



# Preparing A Company For Sale

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Managing Director



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# Capital Markets Overview

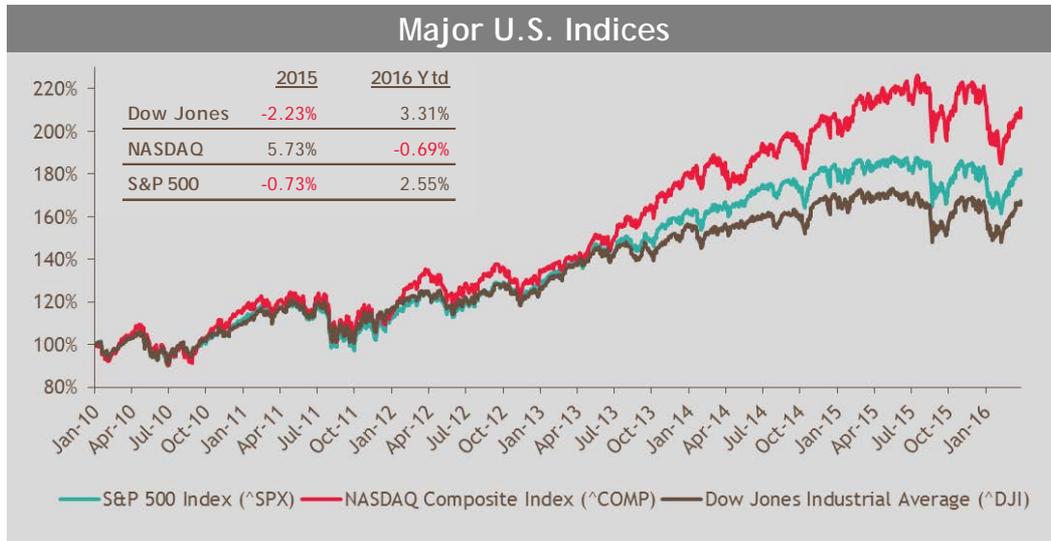
## Signs of Life Exist in U.S. Though Global Economy on Edge

- **Employment data mostly positive for March 2016**
  - Unemployment rate largely unchanged at 5%
  - U.S. maintained hiring pace in March, adding a healthy 215,000 jobs
  - Proportion of Americans in labor force increased to 63% → highest level in 2 years
  - Wage growth losing momentum, growing only 2.3% YoY
- **March 2016 ISM PMI registered 51.8%**
  - Indicates growth in manufacturing for the first time since August 2015
- **GDP increased at annual rate of 1.4% in Q4 2015, recently revised up in a third estimate**
- **Corporate profits dropped in 2015 by the most in seven years**
  - Low commodity prices and overseas turmoil causing companies to cut back on investments
- **Despite conflicting results from consumer sentiment/confidence indices, household spending increased, largely driven by strong labor market and low inflation**

# Capital Markets Overview

## Equity Markets

- A series of record highs amid volatility created mixed feelings through 2015 and into 2016
  - Latest record high closings → in May through July 2015, depending on index
  - Equity markets seeking direction given current valuation levels - corporate earnings, strength of the dollar, oil prices, geopolitical risk, slowing growth in China and Fed influence
  - Companies continuing to stockpile cash as a precautionary measure or to boost growth

