

ASK US

Many readers of *M&A Review* have written in with specific questions. Here are answers to recent ones.

Q: What is the difference between strategic and financial buyers?

A: A traditional strategic buyer is a company engaged in the same or similar business as you are, where synergies can be found. A financial buyer is most often a private equity group (PEG) or a high net worth individual looking



to invest at the lowest entry price with hopes of selling at a higher exit price. The largest difference between financial buyers and strategic ones is in their approach to acquisitions. Strategic buyers tend to buy a company for longer-term growth and expansion purposes, whereas a financial buyer hopes to buy a company, help increase the value, and then sell it in 3 to 5 years.

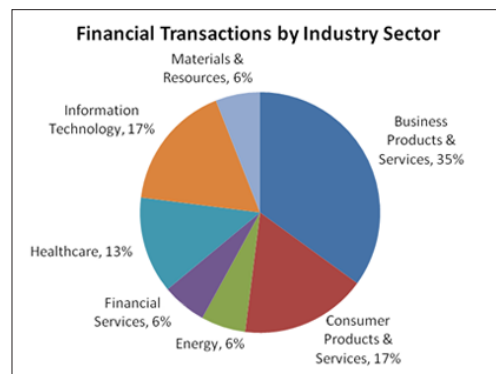
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M&A Activity Continues to Accelerate

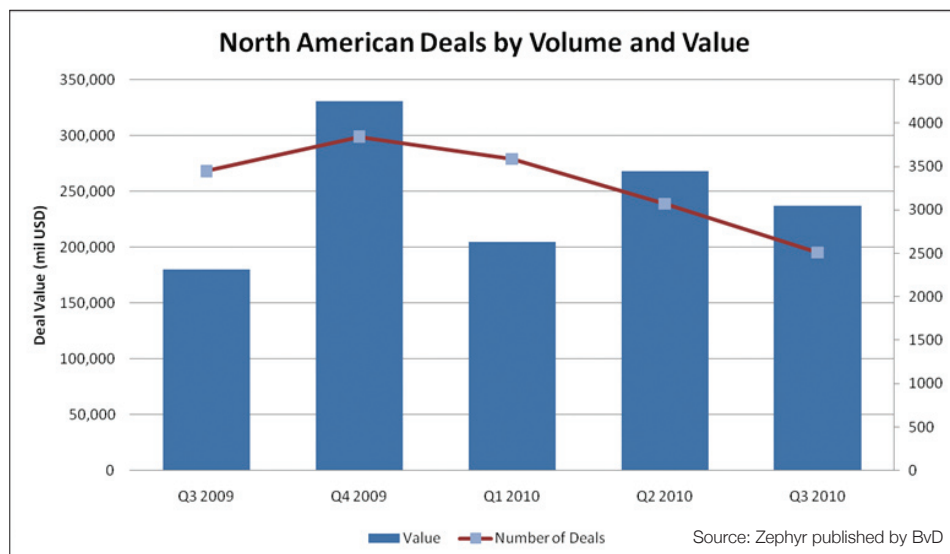
The M&A market continued to surge ahead through the 3rd quarter. According to Thomson Reuters' data, global deal making is up 21%. The 3rd quarter of 2010, when M&A activity totaled nearly \$600 billion worldwide, was the strongest quarter for M&A since the 3rd quarter of 2008. This marked the third consecutive quarter of growth, up 25.6% year over year and up 6.8% from the 2nd quarter of 2010.

There are several factors contributing to this increase, but key amongst them are private equity groups eager to put their cash reserves to work, combined with a number of firms looking to exit portfolio investments, which they have been forced to sit on during the recession. Within the increase in private equity M&A activity this year, a large number of secondary buyouts are taking place. With the number of strategic acquirers still relatively low, these firms have found themselves transferring investments amongst themselves.

In terms of regions, the U.S. market continues to lead. U.S. M&A activity has reached nearly \$600 billion in the year to date, up 13.7% from the first nine months of 2009, with the United States accounting for 34% of total global activity.



Source: Pitchbook, 3rd Quarter 2010



Source: Zephyr published by BvD

ASK US

Q: Does customer concentration have an impact on my business value?

A: Yes it does, especially in small- to mid-sized businesses. Any customer who contributes 20% or more to revenues would cause concern with most potential buyers. Buyer due diligence would determine if the concentration could be diffused, how easy it would be for the customer to change to a



competitor's products/services, or if there is a personal relationship between the current business owner and the customer that might impact retention. The concern could result in loss of interest, reduced purchase price, or a contingent price adjustment should a customer be lost post closing.

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For more information on these topics or to submit a question to our panel of experts, please send an email to info@corecapital.net with "M&A Review Question" in the subject line. We'd like to hear from you!

Primary Factors to Increase the Enterprise Value of Your Company Growth and Positioning for an Exit

The simple fact is most owners of middle-sized businesses don't understand the key drivers that increase enterprise value (EV) and are too busy with day-to-day operations to focus on the factors that lead to increasing the EV of their company. EV is the company's stock or asset value, and ensuring maximum appreciation of it will make a significant difference when it's time to exit. Such exit/liquidity events can include:

- **An owner's exit** from the company through its sale, or transition to a family member
- **Divestiture** of a non-essential or sub-performing division of the organization
- **Sale or licensing** of intellectual property (IP)
- **Executing** a game-changing acquisition of a competitor
- **Obtaining fresh capital** to fund corporate growth

Professional business investors such as Private Equity firms focus on managing businesses to ensure maximum appreciation of the company's EV. How the business is capitalized, financed, managed and grown along the way determines the business's desirability and Enterprise Value at exit. Typically a company's EV is the single most important factor in the "Return on Investment" calculations for Equity Fund investors.

There are four primary factors that will ensure the best possible result from an exit event:

First, it's necessary to determine the needs and goals for the owner and the company for an exit. Details such as preferred exit timeframes, retention of key employees, key financial ratios and improving accounting practices are examined.

Second, an operational audit and assessment of the exit options. This determines the best route to meet the needs and goals noted in the first step.

Third is a detailed plan that is specific and measurable, including methods to increase the company's value at exit.

Finally, the plan is executed over a period of 6-18 months, with the company's performance being monitored against the detailed plan and adjustments made as necessary.

As most owners of mid-sized businesses are busy managing their companies or perhaps are unaware of the methods necessary to increase their company's EV, Core Capital Group can help prepare your company well in advance of a liquidity event which often leads to a much more successful monetary result.

