



**Growth & Exit Strategies:
Evaluating Your Company Direction
In a Distressed Market**

www.ma-forum.com

M&A Forum Overview



- Online M&A marketplace for confidential matching of sellers with buyers
- Confidential listings – blind profiles
- Trusted professional M&A advisors for IT channel companies
- Deep understanding of the deal process from start to finish
- Focused exclusively on IT services, solutions, hardware and software
- Professional advisory expertise for mid-market and smaller transactions not usually supported by M&A advisory firms
- Founded by Marty Wolf, and sister company of Martin Wolf Securities—over 85 transactions completed with IT channel companies

The Questions



- *Must you sell your IT channel business now?*
- *Can you sell your business for fair value...in the current economic climate?*
- *Why might it make sense to sell this year?*
- *Will “next year’s value” likely be higher or lower?*
- *Here is a briefing on current M&A trends, key business valuation metrics, and how the deal process should work if you must sell your business this year.*

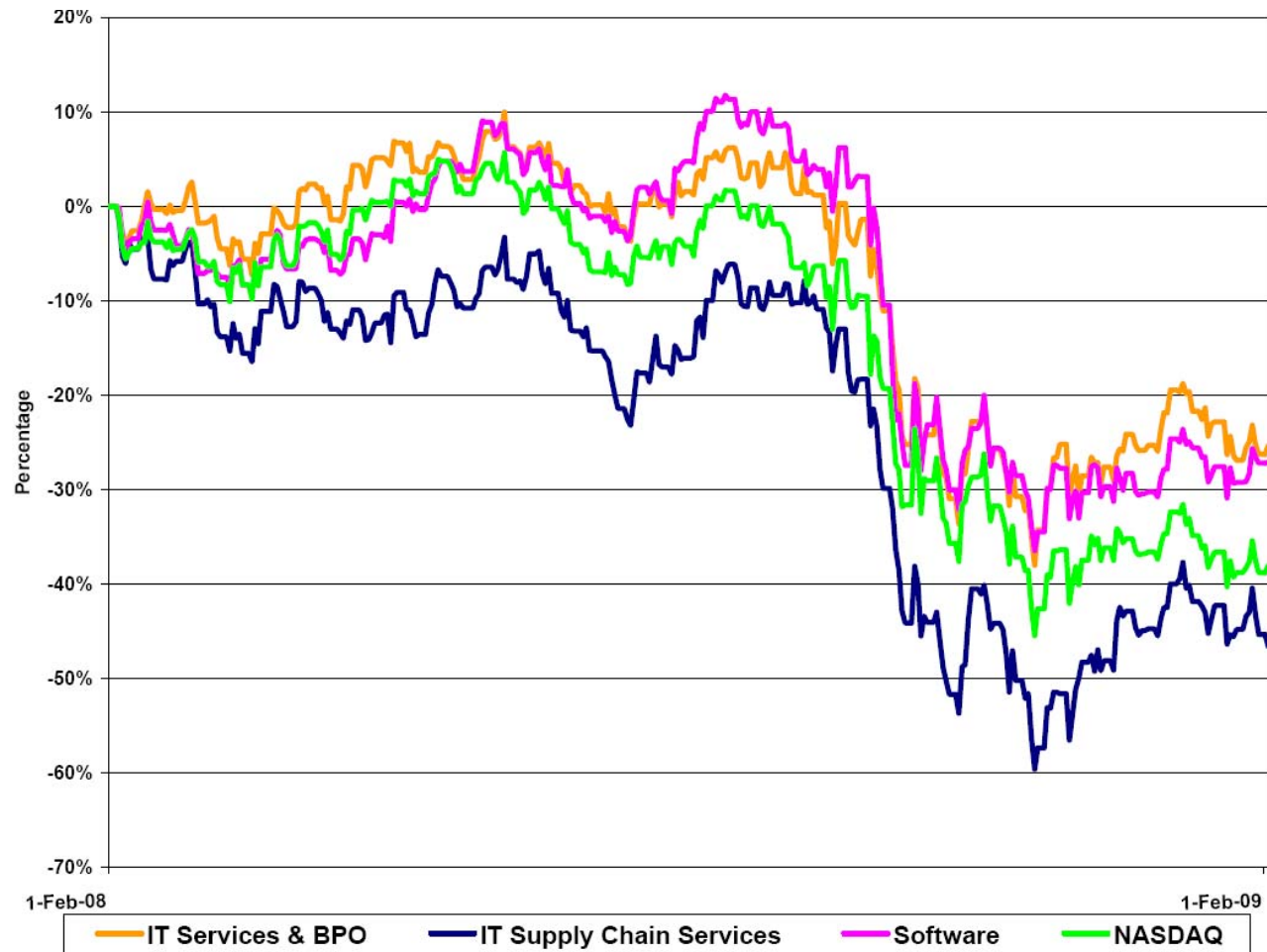
Outline



- ▶ **Current Environment**
- Valuation
- The M&A Process
- Getting Started
- Q & A