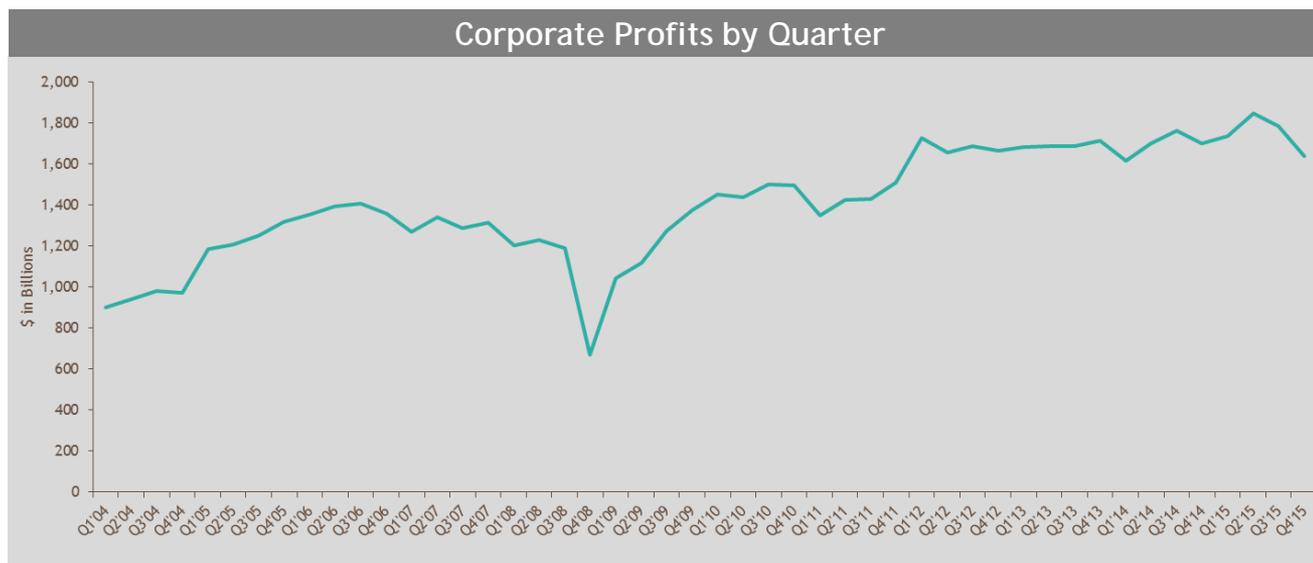


Source: S&P Capital IQ; 1/4/2010 through 3/30/2016

# Capital Markets Overview

## Corporate Profits Offer Abundance of Capital for Acquisitions

- Strengthening dollar, decline in energy costs, and increasing wage pressures contributed to 8.1% decline in profits from Q3 to Q4 2015
- Strategic buyers are still flush with cash, and have access to attractive debt financing in a record low interest rate environment
  - Non-financial companies hold approximately \$1.9 trillion in liquid assets

