



About Crowe Capital

Crowe Capital Markets LLC is an investment bank serving as financial advisors to businesses and corporate divisions with transactions in the \$10 to \$500 million range. With expertise in a broad range of industries and a group of talented, dedicated professionals, Crowe Capital Markets is highly qualified to initiate, market, negotiate and facilitate a successful transaction.

Contact one of our specialists at 312.899.7300.

The M&A Decision: Preparing for a Successful Transaction

In pondering an M&A or financing transaction, whether for a private company or a corporate division, you may wonder what you need to do to achieve your objectives. The diligent owner does not ask, “What does it take?” Rather, the central question and the most important issue for you to consider – is: “What steps need to be taken?” in order to prepare your business for a successful transaction. No matter how large or small the deal, the constant thread in any successful capital markets transaction is proper preparation and careful execution. An owner who is contemplating the sale of his or her company or who is evaluating a capital transaction to raise debt or equity in the private capital markets must thoroughly prepare for the transaction. Eight key concepts are described on the following pages.

1. Do Your Homework

Before pursuing any type of merger, acquisition, or financing transaction, the imperative first step is to ensure that you understand the valuation and structural issues that will present themselves in the context of the capital markets. At a minimum, you should complete a fundamental business review of your enterprise’s competitive advantages and growth strategy in order to frame the potential cash flows and investment returns that could be available to buyers or investors. Identify any significant nonrecurring

expenses, accounting issues, or economic addbacks that may be necessary to clarify pro forma results of operations. In addition, review the benefits of, or the barriers to, structuring a transaction in either the form of a stock or asset purchase or a merger, and be sure to understand the resulting financial impact, tax issues and legal consequences. Too often, business owners do not clearly comprehend the issues being negotiated. Consequently, they place themselves at a significant disadvantage when selling directly to another business or financial sponsor who may have a better command of deal structuring. Therefore, it is important that you take the time to thoroughly understand the issues that will be negotiated before the process begins.

2. Is Now the Right Time?

The simplest way to assess timing is to review your personal objectives, analyze current market conditions, and determine the probability of achieving a reasonable valuation for your business. Use the framework below to evaluate crucial issues of timing in the current marketplace.

Determining the answers to these questions is by no means an easy task. Often, you will uncover conflicting results. For example, you may wish to exit the business today, but an objective assessment may show that the business has not

| Topic | Questions to Consider |
|-------------------|---|
| Objectives | <ul style="list-style-type: none"> ■ Are you pursuing a retirement strategy? If so, how does the sale of your business fit in with these plans? ■ Do you have a management succession strategy in place and are the appropriate individuals prepared for their roles? ■ Have you fully planned for the tax ramifications of a transaction? ■ Do you seek to exit the entire business, or is your primary objective to achieve some liquidity and diversification of wealth? |
| Market Conditions | <ul style="list-style-type: none"> ■ What is the general state of the economy and of your industry? ■ How are the M&A and credit markets performing? ■ How is the stock market performing? ■ What is the market’s view on interest rates? ■ Is your business’s performance steady and consistent, or is it fluid and volatile? Are you personally forecasting better or worse operating results in the near- to mid-term? |
| Valuation | <ul style="list-style-type: none"> ■ At what valuation level are you a buyer or a seller? ■ Are your valuation expectations reasonable? ■ Even if you achieve your desired valuation level, are you really prepared to sell? |



yet reached a level of valuation that will allow you to achieve your expectations. In contrast, while you may not be psychologically ready to sell your business today, the M&A market may be “hot” in your sector and a change-of-control transaction could provide you with premium value and liquidity. When market conditions are right for accomplishing your valuation needs, make sure you have adequately planned for the transaction, so you can execute promptly and in a way that will optimize your outcome.

3. Develop a Succession Plan

One of the first questions that either a strategic or a financial buyer will ask is, “After the transaction, who will run the business?” The development of a viable succession plan is key to the preservation of enterprise value for private business owners. Business owners often find themselves too busy operating the business to plan effective exit strategies. This phenomenon can be especially pervasive among lower middle-market companies in which owners tend to wear multiple hats and typically maintain much of the decision-making authority. Be sure that you have a clear solutions-focused answer to the succession question, or face the distinct possibility of losing considerable value for your business. Buyers value top management. In real estate, the dictum is “location, location, location.” In the M&A arena, it is often “management, management, management.” A good succession plan may require a business owner to think three to five years out, because finding a replacement to run your business as efficiently as you have may require years of training. It also may require providing incentive compensation to key members of management to stay with the business during the transaction and to make every effort to assist with the process. If exiting the business is a priority and you have not yet identified a successor, begin the planning process today. Delivering a strong management team at closing is often a critical component of a successful M&A transaction.

4. Have Your Financial Statements Audited

Today’s buyers are more meticulous than ever before in their scrutiny of a company’s financial statements. Some financial sponsors and lenders will not even consider an investment opportunity if the target company’s financial statements have not been audited. A comprehensive and reliable audit is much more than a necessary matter of compliance. It is a critical investment that will increase the probability of a successful transaction.

5. Make Your Business Easy to Understand

Potential investors who are presented with an unduly complicated enterprise picture may well be challenged to comprehend the business and, consequently, may find it difficult to offer premium value. If your business includes many diverse characteristics, make sure you fully understand its value proposition and its core strengths. Demonstrate the positive value of your organization to prospective buyers by keeping your presentation straightforward and easy to understand.

6. Prepare Yourself for Buyer Due Diligence

It is never premature for business owners to ready themselves and their organizations for buyer due diligence. Absent methodical comprehensive preparation, buyer due diligence can be an unnecessarily painful process. Put yourself in the buyer’s shoes - ask the intrusive questions you know may be difficult to answer. For example, both the owner and management team should clearly understand and be able to explain why enterprise performance may have been down during a period when the market as a whole displayed strong results. Be sure that your team has a collective strategy on how to defend the business against possible future downturns. Convey your plans for capturing additional sales volume and market share in the future, and be able to persuasively demonstrate how you believe the strategy will result in stronger company profits.

If your organization has an obvious weakness or faces an explicit threat, it is important that you understand the nature of the challenge and how you plan to address it. Buyers always seem to expose the “trouble spots” in any business, and you should anticipate that yours will be no exception. You know your business better than anyone; leverage that advantage by thoroughly exploring areas of potential or perceived weakness and discussing them with your management team. Business owners and management teams that are prepared for the due diligence process are in a stronger position to move the transaction quickly and smoothly and to minimize any disruption to the business during the sale process.

7. Run the Business

Remember, it is still your business. The transaction process can be a difficult journey. Business owners should prepare themselves mentally for the challenge; they should not permit the process to deflect them from managing the operation. Take care of customers, maintain solid relationships with employees, and stay focused on the central goal of optimizing enterprise performance.

8. Recognize the Importance of Legal and Financial Expertise

As you begin to contemplate a capital transaction, ensure that your side of the transaction can deliver the requisite expertise to maximize your outcome. A myriad of financial, tax and transactional issues will present themselves during the process. Prepare by building a trustworthy and capable advisory team characterized by a collective ability to identify the options that best support your goals. A team-building effort of this nature will help guide your company smoothly through the transaction and may prove vital in assisting you to achieve your personal and financial objectives. Explain your aims and coordinate your team’s efforts from the start, so that everyone involved is effectively focused on the process throughout its course. By doing so, you will significantly enhance the likelihood of a successful transaction.