

Ready, Set, Sell: Helping Your Client Sell the Business



RENAISSANCE PARTNERS, LLC

Investing Our Passion in Your Potential



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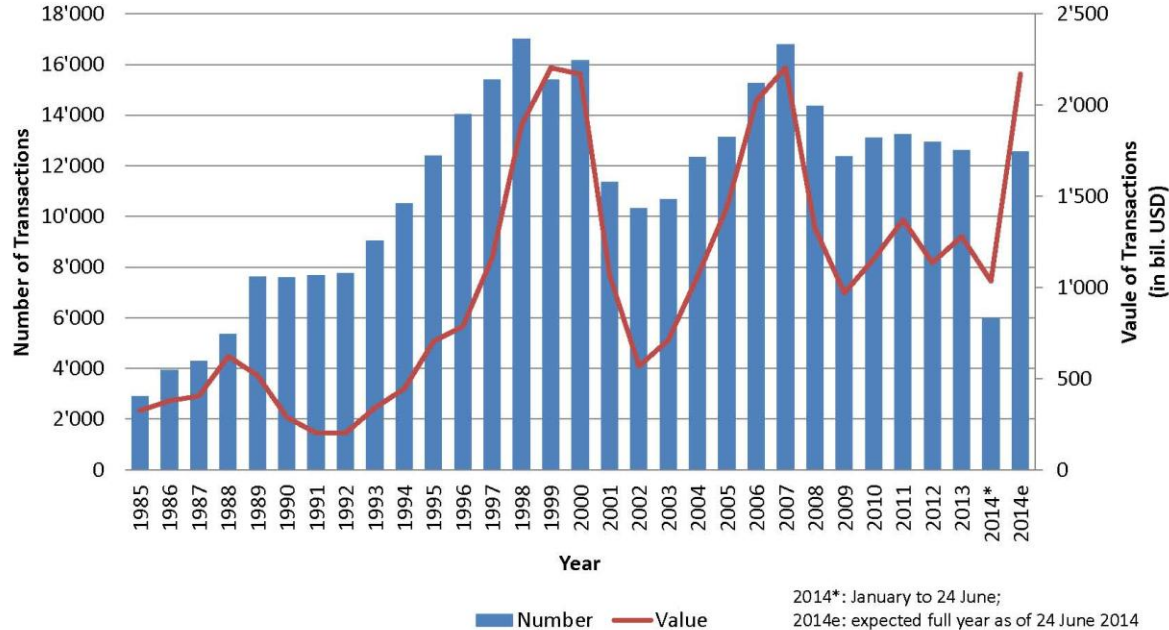
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Market Overview

