

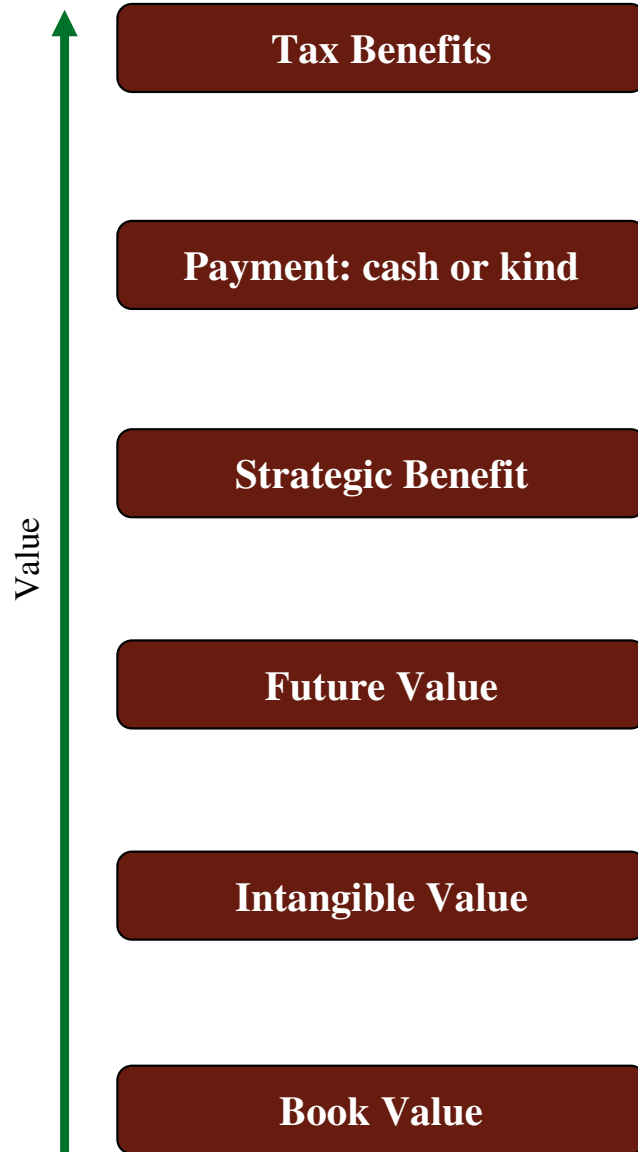
Mergers & Acquisitions . . .

