The McLean Group
INVESTMENT BANKING

M&A Market Update©

Your source for information about today's mergers & acquisitions market August 2008

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The McLean Group is a national, middle market investment bank serving businesses generating up to $500 million in annual revenues. For more information, visit www.mcleanllc.com.

Feature Article:

Is This a Good Time to Make Acquisitions?

By Scott T. Wait, CPA

Economic uncertainty may be a prime time to consider acquisitions for companies in various industries. Making purchases in uncertain times can be a great opportunity to gain market share and grow your company.

As recently reported, legendary investor Warren Buffett actively is seeking European acquisitions due to the abundant buying opportunities of private companies at bargain prices. Recent reports indicate that the average sales price to earnings ratio (P/E) for S&P 500 public companies slightly exceeds 13 times earnings. On average, private middle market companies with revenues ranging from $10 million to $100 million have equivalent P/Es that range from four to eight times earnings. It makes sense that the Oracle of Omaha is on a shopping spree for private companies now.

Many CEOs and directors think defensively during economic downturns. In some industries, this point of view could be a major mistake for a company's long-term health. Strategically, this could be a great time to improve your company's financial well being and improve your business' market share for several reasons:

1. Healthy, profitable companies may be experiencing low cash flow and owners may have interest in joint ventures or outright sales to alleviate the problem. [One clue is a detailed analysis of their inventory and accounts payables, which may indicate that the target company's bottom line could be much stronger leveraging the purchasing power of a larger company].

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Expert Tips:
Ten Steps to Consider Before Selling Your Business

By Kenneth Baily, JD, CPA, CBV, CVA

To maximize family wealth from both an income tax and business sales price, there are many proactive considerations.

First discuss with your investment banker whether to have an estate / asset protection plan in place prior to the time that you contemplate selling your business. You also should employ the services of an investment banker who works in a multi-disciplinary environment and understands the skills required of each team member.

Failure to consider the chronological aspects of success planning may result in a significant loss of family wealth when you attempt to transfer part of your realized wealth to family members, or when the proceeds obtained from the liquidity event are permanently included in your estate without protection from creditors. To ensure an orderly and comprehensive process, consider the following ten steps that have been subdivided into three phases: Assessment, Planning and Implementation.

I. Assessment Phase

1. Determine your financial philosophy and goals. These may be based upon emotional, social and / or spiritual beliefs. Your trusted advisor should assist you in deciding how to distribute your estate among family members, charities and employees. Alternatively, you may wish to create a family legacy by establishing a multi-generational trust or family foundation.
2. Determine the amount of annual income your family needs for your retirement based upon your lifestyle goals.
3. Gather your legal and financial information to fully understand your current legal and financial status.
4. Determine whether or not your estate's estimated future value is sufficient to sustain your desired retirement lifestyle. If it indeed is sufficient, the planning process should begin taking into account when you should sell your business. If it is not sufficient, reevaluate your desired retirement lifestyle or consider hiring professionals to help you modify your business strategies to increase entity profits and the resulting entity value.

II. Planning Phase

5. Establish a multidisciplinary team consisting of an attorney, CPA, wealth management advisor, financial planner, valuation expert and an investment banking advisor. All team members should consider the coordinating guidance of a comprehensive wealth counselor.
6. Design a comprehensive, integrated and appropriate estate and asset protection plan based upon information gathered in steps 1 through 5.

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Trends To Act On:
M&A Market Rebounds

By Mitali Munshi

Recently, the mergers and acquisitions (M&A) market as a whole has shown signs of recovery. The aggregate base equity value of US agreements and takeovers posted its best showing since July 2007, reaching approximately $113 billion in June 2008. Public strategic buyers also posted increased aggregate base equity on deals, attaining an estimated $41 billion which also was the best showing since July 2007. The average premium continued to increase, hitting 45.2 percent, the highest premium achieved since 3Q 2006.

The average premium in middle market M&A grew to 50.3 percent during 2Q 2008. This, too, was the highest average premium realized since 3Q 2006. Meanwhile, middle market M&A transactions' average EBITDA increased slightly – to 10.0x – versus 1Q 2008. Investment bank Piper Jaffray has reported that while middle market M&A may weaken slightly in coming months, it is likely to outperform versus higher-end M&A transactions that continue to remain vulnerable given overall market conditions. Where middle market M&A transactions are concerned, the private equity deal cycle and diversified markets likely will protect against any significant declines. ◆

Exit Planning:
Looking at Your Business as a Potential Franchise

By Enrique Brito, CFA, AVA, CM&A

For entrepreneurs, the process of evaluating a business model as a potential franchise opportunity has a significant unintended consequence. It forces them to critically evaluate the soundness of their operating and distribution systems as well as their branding strategies.

