

M&A Market Update[®]

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Inside This Issue

Feature Article:
*Understanding
Financial &
Non-Financial
Relationships to Better
Manage Your Business*

Expert Tips:
*Letters of Intent:
What To Watch For*

Trends To Act On:
Recent M&A Activity

Exit Planning:
*How Buy-Sell
Agreements Can Help*

About Us

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:

Understanding Financial & Non-Financial Relationships to Better Manage Your Business

By Brian Sullivan, CPA/ABV

Understanding how any business operates requires more than just performing a thorough financial analysis; it requires a solid understanding of the industry in which it operates. It also requires an ability to identify, manage, and measure key financial and non-financial trends and relationships. This article will briefly outline some basic techniques good managers use to maximize their performance and improve overall efficiency.

Most financial software makes it relatively easy to prepare a basic financial ratio analysis. Financial managers, bankers and accountants typically use financial ratios to measure liquidity, profitability, cash flow and leverage. But common financial ratios only scratch the surface in providing the tools needed to measure key industry and specific company trends. Understanding unique drivers in a particular industry and how they relate to individual businesses' performance and profitability gives management and potential investors insight into the opportunities and threats facing a business opportunity.

Continued on p. 3

Expert Tips:

Letters of Intent: What To Watch For

By Dennis Roberts, Chairman

Letters of Intent (LOI), although not legally binding for the most part, are critical to the successful completion of a merger & acquisition (M&A). Since LOIs tend to drive the deal, they may be considered the most important document in a deal. LOIs – drafted by the buyer – outline proposed deal terms. They assure the seller that the buyer is serious about completing a transaction; initial LOIs provide a solid foundation to begin negotiations and allow both parties to establish a “meeting of the minds” where key transaction issues are concerned.

Even though LOIs’ major elements vary from deal to deal, most include several standard features: a description of what is being purchased (stock or assets), an offering price, detailed terms of payment, assumed liabilities, exclusivity (“no shop”) periods, and continued confidentiality provisions. Such provisions as the exclusivity period and confidentiality are binding.

The biggest problem with LOIs is that they are often incomplete, serving as mere invitations to future negotiations about specific deal terms, yet not all deal terms need to be addressed. Understanding the difference is critical; hence, expert advice from an experienced investment banker is highly recommended. ♦



"Understanding Financial & Non-Financial..." continued from p. 1

Most canned financial analysis software does not provide a industry specific benchmark analysis. For example, to determine the impact of activity and price changes, trucking and transportation companies often measure revenue growth to volume growth (i.e., revenue ton per mile, the volume of shipment weight times distance traveled). Other observable relationships measure revenue to the number of trucks and/or carloads as an indication of productivity trends. Volume growth can impair profitability if related costs are too high, while revenues generated by rapid price increases could signal a deterioration of customer base that will ultimately lead to a reduction in profitability.

A similar analysis can be found in the restaurant business, where table turns and average bill per table attempt to measure revenue, profitability and volume trends. Canned financial analysis software often falls short in evaluating these unique relationships, requiring today's business managers to think creatively to identify those unique and inter-related activities in order to measure performance and profitability.

Questions about this topic? Contact Brian Sullivan at (650) 548-1120 or call The McLean Group at (703) 827-0200. ♦

Trends To Act On: *Recent M&A Activity*

By Mitali Munshi



Despite the effects of the credit crunch and weak economic conditions, the US M&A capital markets continued to produce large deals during the second quarter of 2008, including Hewlett Packard's agreement to acquire Electronic Data Systems Corp for \$12.6 billion in cash. For May 2008, announced and proposed M&A transactions generated a total value of \$56.9 billion, one of the better monthly performances since August 2007. In addition, deals or bids involving private equity firms accounted for approximately \$12.5 billion in May, the best monthly performance since July 2007. For the three months ending May 31, 2008, the average premium in the US M&A market overall rose to 45.3 percent, the highest level since the third quarter of 2006. Similarly, the middle market M&A average premium rose to 47.3 percent, its highest since the third quarter of 2006.

On another note, Reuters and the National Venture Capital Association reported that venture capital fundraising activity has strengthened, with approximately \$9.1 billion being raised in the second quarter of 2008 by an estimated 71 firms. In addition, private equity firms raised an estimated \$137 billion across 185 funds in the first half of 2008. ♦

Exit Planning: *How Buy-Sell Agreements Can Help*

By Enrique Brito, CFA, AVA, CM&A

Most business owners are concerned with ensuring the continuity of their businesses' ownership and management in the event that one of the owners can no longer continue. Their primary considerations include such issues as how to deal with transferring ownership interests of the departing partner(s) and how to fund the buyout without compromising the liquidity of the business. Moreover, owners also want their families to be compensated fairly for their share of the business should they die or become disabled.

A buy-sell agreement is a contract that provides for the future sale of your business ownership interest or for the purchase of a co-owner's interest. Typically, it provides that the remaining owners of the business (cross-purchase agreement), or the entity itself (redemption agreement), will purchase the departing owner's share of the company. It also specifies the circumstances that will trigger a mandatory or optional buyout of an owner's interest (e.g. death, disability, retirement, the sale of an interest to a third party or an owner's divorce or bankruptcy), as well as the price to be paid for the ownership interest, or alternatively, a formula for determining the price. Ideally, buy-sell agreements are fully-funded with an insurance policy, either term or whole life insurance.



Executing a well-drafted buy-sell agreement can assure owners in a closely-held business that their interest in the business is secured regardless of any unforeseen circumstances. Competent and experienced legal counsel should draft the agreement and advise each owner regarding their individual interests.

For more information please visit www.PlanYourExit.org. ♦



The Exit Strategies Institute

The McLean Group's Exit Strategies Institute works with business owners to develop a multi-year program that provides a road map to maximize the business' value at the time of exit. In this comprehensive process each business is evaluated at three levels: business strategy, value proposition and current execution. Each of these levels is carefully evaluated to develop an action plan outlining specific steps to capitalize on the business' strengths to enhance its value and marketability. For more information, please visit www.PlanYourExit.org.

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St. Louis, MO
Tulsa, OK
Winchester, VA
Wooster, OH

Contact Us:

The McLean Group
1660 International Drive, Suite 450
McLean, VA 22102

(703) 827-0200 phone
(703) 827-0175 fax
www.mcleanllc.com

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 in order 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, 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.