# How to get the maximum value for your business.



# Maximum value to Seller . . .

## Value Enhancers

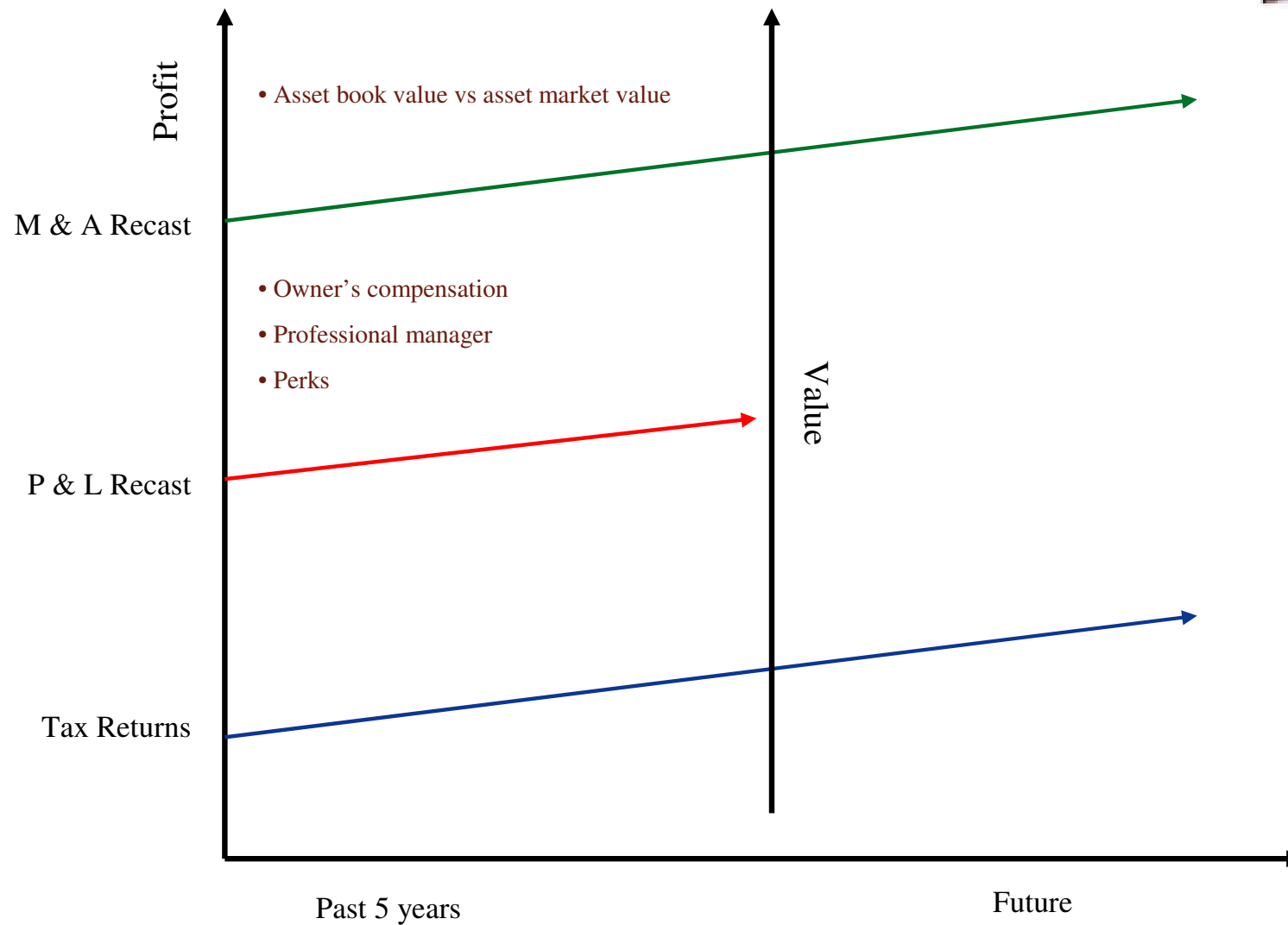


- Diminished tax liability
- Advantageous structure of sale
- Immediate liquidity for business
- Ability to invest entire proceeds into interest bearing investments
- Realization of marginal revenue and / or cost saving opportunities through combination
- Future earnings potential of business
- Growth of market share
- Value of goodwill, customer base, technology, management
- Economic value of business
- Book value of equity created

