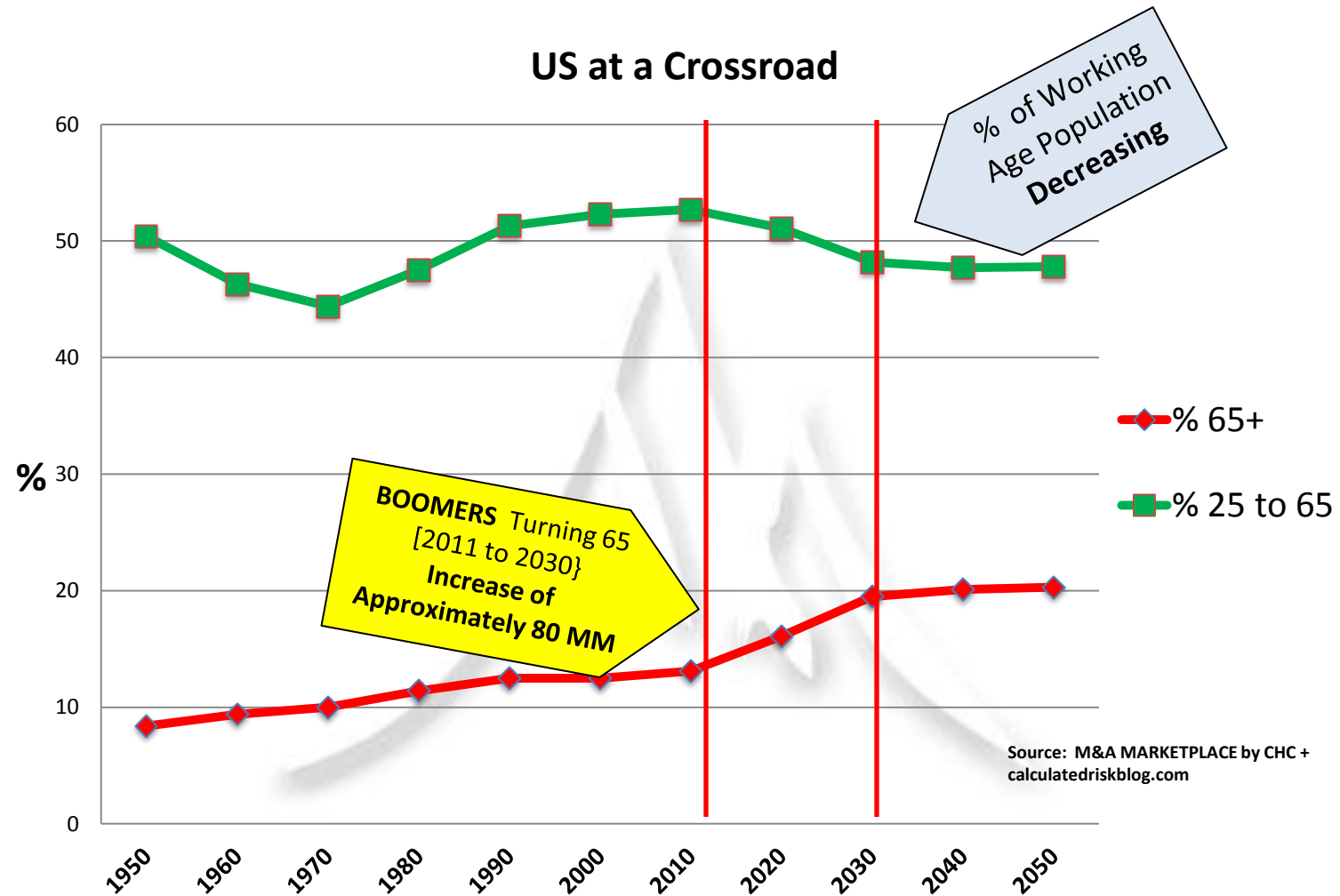
- ❑ **Current M&A process greatly favors Buyers**
 - 9 to 18 Month process – **TIME never a friend to a deal**
 - Greater resources
 - Experienced in Acquiring Companies

- ❑ **Buyers seek a NEGOTIATED transaction - no competition usually means:**
 - **Lower PRICE for Seller**
 - Terms more favorable for Buyer