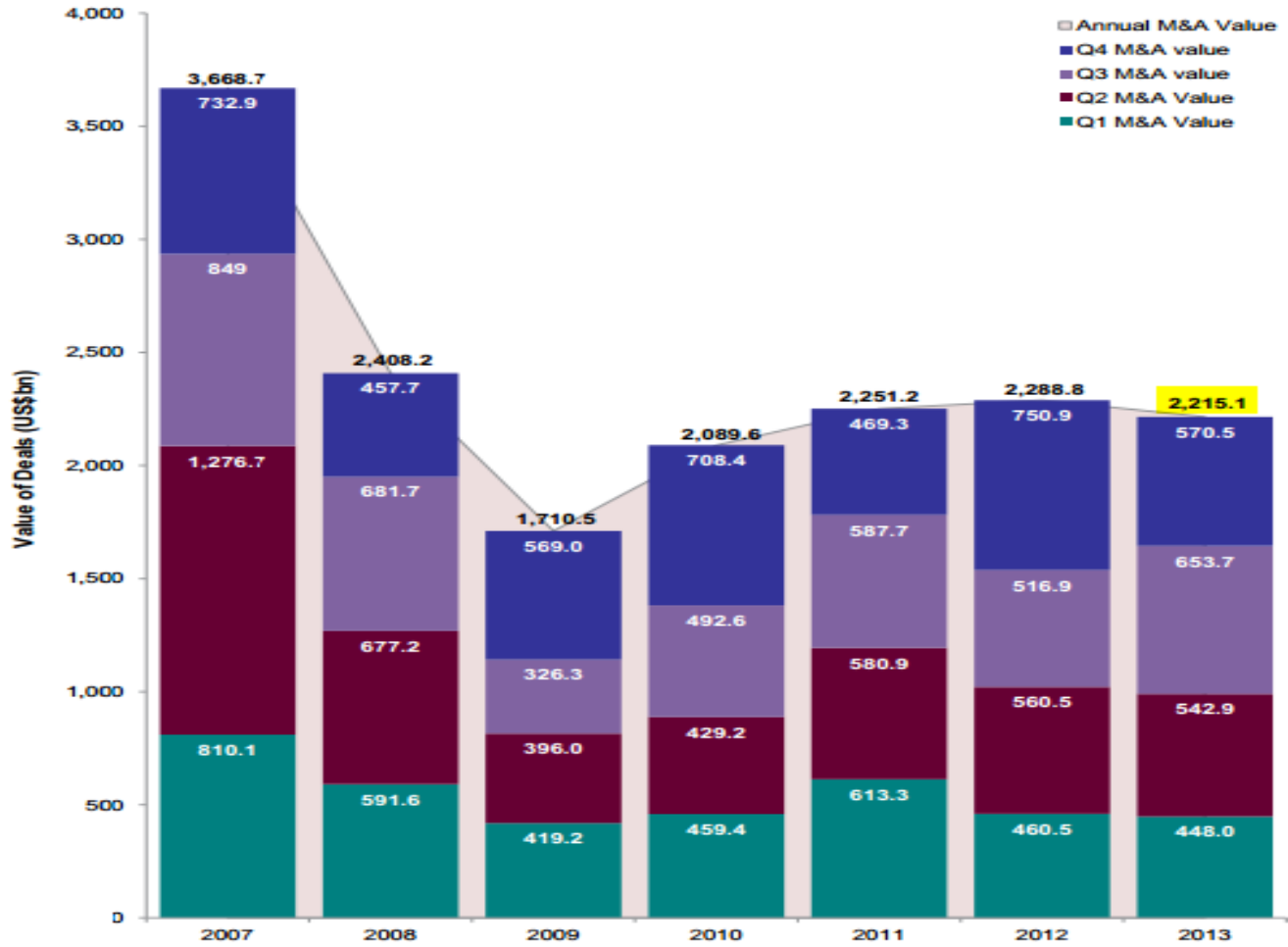
Announced Mergers & Acquisitions: North America, 1985-2014e



Source: Thomson Financial, Institute of Mergers, Acquisitions and Alliances (IMAA) analysis

(C) 2014 IMAA

Quarterly M&A growth comparison



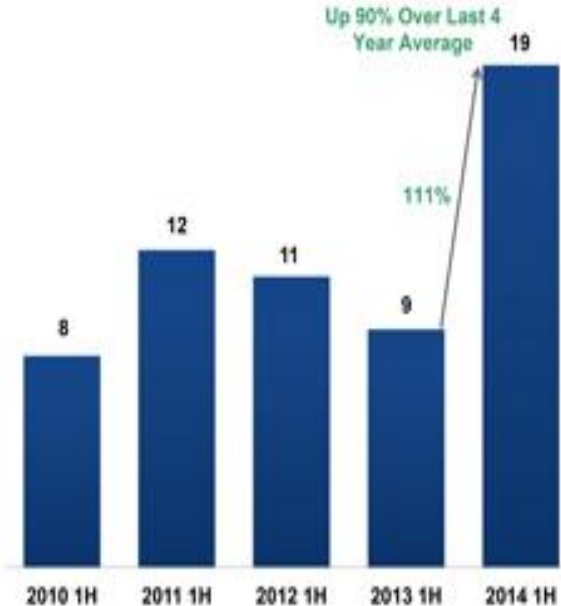
Mergermarket 2013 Trend Report

Significant Pickup in M&A Activity

Global Announced M&A Dollar Volume (\$bn)



Global Announced M&A # of Deals > \$10bn



Source: Thomson Reuters. YTD as of 30-June-2014.