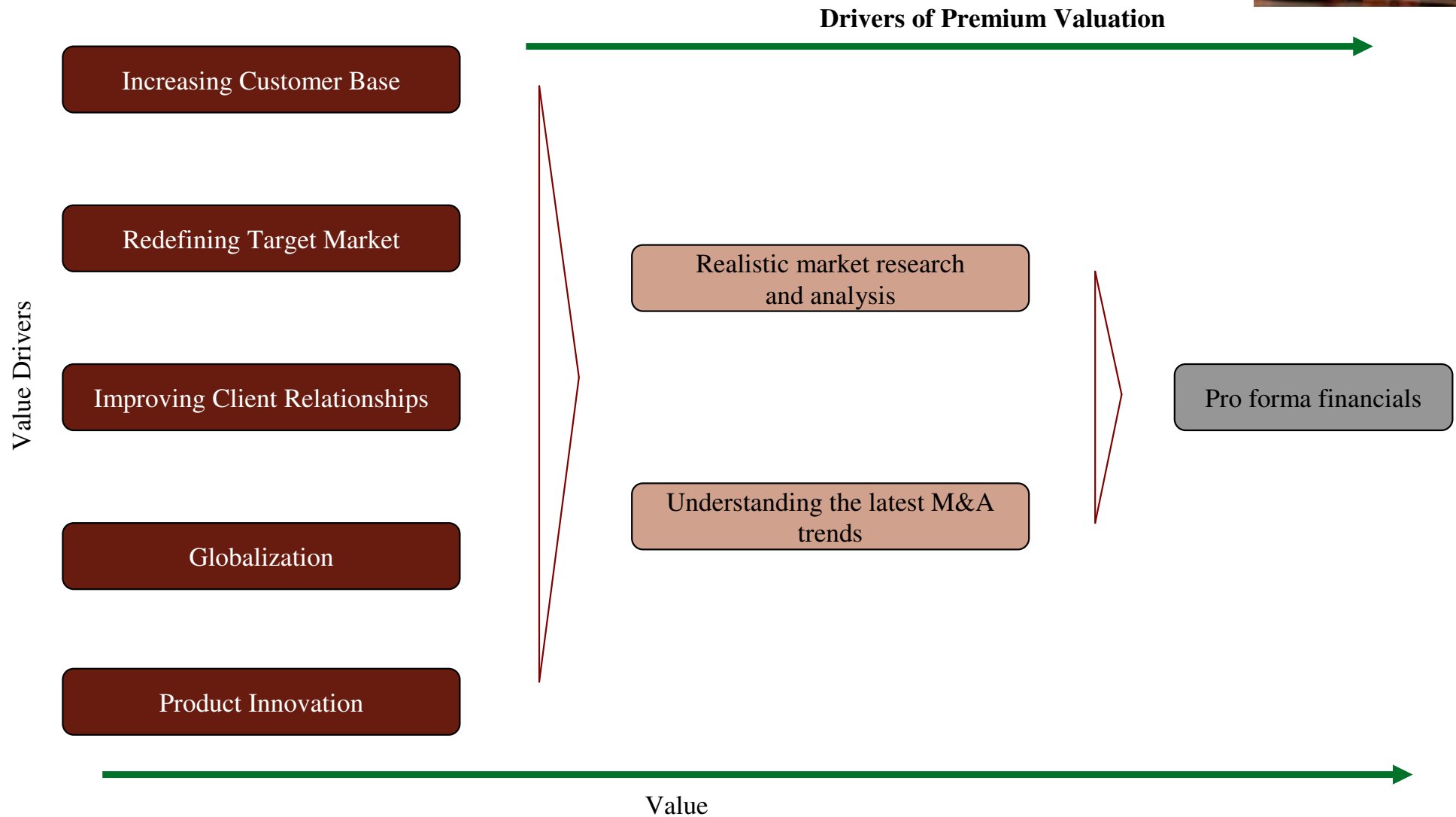


# Step 1: Financial Recasting . . .

## Mechanics of Value

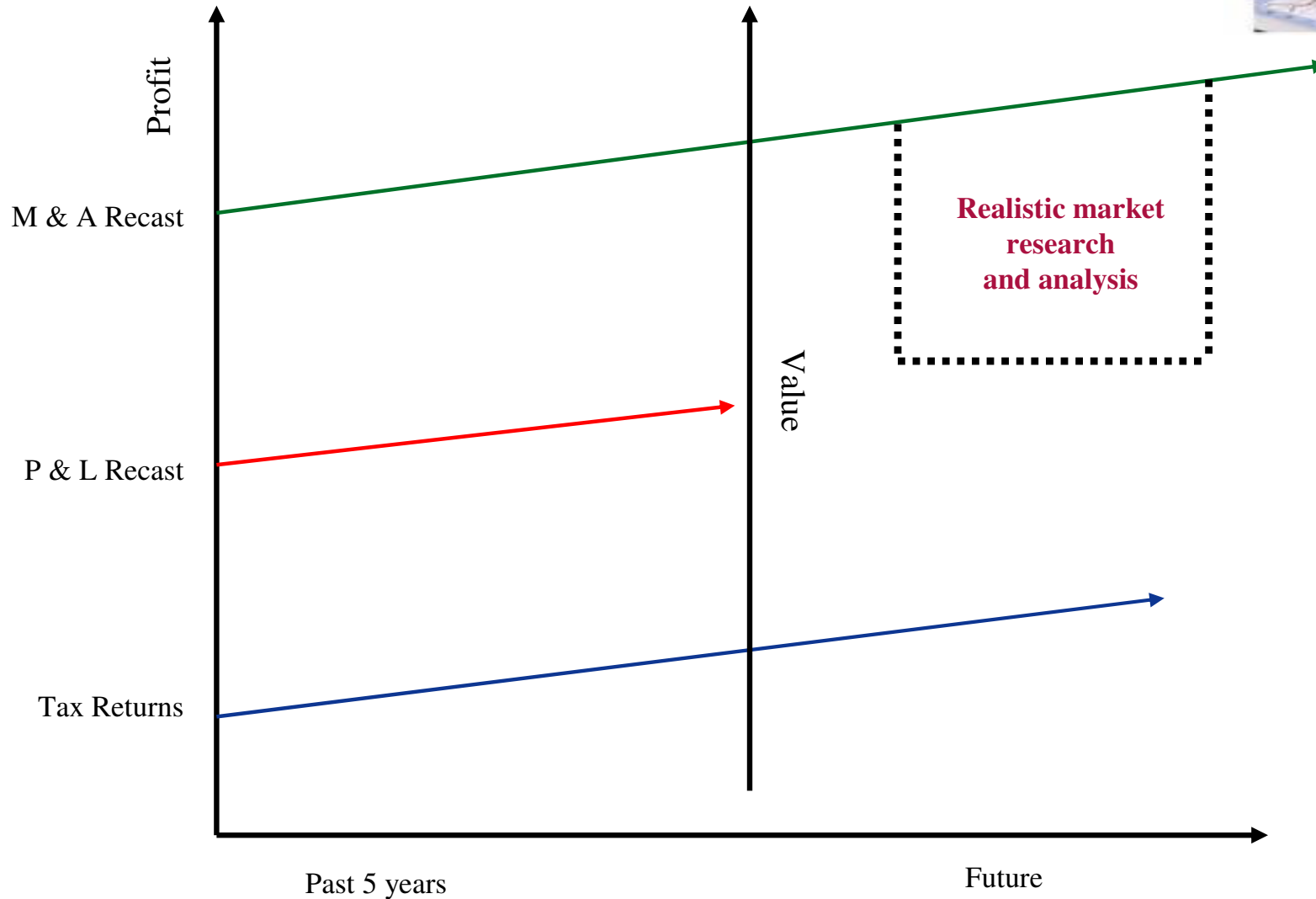


## Step 2: Market Positioning . . .



# Step 3: Pro Forma Financials . . .

## Mechanics of Value



New organizations with significant financial and organizational resources will be able to sustain projected growth