CURRENT ENVIRONMENT (con't)

- **TIMING – Why NOW may be the BEST Opportunity to Execute a Transaction**
 - **SUPPLY:** Private Equity Funds – at HISTORIC LEVELS
 - \$1 Trillion raised in last BOOM cycle – 2012: \$425 to \$500 BN DRY POWDER
 - Average Life cycle – 10 YRS w/ Average HOLD period - **5 YRS**
 - **Investment Window Closing** - Post 2012, un-invested funds will be increasingly *UN-Available for new transactions!*
 - **DEMAND:** Seller Pool EXPANDING rapidly
 - **12,000+/day** – Rate Boomers are turning 65 since Jan 1, 2011 until 2030
 - 7.6 million Boomer owned Private Businesses, approx 6 million will sell to 3rd parties OR go out-of-business

IMPACT of U.S. Aging Trend



CURRENT ENVIRONMENT (con't)

- **TIMING – Why NOW** (continued)
 - **Favorable TAX Environment through 2012**
 - **STRONG demand for Quality Companies***
 - **Valuations at Pre-Recession Levels for many Industries**

** Assumes NO double Dip Recession*

WHAT FORCES DETERMINE VALUE?

□ EXIT PROCESS –

- Hire the BEST experts in Succession and EXIT Planning
 - EARLY – before a transaction
 - Create a EXIT PLAN
 - EXECUTE PLAN
- TRANSACTION – **MUST create COMPETITIVE TENSION!**
 - My experience shows SELLER leaves 20% to 30+ % of VALUE on the table if they fail to do so.

FUTURE MARKET INFLUENCERS

- ❑ TAX Environment
- ❑ Globalization
- ❑ Technology Advances
- ❑ US and Global Economy

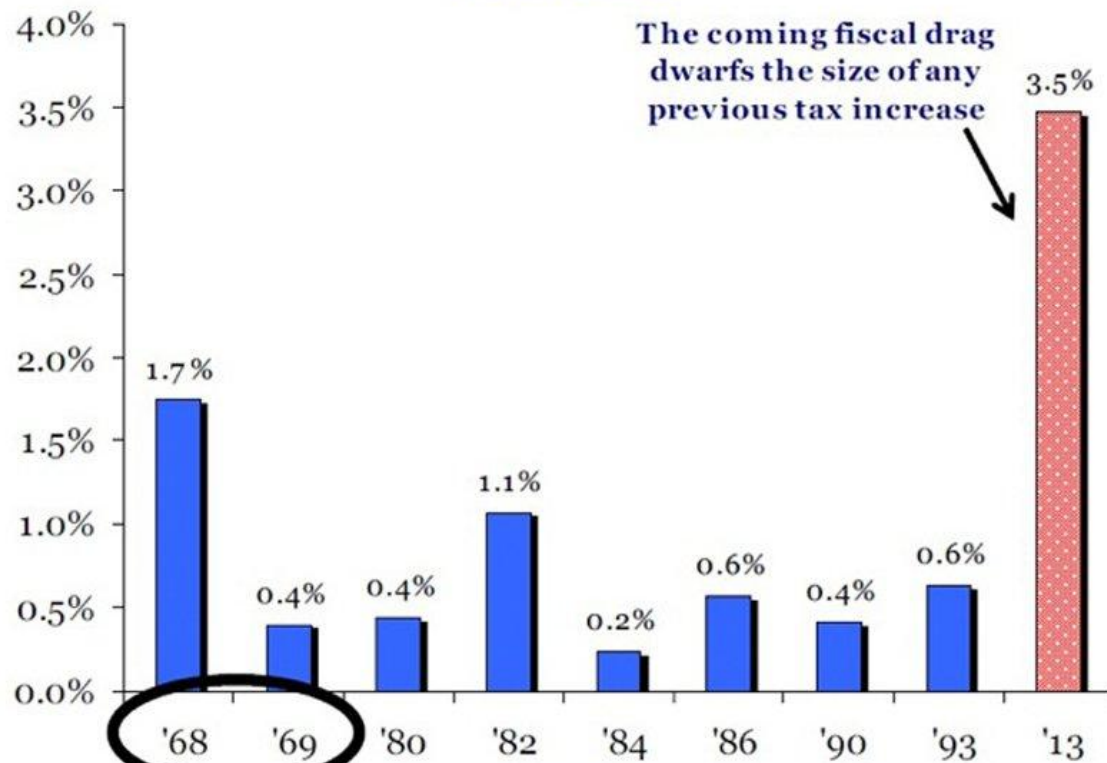
TAXES

MoneyGame



Chart of the Day

Size of Federal Tax Increases, Pct of GDP



Source: Strategas Research

TAXES

SALE OF ABC WIDGET CO.

