

Buy, Sell or Hold: Considerations

■ Buy

- Expand product lines or geographical markets
- Obtain better growth opportunities
- Enhance profitability and cash flow through revenue enhancement or cost reduction
- Enhance competitive strengths or reduce weaknesses
- Acquire technology or capacity faster than organic growth
- Prevent competitors from entering your market
- Better use of surplus capital, capacity and management
- Diversification to minimize risk, expand market share

Integration Capabilities and Planning are critical

Buy, Sell or Hold: Considerations

■ Sell

- Personal reasons and desire to leave due to age, poor health, philanthropic interests, burnout, etc.
- Owner's need for estate planning
- Lack of a successor, children not interested in the business, loss of key executives
- Conflicts between key shareholders
- Need for additional capital for growth financing and unable to obtain it
- Weak or declining performance or growing financial difficulties
- Strategic disadvantages and changing market/industry dynamics that are difficult to conquer as a stand alone business
- Market environment that support strong sale prices
- Full or Partial Sale

Understand the "Why?"

Buy, Sell or Hold: Considerations

■ Hold

- Strong technology/intellectual property in a growing market
- Potential for a substantial upside
- Opportunities for growth and product expansion
- Strong executive and technical talent
- High barriers to entry
- First movers advantage
- Strong cash generating business model
- Acquisition not necessary to grow, focus is key
- Timing

If you are confident in core capability and market

When to grow, when to go

- It's time to go when the market for your product or service is hot AND your company has achieved an enduring client base, recurring revenues and is cash flow positive. Some symptoms include:
 - Multiple offers from strategic acquirers or competitors
 - Industry attention / unsolicited press
 - Unusually large accounts
 - Excess cash / numerous acquisition opportunities
- Otherwise
 - Ensure your profitability
 - Ensure continued top line growth
 - Ensure planned operations with few surprises
 - Set and meet quarterly milestones and stretch goals
 - Use accurate and realistic metrics

Set a schedule to re-evaluate every 1-2 quarters

Finding the “right” buyer

- Individual Buyer
- Strategic Acquirer
- Financial Acquirer
- Management (MBO)
- Employees (ESOP)
- Family
- The Public → IPO

Industry, owner, company and market dependent...

Getting ready for Sale

- Prepare for due diligence
- Think like a buyer
- Assess operations, technology, finances, organization and staff, contracts, books and records, customers, markets, competitors
- Include other advisors such as Tax, corporate attorney, IP attorney, financial advisor
- Get a professional valuation of your business
- Be clear on goals and expectation
- Be realistic about your goals within current economic and market environment
- Be clear on timing and process, demand clear path from your advisors
- Evaluate and model multiple options and outcomes
- Have a realistic understanding of the value of your company and the impact on value from transaction and buyer type

Clear expectations and Goals..

Selling your Company - Process



Growth through acquisitions

- **Today, acquisitions are a “favorite” corporate strategy**
 - Immediate impact on top/bottom line
 - Counter takeover attempts
 - Stimulate growth in new or existing markets
 - Accelerate time to market
 - Forestall the competition
 - Gain talent, brand and domain expertise
 - Expand product and technology or fill in gaps
 - Tap into emerging markets quickly
 - Expand internationally with local presence and local knowledge
 - Gain access to innovation
 - Raise barriers to entry a market where company is strong or dominates