“We see a pick-up in middle-market mergers and acquisitions activity.”

--BNY Mellon Mid-Year 2014

“A favorable backdrop of low interest rates, a slowly improving economy and an abundance of cash on hand is leading to a surge in major mergers-and-acquisitions deals.”

“Private equity firms continue to play an active part in the marketplace. The percentage of deals involving financial buyers during the first half of 2014 increased 22% over the same period last year.”

“Middle market deals to fuel M&A rebound”

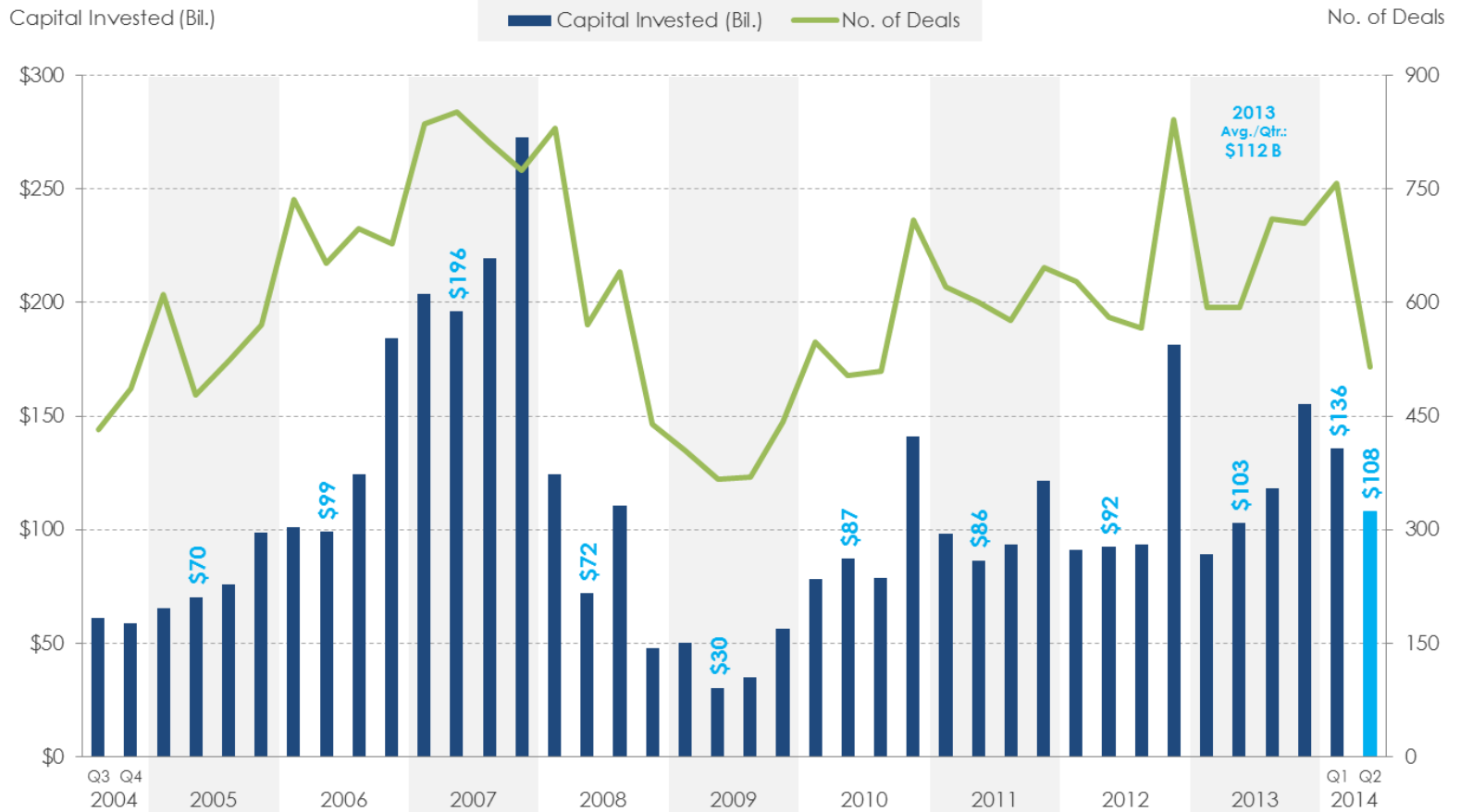
--E&Y, Oct. 2014

“We now expect a new wave of M&A with much more focus on mid-market sized deals under US\$1b. This new middle-market momentum should lift M&A activity as companies seek to strengthen – and expand – their core business. The result should be a far more buoyant deal market than we’ve seen for the past five years.”

Why Now?

- EBITDA Price Multiples at Historic Highs
- Buyers will “Pay It Forward” (i.e., pay for future earnings)
- Cash is looking for a home

