MERGERS & ACQUISITIONS
CORPORATE FINANCE
MARKET INTELLIGENCE
BUSINESS VALUATION
EXIT PLANNING

Investment Bankers To The Middle Market

Designing a Successful Exit

Where Does the CPA Fit In?

A Presentation to:

Northern Virginia Society of CPAs

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Presenter

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Section I

The Exit Plan

Three Main Objectives

- Increasing the value of the business in preparation for a successful exit
- Leaving the business under the most favorable conditions
- Getting what the owners want when the leave

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Three Important Questions

- When should I exit the business?
- How much income do I need to retire?
- To whom I should leave the business?

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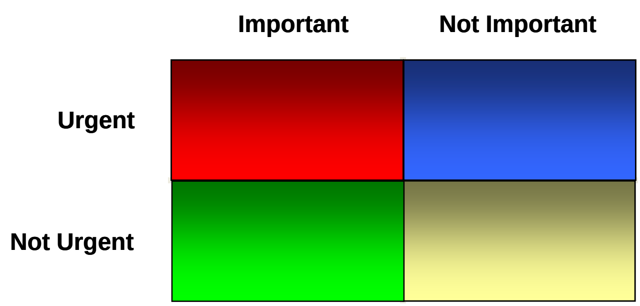
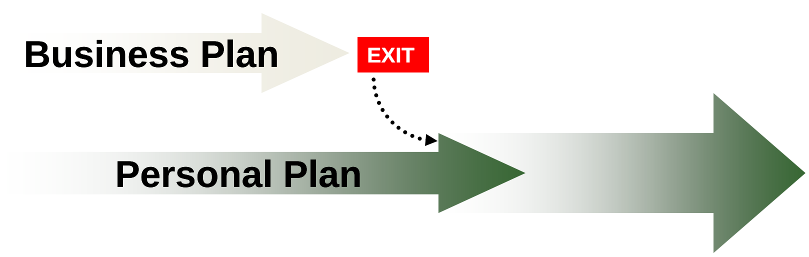
Owner's Attitude

Where is Exit Planning on Their Radar Screen?



Aligning Plans

How clear is the owner's exit plan?



The Business Plan

- **Determining Business Value**
  - Value to Outsiders/Insiders
  - Value and Risk Drivers
- **Performing Preventive Maintenance**
  - Financial and Legal Audits
- **Keeping/Motivating Employees**
  - Incentive Compensation Programs
- **Creating an Advisory Team**
  - CPA, Lawyer, Financial Advisor, Transaction Advisor
- **Minimizing Taxes**
  - Rates, Treatment, Timing

The Personal Plan

- **Financial Plan**
  - Determining Objectives
  - Assumptions and Recommendations
  - Implementation
- **Estate Plan**
  - Taxation
  - Distribution
  - Transferring Assets
- **Contingency Plan**
  - Buy/Sell Agreements

Section II

Twelve Ways to Leave a Business

Overview

'Til You Drop

Close/Liquidation

Transfer to Heirs

Sale to Insiders

- MBO
- Deferred Compensation
- Qualified Retirement Plan
- ESOP

Sale to Outsiders

- Financial Sale
- Strategic Sale
- Franchise
- Merger
- IPO

Section III

The M&A Process

M&A Process (Sale Side)

- Execute Financial Services Agreement with client
- Identify prospective buyers
- Prepare confidential information memorandum and acquisition profile
- Distribute acquisition profiles to prospective buyers
- Secure non-disclosure agreements from interested prospects
- Distribute the confidential information memorandum
- Conduct meetings and negotiations
- Secure a letter of intent
- Conduct due diligence (by prospective buyer)
- Negotiate and prepare the definitive agreement
- Closing

Phases and Timeline

Average transaction

8-12 months, sometimes 2-3 years

Four phases:

Phase I:	Preparation	(30 to 90 days)
Phase II	Marketing	(60 to 120 days)
Phase III:	Negotiation	(30 days)
Phase IV:	Closing	(30 to 90 days)

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The Auction Process

I. The single buyer

Seller initiated
Buyer initiated

II. The controlled auction

Relatively formal information dissemination process
Subject to deadlines
Preliminary EOI to firm LOI

III. The effective auction

Relatively less formal information dissemination
Time for offers is open ended
Goes directly to firm LOI

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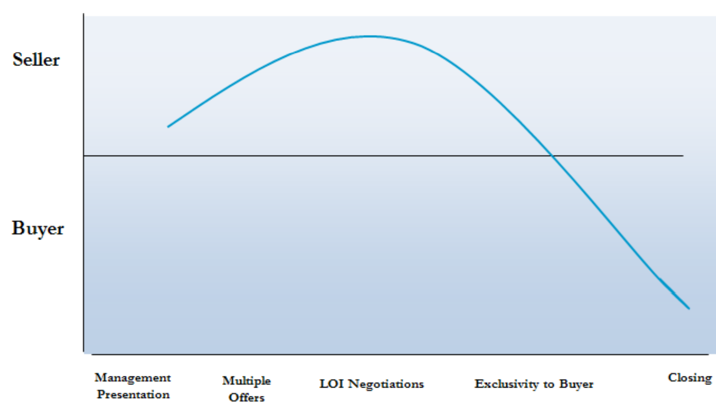
The Letter of Intent

- Executed to keep the deal moving with the least amount of disruption
- Must be thorough
- Contain mostly the deal's business terms
- Binding in only two regards

The Letter of Intent

The Sell-Side Negotiation Leverage Curve



From Letter of Intent to Closing

I. Confirmatory Due Diligence Stage

More legal/factual than accounting, but GAAP can be a big issue
Exclusivity and the affirmative statement option

II. The Definitive Agreement Stage

Principal business negotiators joined by legal counsel for reps and warranties, etc
Many times re-negotiations result from due diligence or legal issues
High deal failure rate (25%?) primarily resulting from bad Letter of Intent coverage

III. The Closing Stage

Mostly attorneys
Usually some last minute negotiations
Highly advisable for advisors to be there

Section IV

The Exit Challenge

The Exit Challenge

I. Value Transfer

What could be worth?

Value maximization plan

II. Leadership Transfer

Strong management team

Time to fix problems

III. Equity Transfer

How to get paid

Structuring the transaction

Exit Planning Principles

- The key to value creation is to identify those strategies that most effectively:
  - improve net cash flows and/or
  - reduce risk
- Value is analyzed; price is negotiated
  - Value is influenced by future earning and perceived risk
  - Price is influenced by the type of buyer, financing and transaction structure
- Exit planning is not an event; it is a process that continues throughout the life of the business

Questions?

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