	2012	2013	Difference
NET SALES PRICE	\$100 MM	\$100 MM	
Cost Basis	\$5 MM	\$5 MM	
Taxable Gain*	\$95 MM	\$95 MM	
TAX	\$14.25 MM	\$22.61 MM	
Tax Rate	15%	23.8%	58.6% INCR
Net AT Proceeds	\$80.75 MM	\$72.39 MM	\$8.36 MM
BT Sales Proceeds to NET 2012 AT Proceeds	\$95 MM	\$105.97 MM	\$10.97 MM 11.5% Increase

*Assumes : ABC has no outstanding debt /no changes to current Tax Code/no state & local taxes included

GLOBALIZATION

❑ I USE TO COMPETE W/
THE COMPANY ACROSS
TOWN

❑ **NOW – My competitors
are from Asia, Europe,
India & South Africa**

➤ ARE YOU PREPARED TO CREATE NEW
PARTNERSHIPS TO COMPETE?

➤ IF NOT – Future value MAY BE DIMINISHED



TECHNOLOGY

❑ **ADOPTION RATE - GROWING
& STARTING EARLIER**

❑ **MOORE'S LAW**

❑ **HOW HAS TECHNOLOGY
CHANGED YOUR INDUSTRY?**



- **ARE YOU PREPARED TO DEDICATE NEEDED RESOURCES TO KEEP UP WITH PEERS?**
- **IF NOT – Future Value WILL BE DIMINISHED**

TECHNOLOGY

MOORE'S LAW



In the early 1970's the co-founder of Intel, **Gordon Moore**, predicted the number of transistors on a chip will double approximately every two years!

Source: Intel CORPORATION

RETAIL COST RAM	<i>Apple I</i> 1976	<i>iMac</i> 2012
<i>kB</i>	\$30	\$0.00005
<i>GB</i>	\$30,000,000	\$50

US & GLOBAL ECONOMY

EFFECT OF AGING POPULATIONS

An average **birth rate of 2.1 for every female** is needed to sustain current populations in industrialized countries. Below this ratio means the country is reproducing at a **Sub-Replacement Fertility rate**.

“..As the labor pools in these nations shrink, and spending on the elderly increases, their economies are likely to slow down.”

Mark Haas, associate political science professor at Duquesne University

SELLERS

CONCERNS OF POTENTIAL SELLERS

- **What is my company REALLY worth?**
 - How do I find the BEST Buyer/Investor?
 - **How ready is my company to be sold?**
- How do I protect sensitive and confidential information from reaching my competitors?
 - **When do I tell my employees, customers and vendors?**
 - How can I better CONTROL my destiny?
- **How will the sales process affect my normal business operations?**

SELLERS

POTENTIAL EXIT OPTIONS

□ NON-MARKET TRANSACTIONS

➤ Transition to FAMILY MEMBER(S)