## Step 4: Company Valuation . . .

### Quantitative Analysis

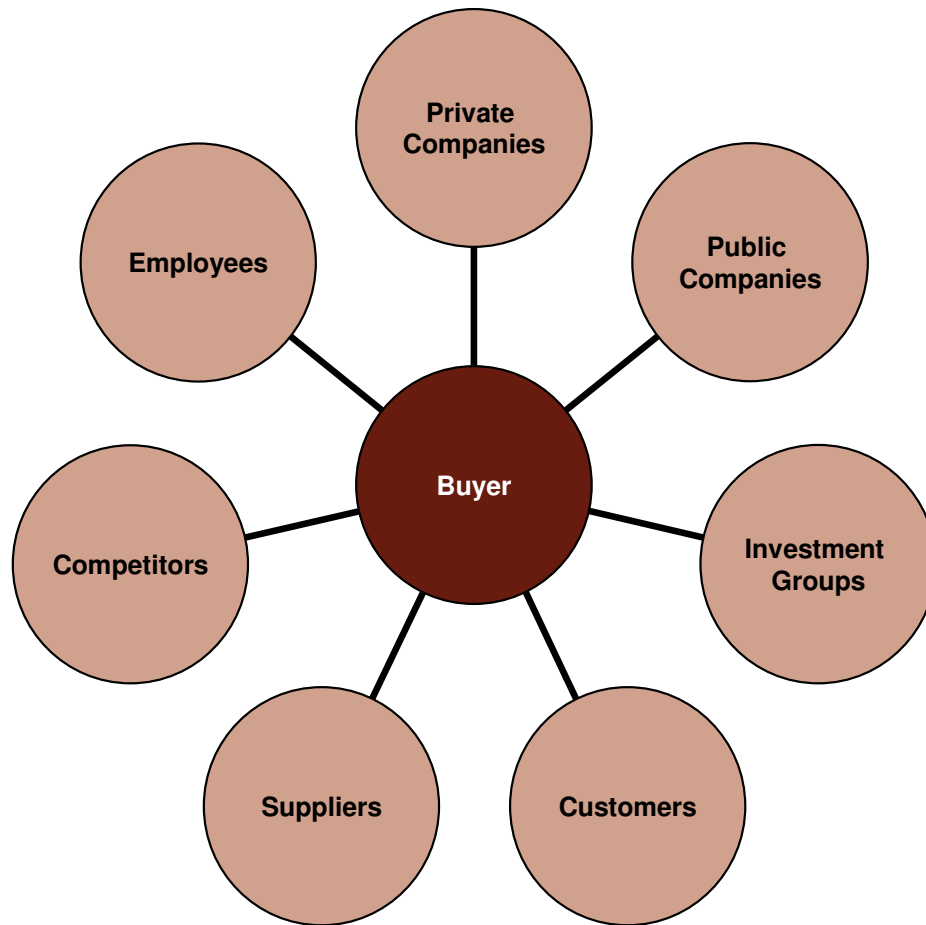
- Financial Analysis
  - Developing a Comprehensive Valuation Model
  - Discounted Cash Flow Analysis (DCF)
  - Publicly Traded Comparables
- Precedent M&A Transaction
  - Accretion / Dilution Analysis
  - Leveraged Buyout Analysis

