

WHAT'S IT WORTH?

For Business Owners, Corporate Officers, & Their Advisors

C&J Valuation Advisors, a division of Coulter & Justus, PC

9717 Cogdill Road, Suite 201 Knoxville, TN 37932
 www.cj-va.com dmoser@cj-va.com 865-637-4161

The Dynamics of Doing a Deal

INSIDE THIS ISSUE

*The Dynamics of
Doing a Deal*

*Meet the C&J
Valuation
Advisors Group*

*"The key to successfully
exiting the danger zone
often lies with the
intermediary."*

After the first attempt to formalize one's intent to buy or sell a company to a specific target, dealmakers sometimes enter the danger zone, when there is a good chance the deal will crater.

Though the danger zone can be rather large, it can be successfully traversed if all parties, including both the buyer's and seller's team of professionals, are committed to getting the deal done.

Some deals fail after they get to this point because the two sides focus solely on what they want to get out of the transaction. Failing to look at what the other side wants can doom the entire deal to failure.

Intermediary assistance

The key to successfully exiting the danger zone often lies with the intermediary, or other members of the professional team, guiding the buyer and seller through this treacherous time. Intermediaries' experience in getting deals done helps them see things in a more objective way than either the buyer or seller alone possibly can.

Sellers for the most part are in the process of parting with "their baby" for a price that is expected to provide them, at a minimum, with a degree of security for the balance of their lives. In addition, sellers negotiate to sell an enterprise that

they've spent a major part of their lives developing. In a process akin to marrying off one's child, the prospective spouse is never good enough — at least at first glance.

Financial buyers, on the other hand, tend to be more objective. They are looking to acquire cash flow; it's all about how much cash the business will generate and how certain they are that it will do so.

"Buyers tend to view surprises and negative information as tools with which to lower the company's price."

Strategic buyers tend to look at what the potential acquisition will bring to their already existing business or businesses. The "add-on" can take one or more forms: It can be accretive to earnings, add to the product offering, increase geographic coverage, or bring in management talent to fill a void or improve current operations.

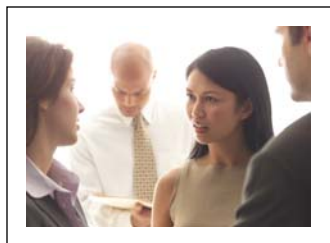
At this point, it's imperative to engage an intermediary experienced in bridging gaps and guiding clients through deal danger zones.

Avoid bombshells

Buyers tend to view surprises and negative information as tools with which to lower the company's price. Or, in the worst-case scenario, as a way to get out of the transaction.

Conversely, sellers likely would contend that their companies' value shouldn't be reduced, because the company's future value will not be negatively affected by a minor adverse adjustment.

Here's an example of the pricing process and one of its tripwires. Let's say that, thus far, a seller has been talking about the sales run rate of a new customer (that is, the customer's annual volume) as if it has been in place for a full fiscal year. The key customer's annual volume is, or is expected to be, \$3 million. When the buyer reviews the sales figures closely, he discovers that the annual volume for the key customer in question has only been \$2.5 million for this fiscal year.



The buyer doesn't know, however, that the key customer didn't come on board until the middle of the second quarter of the fiscal year. The buyer seizes on this information to reduce the price he is offering the seller. Meanwhile, the seller wants compensation for the future value his business will bring to the buyer.

The Earnout

With the intermediary's assistance, the buyer and seller often can resolve an issue like this by tying part of the purchase price to future performance. Many M&A professionals would recommend an earnout — a method of compensation that is contingent on future performance.

Wait, you say, how do we judge future performance? How long is the earnout time period? What are the metrics of the earnout provision? How can I be sure that the buyer won't "jimmy" the numbers? All of these are fair questions that should be addressed in the transaction's documentation. Among the professionals representing both the buyer and the seller — all of whom want to get the deal done — the details can be worked out if all of the parties to the transaction have their clients' best interests at heart.

Admittedly, an earnout or another form of delayed, contingent payment complicates a transaction. If both sides, however, include people with requisite professional skills and a strong desire to see the deal through to fruition, the danger zone can be circumvented.



Do you own a business or advise a business owner? Contact Dave Moser to arrange a free consultation.

“Admittedly, an earnout...complicates a transaction. If both sides...include people with requisite professional skills...the danger zone can be circumvented.”



Meet C&J Valuation Advisors

By: Dave Moser, Managing Director

I hope you have enjoyed our complimentary newsletter. **If you would like to add a client or friend to the distribution list, or join our monthly e-mail newsletter, please e-mail: dmoser@cj-va.com** with "Subscribe" as the subject.

C&J Valuation Advisors has over 70 years of combined experience involving more than 1,000 projects, and continues to be the largest and most experienced full time valuation group in East Tennessee. We understand the significant financial and emotional impact our services play in client's lives, and are excited to offer a full range of transactions services.

In addition to business valuations throughout North America and Internationally, we provide M&A advisory services for substantial private firms, as well as a host of real estate advisory services including: cost segregation studies, real property tax appeals, lease audit and negotiation, and feasibility analysis.

David G. Moser, ASA, CEI

Managing Director
dmoser@cj-va.com



David is a certified member of the American Society of Appraisers (ASA) and has over 38 years experience in the valuation profession. Before joining Coulter & Justus in 1996, he served as partner and director in charge of valuation with Ernst and Young and in management positions with two other international valuation firms. He has considerable experience in valuations, cost segregation studies, and as an expert witness.

Renee M. Harwell, CPA/ABV, ASA

Director
rharwell@cj-va.com



Renee has been valuing businesses full time since 1996. She has valued businesses for purposes including estate, gifting, mergers and acquisitions, buy-sell agreements, purchase price allocations, bankruptcy, reorganization, and litigation. Renee joined Coulter & Justus, PC in 1999, is an Accredited Senior Appraiser of the American Society of Appraisers, a CPA, and is accredited in business valuation by the AICPA.

Sven V. Serspinski

Director
sserspinski@cj-va.com



Sven has over 16 years experience in investment banking and business valuation, including mergers and acquisitions. He joined Coulter & Justus in 2003 and has an MBA with an emphasis in Finance from New York University's Stern School of Business and also holds the CM&AA (Certified Merger & Acquisition Advisor) designation.



VALUATION ADVISORS
Business Valuation • Mergers & Acquisitions • Real Estate Advisory