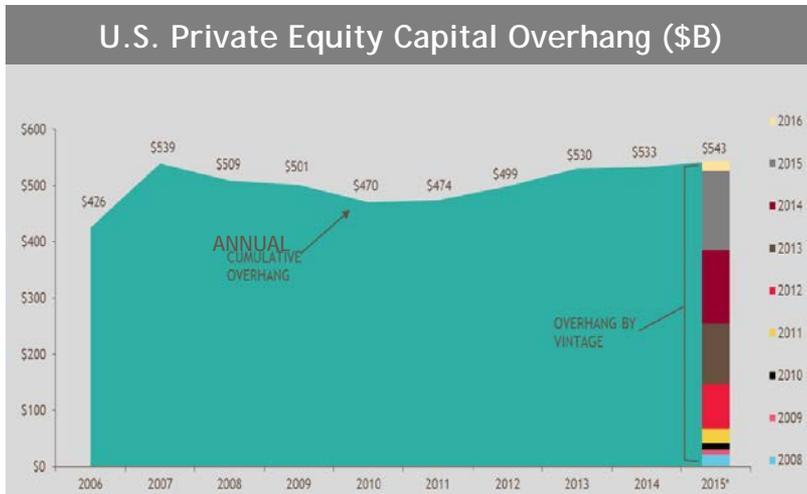


Source: The Federal Reserve

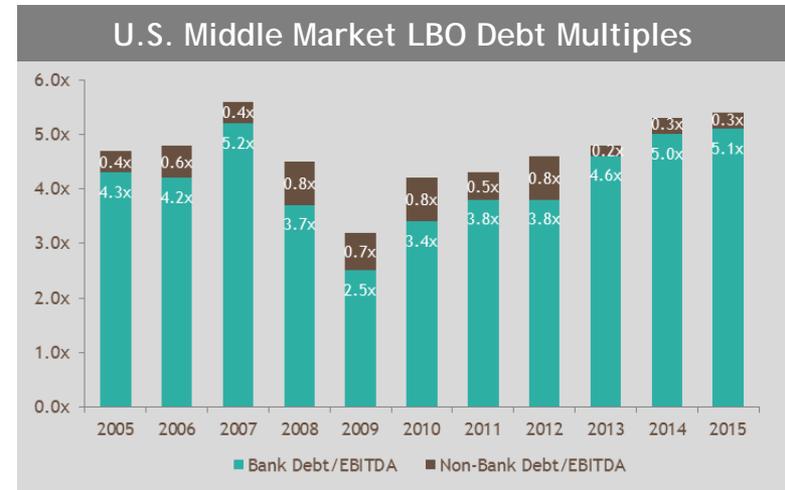
# Capital Markets Overview

## PE Capital Reserve Balances Remain High

- PE firms have \$543 billion of dry powder
- ~27% of dry powder is from funds raised in 2012 or earlier
  - Aging funds drive PE firms to be more aggressive in pricing in order to put their equity to work
  - Leverage multiples are at 7-year highs afforded low cost of capital and risk



Source: PitchBook  
\*2015 data as of 6/30/15



Source: S&P LCD Report

# M&A Market Overview

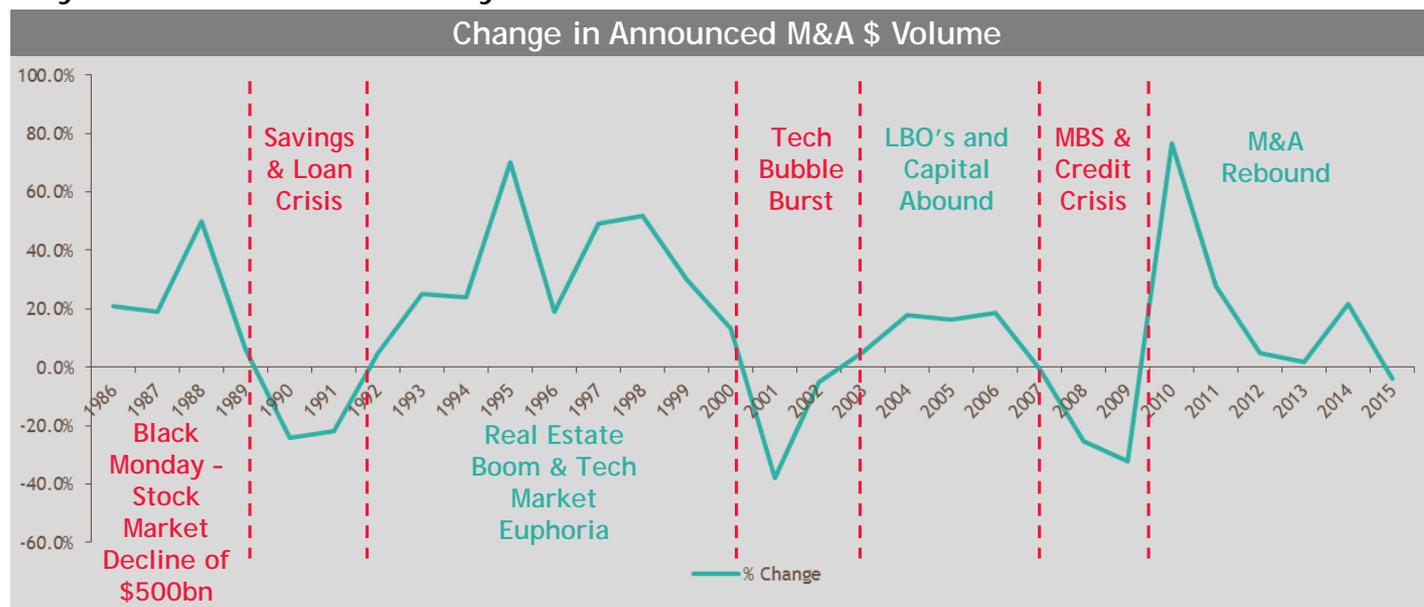
## Interest Rate Increase Unlikely to Affect Middle Market M&A