Cash is Looking for a Home



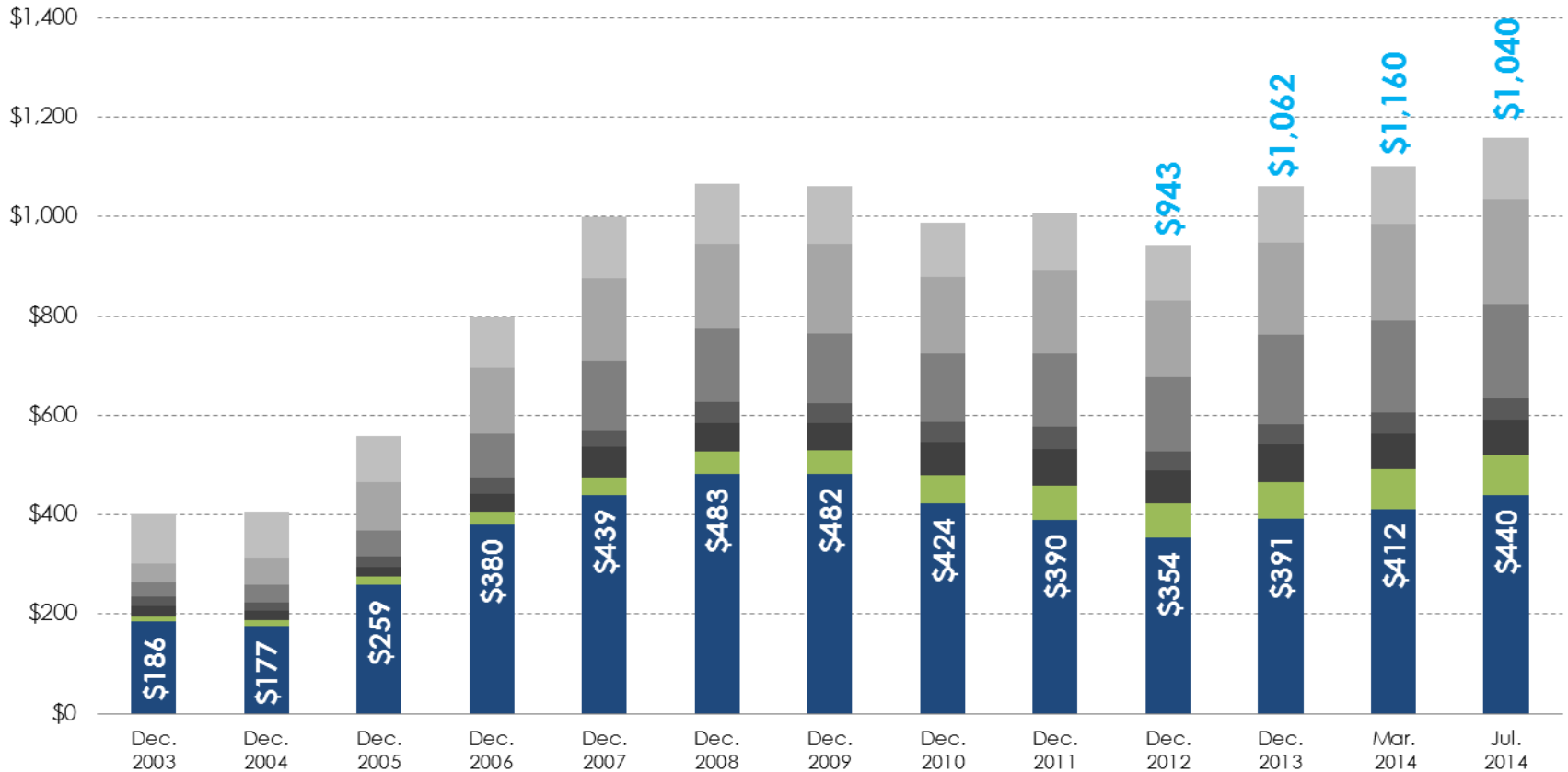
Cash is Looking for a Home

- >3,300 Private Equity Funds in U.S.
- 547 Buyout or Growth Funds Currently in Fundraising Process
- 11,130 PE-backed companies in U.S.

PE Dry Powder

Dry Powder (Bil.)

■ Buyout ■ Growth Capital ■ Distressed Private Equity ■ Mezzanine ■ Other ■ Real Estate ■ Venture Capital



Pennsylvania ranks . . .

- 3rd for PE investment in 2013
- 5th for largest number of PE-backed companies (after Calif, Tex, NY, FL)
- 1,019 PE-backed companies in PA (approx. 10% of U.S. total)
- 122 PE firms headquartered in PA

Pennsylvania's PE investment

- \$9.2B of Public School Employees' Retirement System's \$49.2B AUM
- \$6.1B of State Employees' Retirement System's \$27.4B AUM
- Funds holding these investments *love* Pennsylvania-centric opportunities

Market welcomes leveraging of PE-funded M&A

- Banks seek quality earning assets
- Shadow banking has returned to favor
 - Business Development Companies
 - Collateralized Loan Obligation Funds
- Fed's zero interest rate policy = tailwind that won't last forever; market knows it

Banks Need Loan Growth

- Loan to Deposit Ratio at historic lows
- No earnings from investment portfolios
- Regulatory initiatives make other categories poison
 - Qualified Mortgages
 - Commercial Real Estate
 - Consumer installment
 - Dividend recap of existing PE investments
- → Middle market M&A remains attractive

“2014 Business Development Company Portfolio Growth of 30+%”

--BB&T Capital Markets

“We believe that our covered companies have enough available capital to grow their portfolios in excess of 30%, ranging from 4% to 84%. During the next 12 months, we are looking for average portfolio growth of 20%, ranging from 3% to 64%. We are estimating flat portfolio yields. Resulting core income per share growth is expected to be 7% while dividend growth is expected to be 3%.”

“CLO Issuance Increases to \$83.1 Billion in Busiest Pace”

