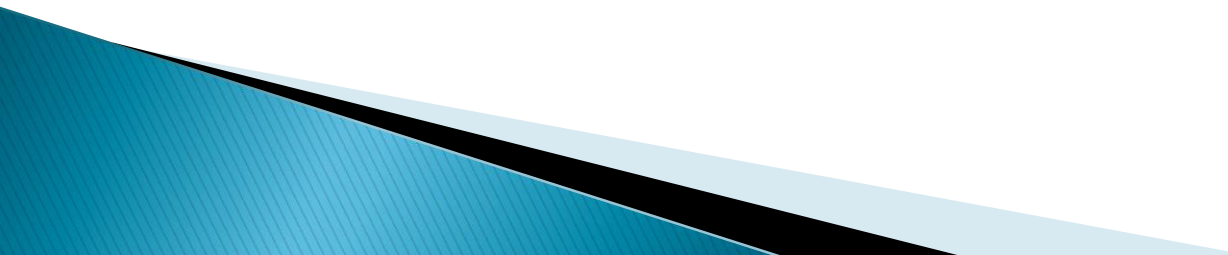


Growth Through Acquisition

Understanding the Process

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Headlines

- Buy vs. Build
 - Process Overview
 - Timing the Market
 - Summary
- 

Buy vs. Build

Benefits of Buying	Benefits of Building
Instant growth	Cheaper (usually)
Avoid learning curves	Design from ground up
Known quantity	No need to restructure
Utilize excess capacity earlier	Avoids integration issues
Instant upgrade in assets/resources	Less risk
Maybe only option to acquire unique assets	



Process Overview



Acquisition Strategy

- Define personal goals first
- Identify growth goals and how these can best be accomplished:
 - Consider expansion into existing or new markets/products
 - What do you need? Management, Products, Locations, Customers, etc.
- Assess financial capability and risk tolerance
- Identify an acquisition team



Target Identification

- Create an 'Ideal' Target scorecard:
 - Size
 - Location
 - Products
 - Customer base
 - Assets
 - Systems, etc
- Rank needs and critical items



Target Search & Initial Contact

- Base on scorecard
- Start with identified targets
- Be prepared to alter scorecard during search process
- Outsource initial communication most of the time, assess need of anonymity.



Process Overview



Initial Data Gathering

- Get as much as you can to craft initial offer
- Likely have to rely on Seller commentary and prove out in Due Diligence
- Likely Initial Information:
 - Financial Statements/Tax Return
 - Company overview (products/services, history, ownership)
 - Anonymous client data (sometimes)
- Unlikely Initial Information:
 - Customer information
 - Employee Information
 - Detailed product information



Letter of Intent/Interest

- Formulate Price & Terms (high level only)
- Non-Binding
- Define exclusivity period (if necessary)
- Pricing = Expected Cash Flows/Risk Profile
- Terms:
 - Cash at closing
 - Financing considerations
 - Deal structure (Assets vs. Stock)
 - Asset Allocations
 - Working Capital



Negotiation

- Negotiate critical points at LOI stage, don't risk the deal killers until later
- Negotiate all points at the same time, don't compartmentalize
- Overplay items you are willing to give in to
- Know the deal killers and stand firm on them



Due Diligence

- Objective = Confirm Accuracy & Estimate Future
- Financial:
 - Quality of earnings – sustainability
 - Accuracy of information
 - Seasonality
 - Cash Flow implications
 - Concentrations
- Legal:
 - Contracts (including financial impact)
 - Lawsuits/Filings
- Operational – Buyer



Process Overview



Financing

- How much leverage can you obtain/support:
 - Cash Flow
 - Tangible Assets
 - Risk Profile
 - Terms
- Financing Options:
 - Banks
 - Seller (notes or Earn-Outs)
 - Personal debt
 - Equity partners
- SBA:
 - Up to \$5m
 - Government Guaranteed Debt
 - 20% owners are all in
 - Ability to fund Goodwill



Legal Documentation

- Hire an M&A Attorney!
- Asset Purchase Agreement:
 - Mirror's Intent of LOI
 - Buyer drafts
 - Reps & Warranties
 - Schedules (assets, working capital, closing cut-off)



Closing

- Objective to go smoothly, have all deal points settled.
- Not the time to renegotiate the deal
- Don't back yourself into a corner (timing)



Integration

- Put your plan into action vs. creating the plan
- Notify the employees
- Major Issues to Consider:
 - Culture
 - Systems
 - Relationships
 - Synergies
- Set targets and track to them:
 - Financial
 - Timing
 - Operational




Market Timing

Strong Market Benefits	Weak Market Benefits
Access to Financing	Lower Values
Enjoy growth from Economy	Less competition for deals
Less risk from market factors	More time for Due Diligence
Greater selection of good deals	Value gains can be much higher over time

- Where are we now?



Summary

- Define your growth strategy
 - Where & how you grow
 - Align with personal goals
 - Set parameters (financial, operational, risk, etc)
 - Create a team (internal & external)
 - Actively search for targets and reassess constantly
 - Address deal killers early and move on
 - Get to close efficiently
 - Create, Implement & Monitor an Integration Plan
- 



Thank You

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