- December rate increase did not have an affect on middle market M&A activity, although subsequent rate hikes could if coupled with a softening of the economy
- Rise in rates points to potential inflationary pressures which may put more stress on middle market companies and their revenues
- Today's capital structures can digest a meaningful increase in interest rates
- Rate hike of at least 1% would be needed before debt markets, and leverage availability and middle market valuations are affected
- Interest rates would have to reach 5% or greater to be a significant threat
- Rate increase has been threatened for two years → meanwhile lenders built cushions into financing models
- Many companies in market to buy are armed with strong balance sheets loaded with cash from operations and from having issued debt during periods of low market interest rates
- There remains an abundance of capital chasing a limited number of quality deals

# Middle Market M&A Outlook

## Historical M&A Cycles Provide Insight For Future Trends

- Historical data supports that M&A markets are cyclical
- Cycles are becoming more predictable and contracted
  - 2-4 years separate peaks and troughs
  - 6-7 years to cover a full cycle

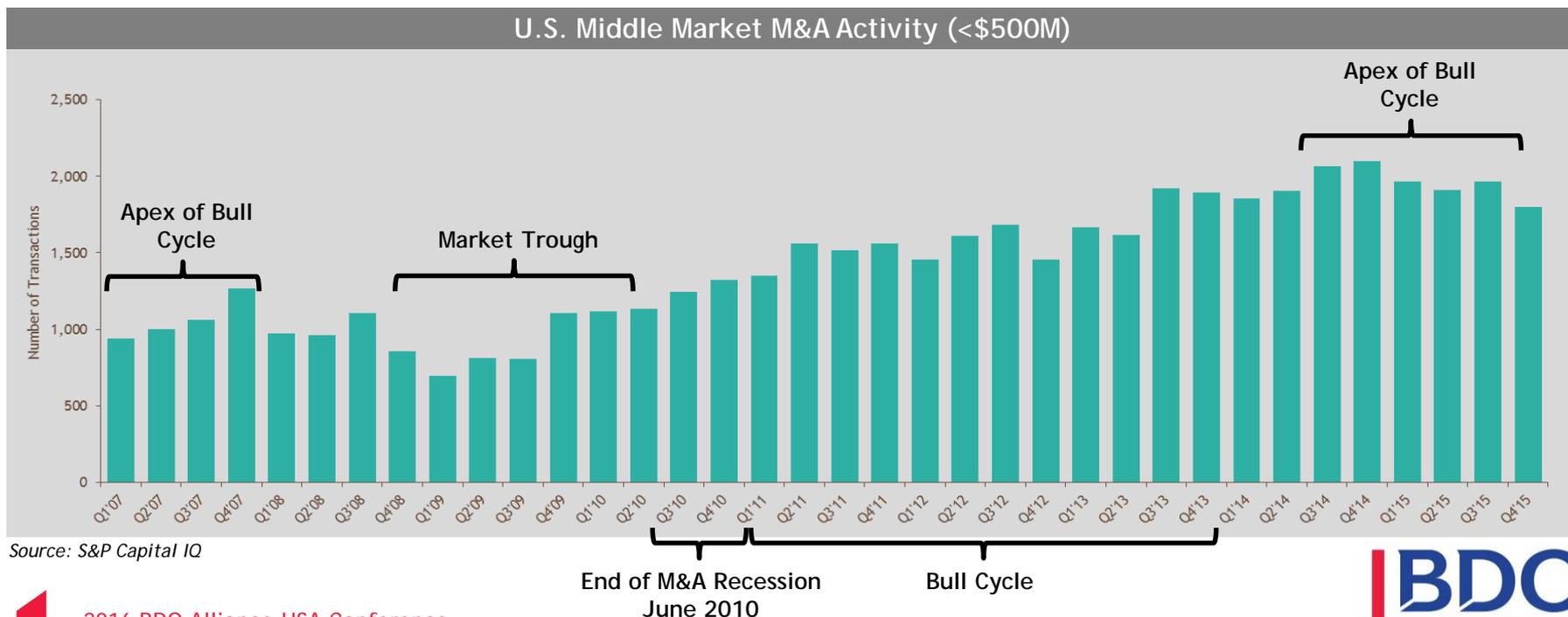


Source: Thomson Reuters, S&P Capital IQ and private company data

# Middle Market M&A Outlook

## Where Are We In The M&A Cycle?

- Last bull cycle peaked in '06 - '07, market trough was '09 - '10
- 2014 saw multiples exceed the last bull market
- Multiples have receded in 2015 - have we hit the top?