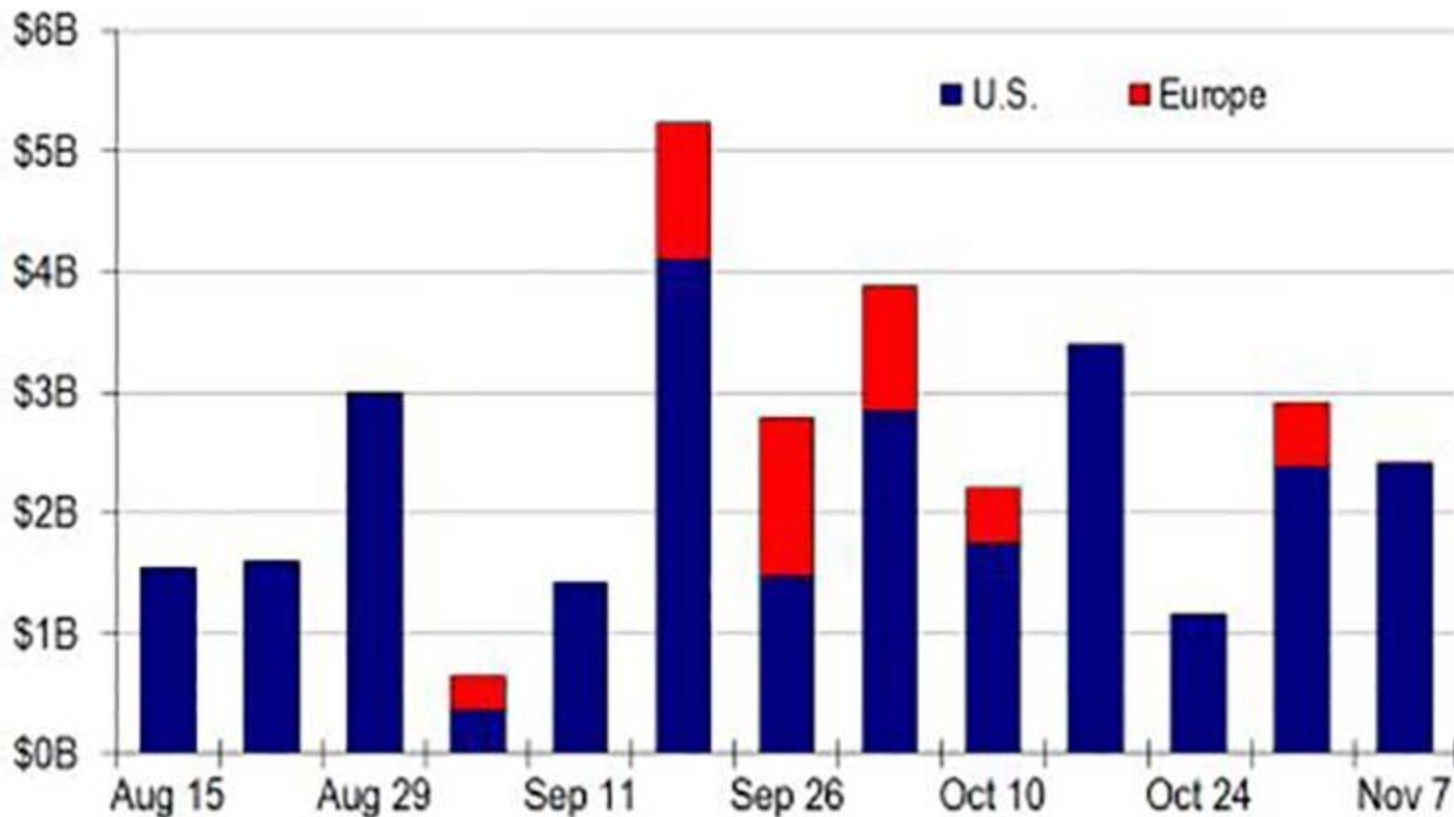
--Bloomberg, Aug. 2014

“Sales of debt that pool together high-yield, high-risk loans reached \$83.1 billion, surpassing the amount issued in all of 2013 and heading for a possible record, according to Morgan Stanley data.

Silvermine Capital Management LLC arranged an \$879.1 million collateralized loan obligation yesterday, putting 2014 issuance on track to exceed the record \$93 billion created in 2007, according to Royal Bank of Scotland Group Plc and Bloomberg data. JPMorgan Chase & Co. (JPM) and Wells Fargo & Co. predict as much as \$100 billion may be completed this year.”