### Quantitative Analysis

- Value Enhancers Analysis
    - Operational
    - Financial
    - External
  - Risk Factors Analysis
- Competitor Analysis
  - Market Trends Analysis
  - Growth Opportunities Analysis

# Step 5: Buyer Identification . . .

## Buyer Universe



## Sources for Identification

- ✦ Past Acquisition experience
- ✦ Databases
- ✦ M & A Publications
- ✦ Recent IPOs
- ✦ Industry Associations and Trade Shows
- ✦ Trade Publications



## Step 6: Marketing Collaterals . . .

### Teasers

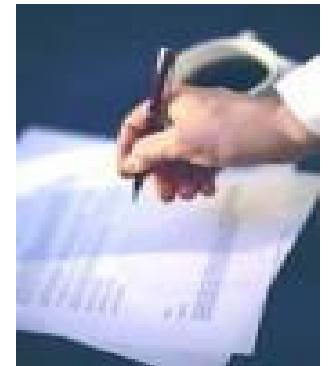
- Initial offering document outlining business created to generate interest in potential buyers
- Name, price and confidential information about company is not disclosed until confidentiality agreement is signed

### Offering Memorandum

- Document containing investment highlights, detailed business description, industry and competitive analysis, and detailed financial information
- Distribution should be closely tracked and confidentiality strongly guarded

### Management Presentation

- Presented upon buyer showing interest
- Detailed business overview given in conjunction with management discussions



## Step 7: Planning . . .

Event	Time
Sending the Teaser	2 to 3 weeks
Buyer shows Interest	1 to 2 weeks
Discussion with prospective buyers	2 to 3 weeks
Signing the Confidentiality Agreement	1 to 2 weeks
Sending the Offering Memorandum	1 to 2 weeks
Non-Binding Indication of Interest	2 to 3 weeks
Meeting with Management / Tour of Seller's Premises	1 to 2 weeks
Due Diligence	1 to 2 weeks
Drafting the Sale Agreement	1 to 2 weeks
Negotiate Transaction with the Buyer	1 to 2 weeks
Close the transaction	1 to 2 weeks

**Total: 14 to 24 weeks**



## Step 9: Negotiation. . .

### Key Deal value enhancers

**Earn-outs:** Additional consideration paid upon seller achieving particular milestones

**Employment Compensation:** Guaranteed employment contracts subject to buyer's perception of necessary ongoing relationship

**Debt Extinguishment:** Agreement to assume and/or extinguish company / owner-related debt

**Dollars, Puts, Options:** Establishes "locked-in" value of buyer stock paid to seller



### Risks

**Becoming Personally Involved:** A seller becoming personally involved hampers the seller's ability to achieve maximum value

**Neglecting Customers, Suppliers, and Employees:** Too much personal focus on deal can hurt strength of ongoing business

**Agreeing on Details Too Quickly:** Agreeing on details too quickly prevents seller's ability to negotiate

## Step 10: Deal Structure. . .

### Asset Deal

**Generally preferred by buyers**

#### **Risk considerations**

- Seller retains liabilities and contracts not specifically assumed

#### **Tax considerations**

- Immediate tax hit to buyer
- Affords buyer ability to write up assets (tax basis), increase deductions and after-tax cash flow

### Stock Deal

**Generally preferred by sellers**

#### **Risk considerations**

- Seller not responsible for company liabilities

#### **Tax considerations**

- Long term capital gain rates for seller
- Elimination of double taxation for buyer





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