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# Preparing To Go To Market

- **Financial Review**
  - Have financial statements prepared by a third party (audit, review, QoE)
  - Ensure statements are in accordance with GAAP (revenue recognition, A/R, accruals)
  - Remove excess cash from the balance sheet
  - Move redundant assets out of the Company
  - Assess “discretionary” expenses
  - Prepare adjustments to EBITDA (excess salaries, non-recurring items, employee bonuses)
  - Manage working capital levels in the year prior to sale (A/R, inventory)
  - Review of capitalized versus expensed items (software development)
  - Pension liability / Early Retirement Payments

# Preparing To Go To Market

- **Facilities**
  - Assess adequacy of facilities
    - Age of equipment / new manufacturing technology
  - M&E is in good working order prior to plant tours
  - Avoid entering into long-term commitments (facility leases)
  - Any significant M&E purchases planned or outstanding?
    - Required upgrades or repairs?
    - Capital expenditure requirements for next three years?
  - Environmental compliance
    - Phase I / Phase II
    - Timing of Phase I / Phase II during a process

# Preparing To Go To Market

- Organization
  - Organize the Company to reduce transitional risk to the buyer (e.g., partnership, SH's agreement)
  - Reduce dependence on any single customer or supplier (diversify revenue streams)
  - Binding contractual agreements with key lenders, vendors and customers
  - Employment contracts for key personnel
    - Employment contracts in place for key employees (President/CEO, CFO)?
    - "Double-edged sword"
    - Potential need for deal bonus?
    - SARs?
    - Ability or willingness to stay on with the business post-Transaction?
  - Non-competes for employees?

# Preparing To Go To Market

- **Tax / Structuring**
  - Assess optimal transaction structure
  - C-Corp → Stock sale / S-Corp → Stock Sale or 338(h)(10)
  - NEXUS (international and domestic sales)
- **Legal**
  - Outstanding litigation or filings
  - Assess need for resolution of legal proceedings prior to sale
  - Patent filings / royalty agreements in place
  - Assess any required legal restructuring prior to sale
  - Shareholder Buy/Sell Agreement