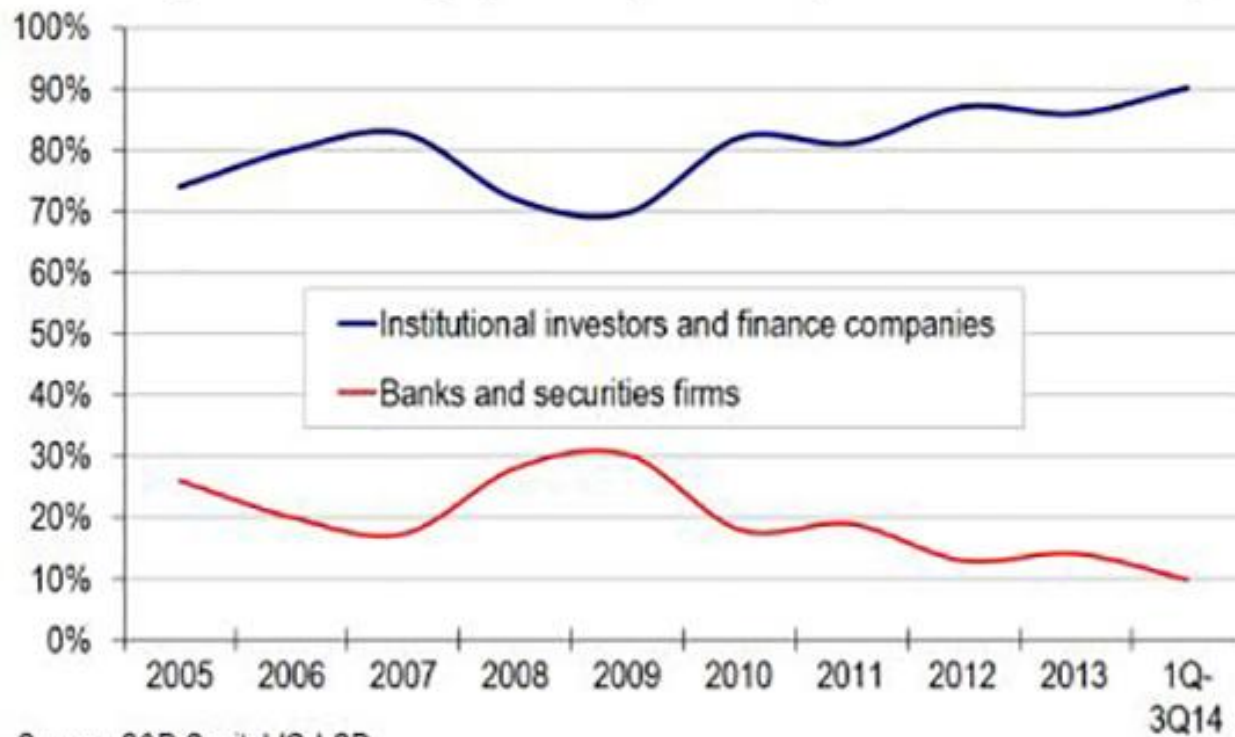


Global CLO volume



Source: S&P Capital IQ LCD

Primary market for highly leveraged loans (banks vs. non-banks)



Source: S&P Capital IQ LCD

“LSTA Files Suit Against Fed, SEC over CLO Risk Retention”

“The Loan Syndications and Trading Association (LSTA) has filed a lawsuit against the Federal Reserve and the Securities Exchange Commission over the final risk-retention-rule release last month.

The petition for review, filed Nov. 10, alleges the final rule is arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law.

The petition for review represents the first step in legal proceedings that the LSTA has taken against regulators in an effort to provide the CLO market with relief from the final risk-retention rule, which will require CLO managers to retain 5% of the deal. It is expected to take effect in about two years.” (emphasis added)

Source: LeveragedLoan.com

So your
client wants
to sell the
company.

What's
next?



Who Wears What Hats?

- Accountant
- Lawyer
- Business Broker
- Investment Bank

What Preliminary Work is Required?

- Accounting
- Licenses
- Due Diligence
- Assignment of Contracts
- Contract Review
- Real Estate
- Litigation Review
- Employment and Employee Benefit Plans

What Does Sale Cost?

Lehman Standard / Double Lehman
Success Fee Based on Transaction Value

First	\$2 million	5%
Second	\$2 million	4%
Third	\$2 million	3%
Fourth	\$2 million	2%
Remaining Transaction Value		1%

What Price Can Be Obtained?

- Multiples of EBITDA
- Financing
 - Bank Multiples
 - Mezzanine Multiples
- Cash looking for a home

Who is the Buyer?