Working on a business as though it were to be franchised can provide important advantages. First, there is the need to create systems around marketing, operations and distribution — three key business functions that correlate closely with business success. Next, these practices must be documented to institutionalize the customer experience. In addition, there is the need to continuously focus on brand building to position and differentiate the business' products and services. Ultimately, this process improves the consistency in the business operations, which in turn builds customer loyalty and business value.

In reality, expanding a business through a franchise strategy comes with many inherent challenges such as maintaining the integrity of the brand, providing continuing support for franchisees and finding the right people who will enhance the business concept. However, just the process of preparing for the future implantation of such strategy, in terms of evaluating and documenting your operating, marketing and distributions systems, will position your business for solid growth no matter what path you end up choosing.

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III. Implementation Phase

7. Draft and execute the requisite legal documents creating any necessary trusts and/or new entities used to transfer portions of your entity ownership interests to the appropriate trusts or individuals.
8. Begin the process of preparing your business for sale. This includes obtaining a preliminary business valuation and an industry analysis, and identifying significant value drivers and management team members.
9. Implement a customized business value enhancement program based on your retirement goals. Consider such factors as your industry, management philosophy and horizontal and/or vertical growth strategies.
10. Implement entity income tax savings strategies that are consistent with your exit strategy and retirement timeline goals. ◆

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2. Companies that require minor changes in capital structure or reorganization can provide great "turn around" opportunities. Financially stronger companies often can obtain cheaper debt or equity capital given their more stable balance sheets – cash to debt ratios and liquidity measures are more stable for these companies.

3. Companies also may recognize an opportunity to combine with strategically similar businesses to prepare for the next economic boom cycle (i.e. a large supplier or customer of the target company).

4. Foreign wealth funds are looking for companies in cross-border mergers and acquisitions (M&A) to increase US market presence. Although the US dollar has strengthened in recent weeks, it is still relatively low compared to other major currencies (i.e. euro, British pound and yen). This creates buying opportunities for various foreign strategic, financial and individual buyers.

Economic uncertainty can provide a silver lining for long-term strategic decisions, especially with competitors that may have made poor decisions during the past boom cycle. Well-run companies are taking action through acquisitions, and, in some cases, creatively selling segments of their businesses. ◆

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About The McLean Group

The McLean Group is a national, middle market investment bank providing mergers & acquisitions (M&A), capital formation, market intelligence, business valuation, litigation support and exit planning services. The McLean Group serves businesses generating up to $500 million in annual revenues. Headquartered in Washington, DC's technology, communications and government contracting corridor, the firm is among the largest independent middle market investment banks in the region. The McLean Group is a FINRA Registered Broker/Dealer and Member FINRA/SIPC.

- **M&A:** The McLean Group uses its considerable expertise in a wide variety of industries to identify the most probable and suitable candidates to complete transactions under the most favorable terms for its clients.
- **Capital Formation:** The McLean Group arranges private equity, venture capital, senior debt and subordinated debt in amounts ranging from $5 million to $250 million to support clients' expansion, mergers & acquisitions (M&A), refinancing, recapitalization, leveraged buyout and shareholder liquidity objectives.
- **Market Intelligence:** By leveraging superior competitive analyses, we provide business executives with comprehensive market intelligence reports, which give the market insight and analytical expertise required to reduce risk and uncertainty in strategic decision making.
- **Business Valuation:** As a core competency and complement to its M&A business, The McLean Group provides business valuation services, including intangible asset and financial security valuations for a variety of transactions, financial reporting and tax purposes.
- **Litigation Support:** From quantifying economic damages to valuing a minority interest in a business, the firm has the business valuation experience and credentials to support cases involving a variety of legal issues.
- **Exit Planning Services:** Based on its extensive experience advising owners of middle market businesses, The McLean Group has developed a proprietary process that analyzes more than 60 value/risk drivers that can have a significant impact on the value of a business.

The McLean Group
Investment Bankers to the Middle Market