# Preparing To Go To Market

- **Assembling the Right Deal Team**

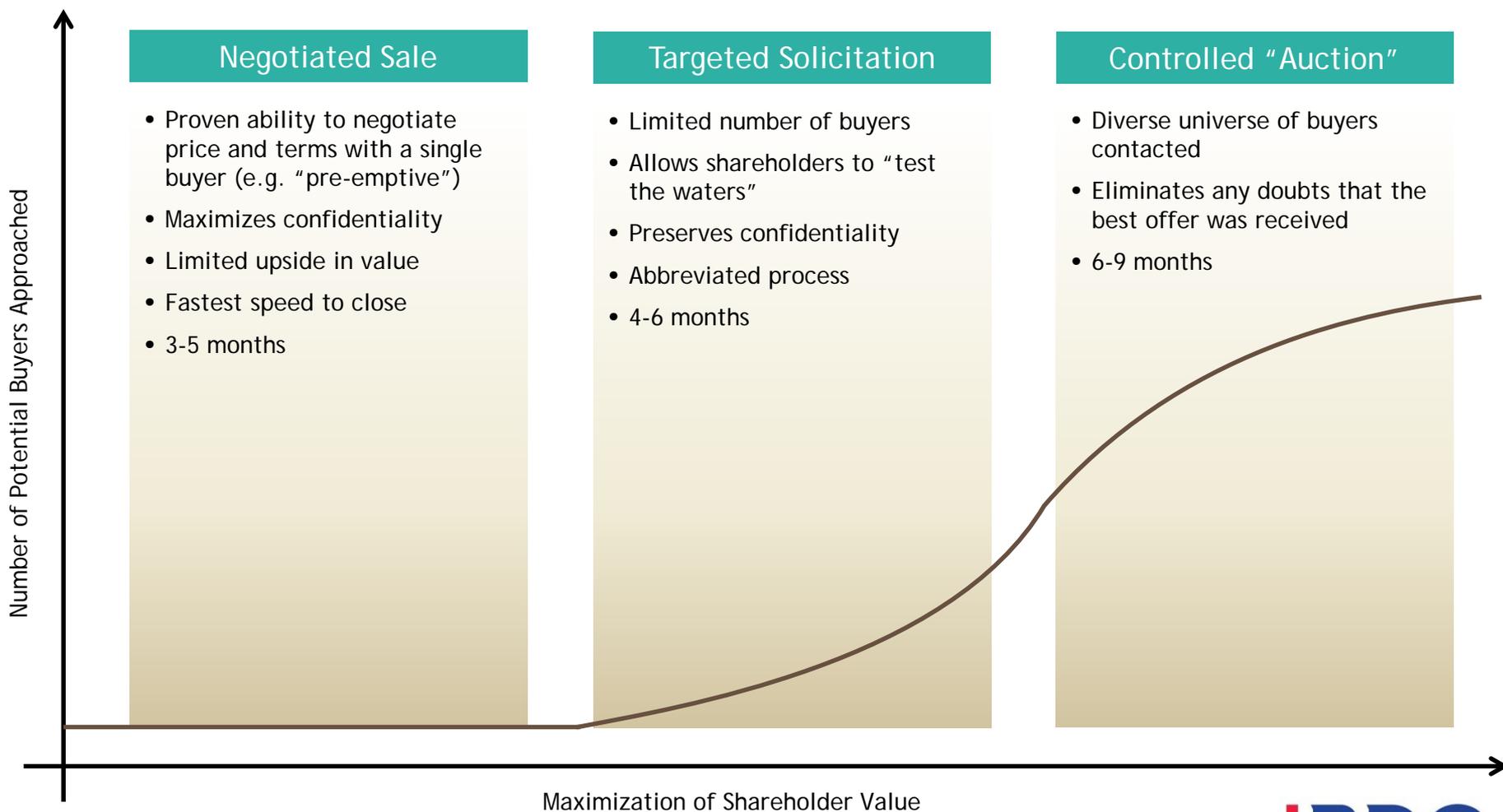
- Sellers should assemble a deal team well in advance of a sale (6-9 months)
- Can address tax, legal, and deal structuring points prior to a market launch
- Remember “You get what you pay for”
  - Investment Banker - choose a firm that has deal execution experience within the Company’s size range and Industry
    - Sale process, deal structuring & negotiation, due diligence
  - Choose a reputable law firm and an attorney with relevant experience
    - SPA preparation, disclosure schedules & due diligence
  - Tax and accounting Advisors
    - Provide assistance in the preparation of financials, due diligence and deal structuring
- Check references and make sure to choose an advisor you are comfortable with and who is aligned with your objectives