- Strategic
- Financial/Private Equity
- Management

Tools to Locate Buyers

- Renaissance Partners Proprietary Database
- Pitchbook
- Hoovers
- Others

Going To Market: Process

- Teaser
- Confidentiality Agreement
- Building the Book
- Management Meetings
- Letter of Intent
- Definitive Agreements

Going to Market: Teaser

- 2-3 Pages
- Present Highlights
 - Industry
 - Target
 - Benefits of Transaction
- Distribution of Teaser: All Potentially Interested Parties

Confidentiality Agreement

- Confidentiality Requirements
- Permitted/Required Disclosures
 - SEC/Hart Scott Rodino Act
 - Court mandated
- Other inclusions
 - Noncircumvention
 - Nonsolicitation
- Duration of Agreement

The “Book”

- Contents
 - Description of Business
 - Overview of Market
 - Analysis of Competition
 - Financial performance, past and projected
 - Explanation of Adjustments/Add-backs
- Dual Purposes: Sales and Disclosure

Management Meetings

- One or more sessions with senior management and key advisors
- Review projections and business plan
- Q & A
- Facility Tour

Letter of Intent

- Primary focus: price
- Assets Being Sold
- Liabilities to be Assumed by Buyer
- Liabilities to be Retained by Seller (if any)
- Conditions of Closing
- Other Terms
 - Exclusivity
 - Deadlines

Definitive Agreements

- Purchase and Sale Agreement
 - Assets or stock
- Employment/Consulting Agreements
 - Retained Key Employees
 - Sellers
- Earn-out Agreements
- Real Estate Documentation
- Personal Property Documentation

Purchase and Sale Agreement

- Assets/Stock Sold
- Price and Terms of Payment
 - Cash at Closing; Deferred Price including any Earn-out; Post-closing Adjustments
- Representations and Warranties
- Covenants re Operation of Business Pre-Closing
- Conditions of Closing
- Indemnification of Buyer and Seller

Selected Primary Representations and Warranties

- Financial Condition
 - Accuracy of Financial Statements
 - 10(b)(5)
- Taxes
- Sufficiency and Condition of Assets
- Collectability of Accounts Receivable
- Litigation Pending or Threatened
- No Material Misstatements

Selected Secondary Representations and Warranties

- Contracts all in good standing, enforceable
- No customers lost or at risk
- No labor controversies
- No adverse environmental conditions
- No unfunded employee benefit obligations
- Regulatory filings/permits in good order
- No undisclosed material information

Qualifying Reps & Warranties

- Setting a Basket
 - % of Purchase Price
 - First Dollar or Not, once Basket Exceeded
 - Deadline for Accumulating Claims (see Indemnification)
- Knowledge limitation
 - When appropriate and when not
 - Whose knowledge matters

Covenants Pending Closing

- Of Seller
 - Conduct of Business
 - Retention of Employees
 - No New Liabilities
- Of Buyer
 - Continued Due Diligence, incl. limits on same
 - Pursuit of required approvals, financing
 - Contact with customers/employees, how done

Post-Closing Topics

- Purchase Price Adjustment
 - Actual vs. pro forma Closing Date Financials
 - A/R Collections; Other “Cash” Items
 - Non-cash items
 - True-up of estimated amounts (e.g., insurance claims)
 - Physical Inventory
- Earn-out: Calculation and Payment
- Performance Under Personal Agreements
- Other

Selected FAQ

- Aren't strategic buyers going to pay more?
- Isn't my business too small?
- Won't I get a better price if I have another year of earnings under my belt?
- Can I sell a minority interest first?
- Can I sell but still keep:
 - Real estate?
 - Accounts receivable?
 - Other?

More Selected FAQ

- If I take back paper, how do I make sure I get paid?
- How do I close gap between what I want and what a buyer will pay?
- Insert your client's question(s) here:_____.

The Three Lies Clients Tell Themselves (and You)

- I will never sell my business.
- I know exactly who will buy my business for the highest dollar.
- I can do tomorrow what I choose to put off doing today.

Thank you.

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