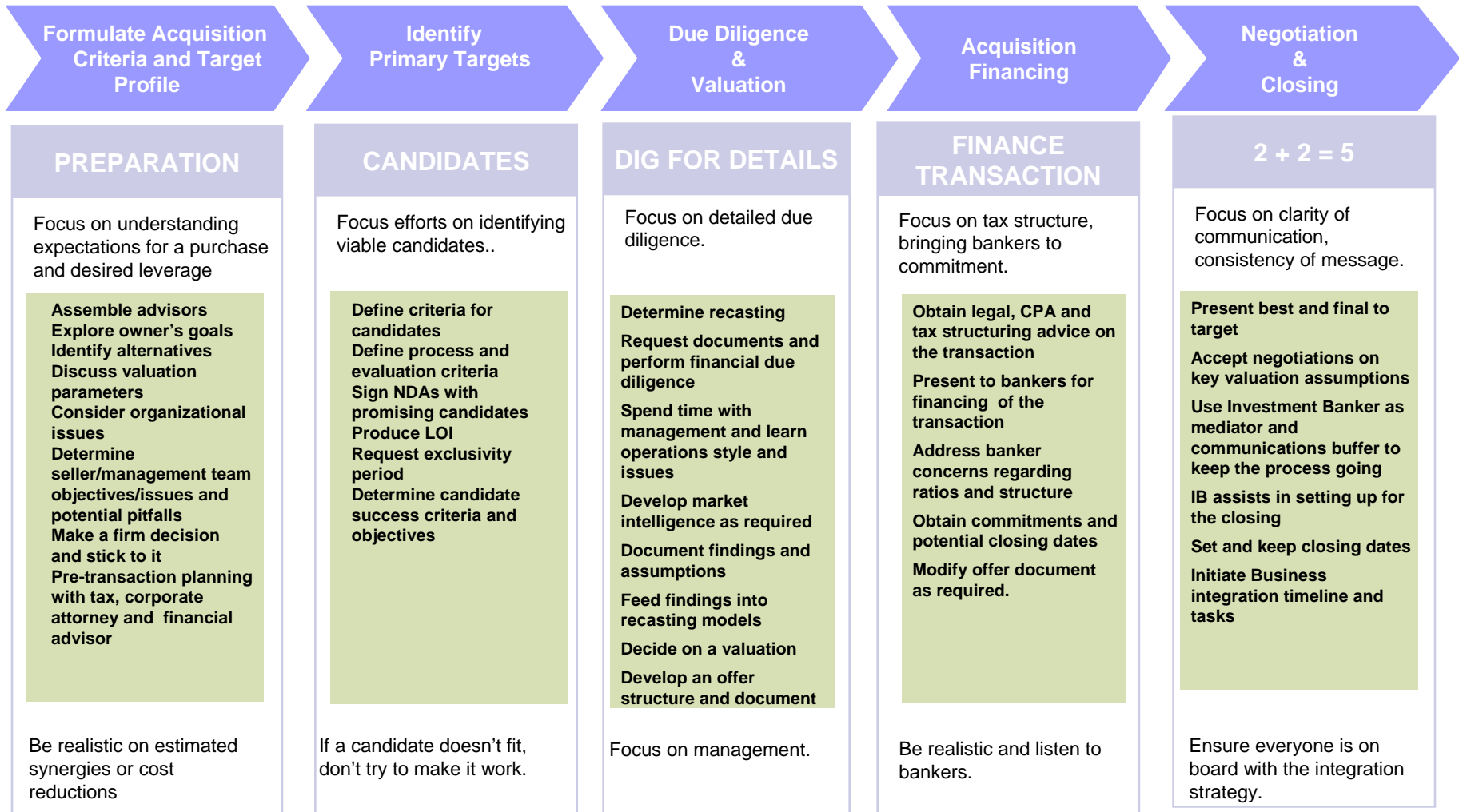
Understand value to be added...

Finding the “right” seller

- Opportunity to acquire complementary technology or expand markets, products, services
- Company owners are ready to retire
- Management team lacks capabilities to take company to next stage
- Avoid complexity in shareholders, IP, contracts, lien holders
- Avoid past history of liabilities, poor documentation
- Buyers want acquisitions with sufficient headroom for recasting earnings and revenue opportunities
- Price may be an issue in this market, show flexibility and creativity in structuring the transaction
- Understand sellers motivation
- Use professional valuers
- Use reasonable/conservative recasting models

Think like the Seller...

Buying a Company - Process



Why Mergers & Acquisitions Fail

- Price paid is too high
- Make-it happen from executive level
- Exaggerated synergies
- Lack of understanding of “soft” factors: people, compensation alignment, corporate culture
- Distraction from the business
- Inadequate due diligence
- Inadequate financial, operational, organizational and technical risk analyses
- Failure to integrate operations quickly
- Failure to adequately consider impact on customer
- Failure to plan for and remediate first year disruptions

Run integration like a mission critical project