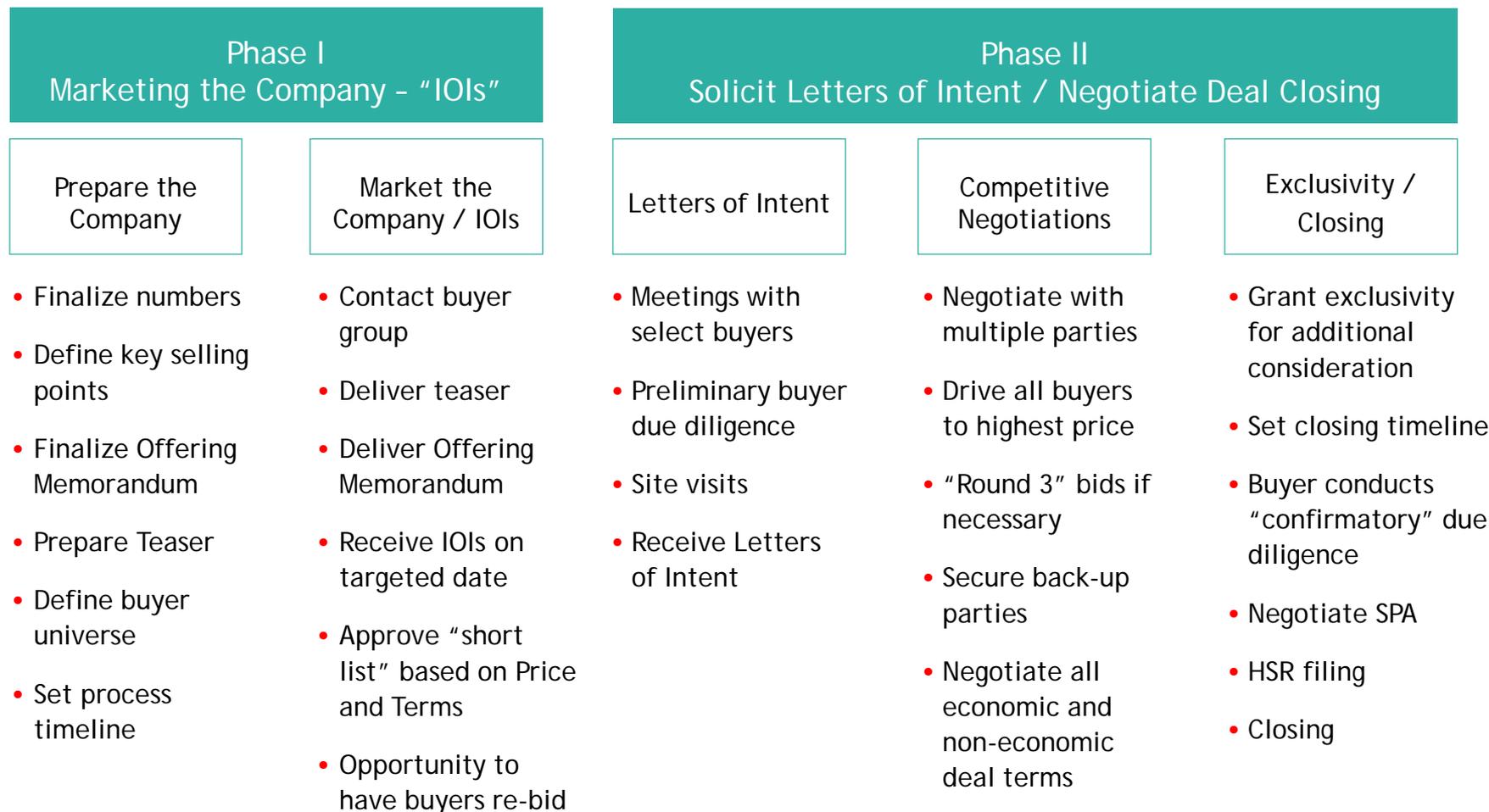
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# Value Maximization - Process Scope



# Value Maximization - Two Step Auction Sale



# Biography



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## VALENTINA MIDURA

Managing Director

### EXPERIENCE

Ms. Midura is a Co-Founder and Managing Director at BDO Capital Advisors with more than 15 years of investment banking experience. Ms. Midura advises privately-held and family-owned businesses with transaction structures including leveraged recapitalizations, shareholder transitions, management buy-outs, exclusive sales, corporate divestitures and private placements. Ms. Midura has closed transactions in a variety of Industry segments including Manufacturing, Distribution, Specialty Chemicals and Business Services.

Prior to joining BDO Capital, Ms. Midura served as a Director at Andersen Global Corporate Finance, LLP, a middle market investment banking firm. While at Andersen, Ms. Midura was responsible for developing the firm's investment banking Products Group where she had a particular focus on clients within the Manufacturing and Distribution sectors.

### PROFESSIONAL AFFILIATIONS

American Institute of Certified Public Accountants (AICPA)

Ms. Midura is qualified as a General Securities Representative (Series 7 and 63) and is a Certified Public Accountant. Ms. Midura is also a member of The Commonwealth Institute and ACG.

### EDUCATIONAL BACKGROUND

B.S., Whittemore School of Business, University of New Hampshire