➤ **Management Buyout**

➤ ESOP

➤ LIQUIDATION

□ **MARKET TRANSACTIONS**

➤ STRATEGIC BUYER

➤ **FINANCIAL BUYER**

➤ IPO

BUYERS

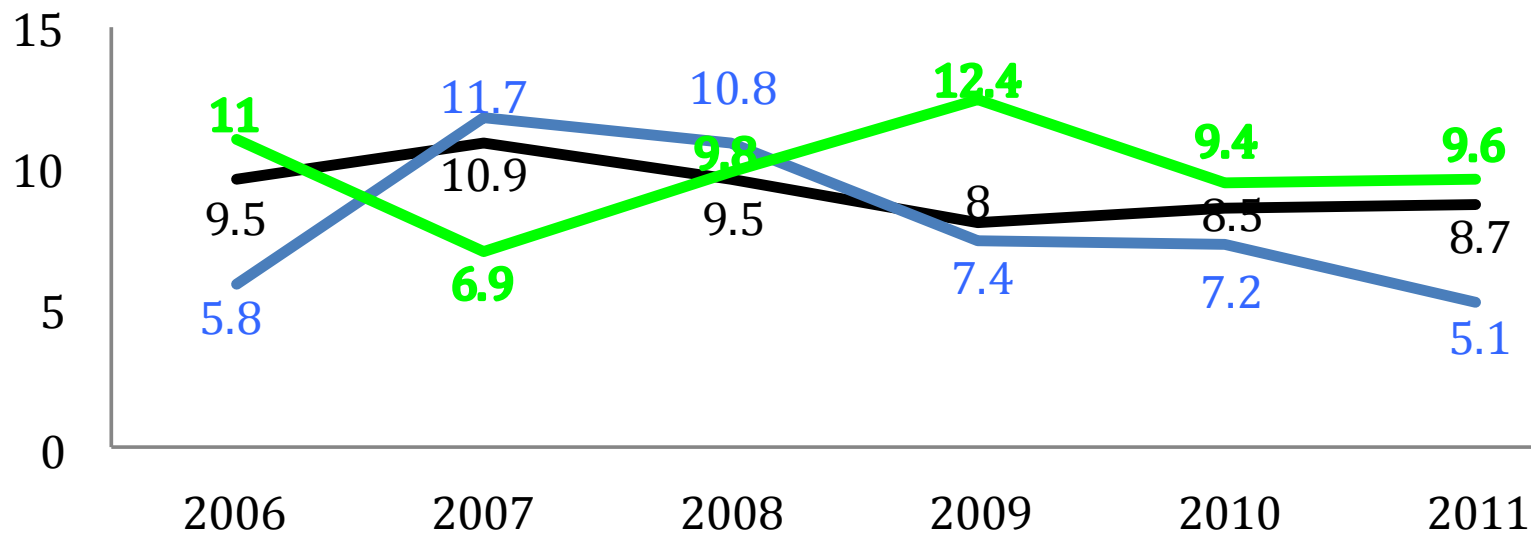
WHY M&A MARKETPLACE by CHCSM CHOOSES FINANCIAL BUYERS

1. Flexible, can move quickly
2. Have Paid HIGEST Price 5 of past 6 yrs!*
3. Usually NEED people and Infrastructure
4. Willing to make NON-Control investments
5. Hungry for deals – Approximately \$500 BN in cash

**Source: Pitchbook Feb 2012*

BUYERS

Pvt Equity Exit EBITDA Multiple (by Type of Exit)



Source: PitchBook

— Corporate

— IPO

— Secondary Buyout

BUYERS

M&A MARKETPLACE by CHCSM BUYER (POOL)

Number of Buyers	30
Total Deals Closed by Buyers	1,896
Number of Industries Represented	74
Buyers that focus on a single industry	7
Buyers that have Closed Acquisitions since September 2008	30
EBITDA Range	\$1MM to \$50MM

<u>Preferred Investment Size*</u>	# Buyers	Control Only	NON Control
>\$100MM	7	2	5
\$50 to \$100MM	12	7	5
<\$50MM	17	8	9

*Total number of buyers by size is greater than 30 because some buyers invest in multiple categories.

Maxi-AUCTIONSM vs. Current Process

Key Value Metrics	Maxi-AUCTION SM	Current Process
Time to Market Validation of "Essential Seller Deal Criteria"	30 days	4-6 months
Confidentiality	Excellent	Fair
Competitive Process	YES	YES
Adversarial Documentation Process	NO	YES
Closing Success Fees paid by	Buyer	Seller
Retainer Due regardless of results	NO	YES
Time to CLOSING	120 days	9-18 months
Disruption to Business	Minimal	High

CONCLUSION

❑ **HEDGE YOUR BET –**

- PARTNER with a Strong Financial Investor/Buyer in 2012 & Take Some Chips off the Table (keeping management control) w/ Second Payday in 3 – 7 Years
- DEVELOP a personal **EXIT PLAN**

NOT READY

❑ **HIRE an Adviser Team – MAKE a PLAN**

THANK YOU

IF INTERESTED IN LEARNING MORE ABOUT THE
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