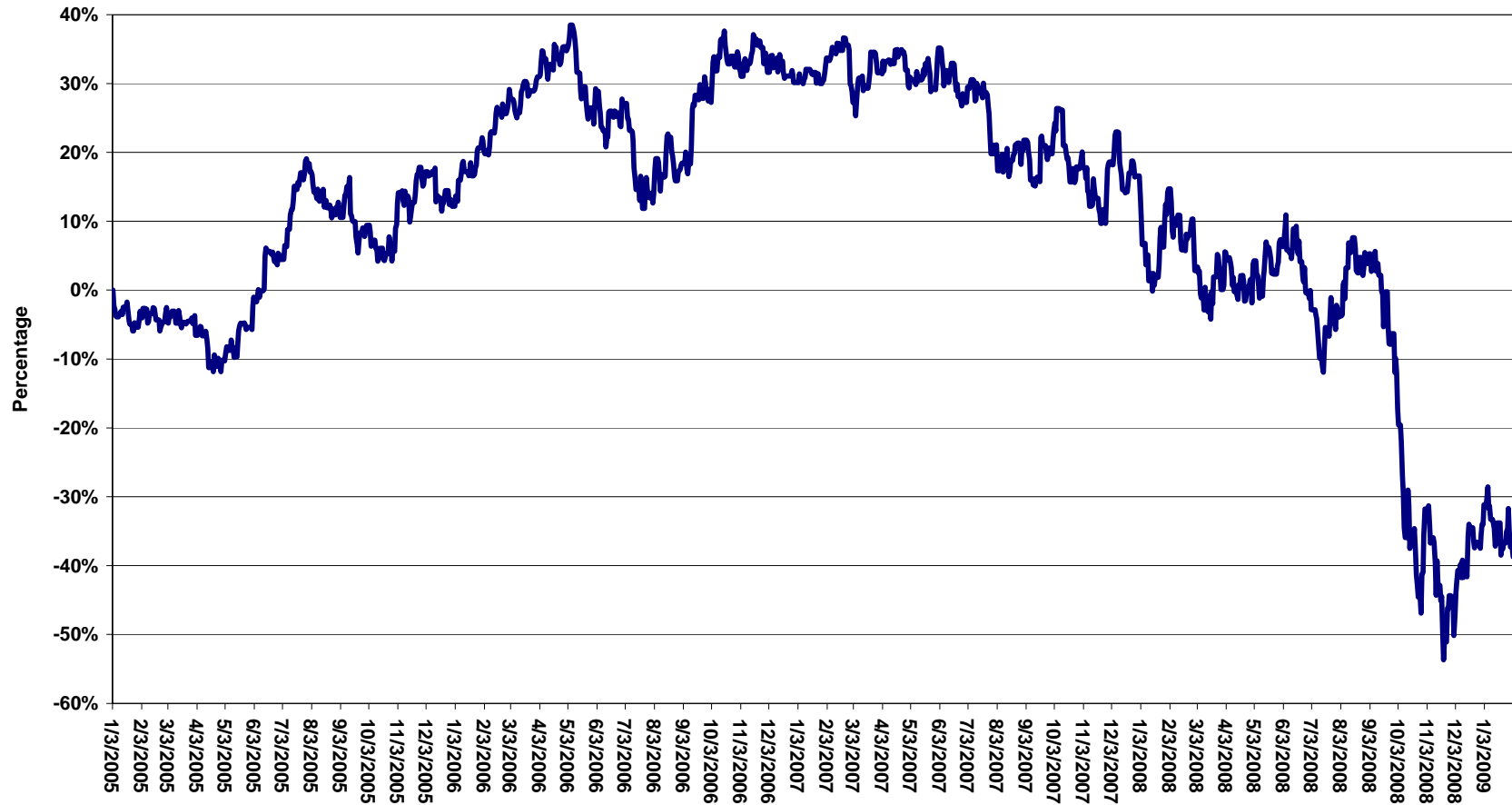
Industry Dynamics

MWS Index [®]

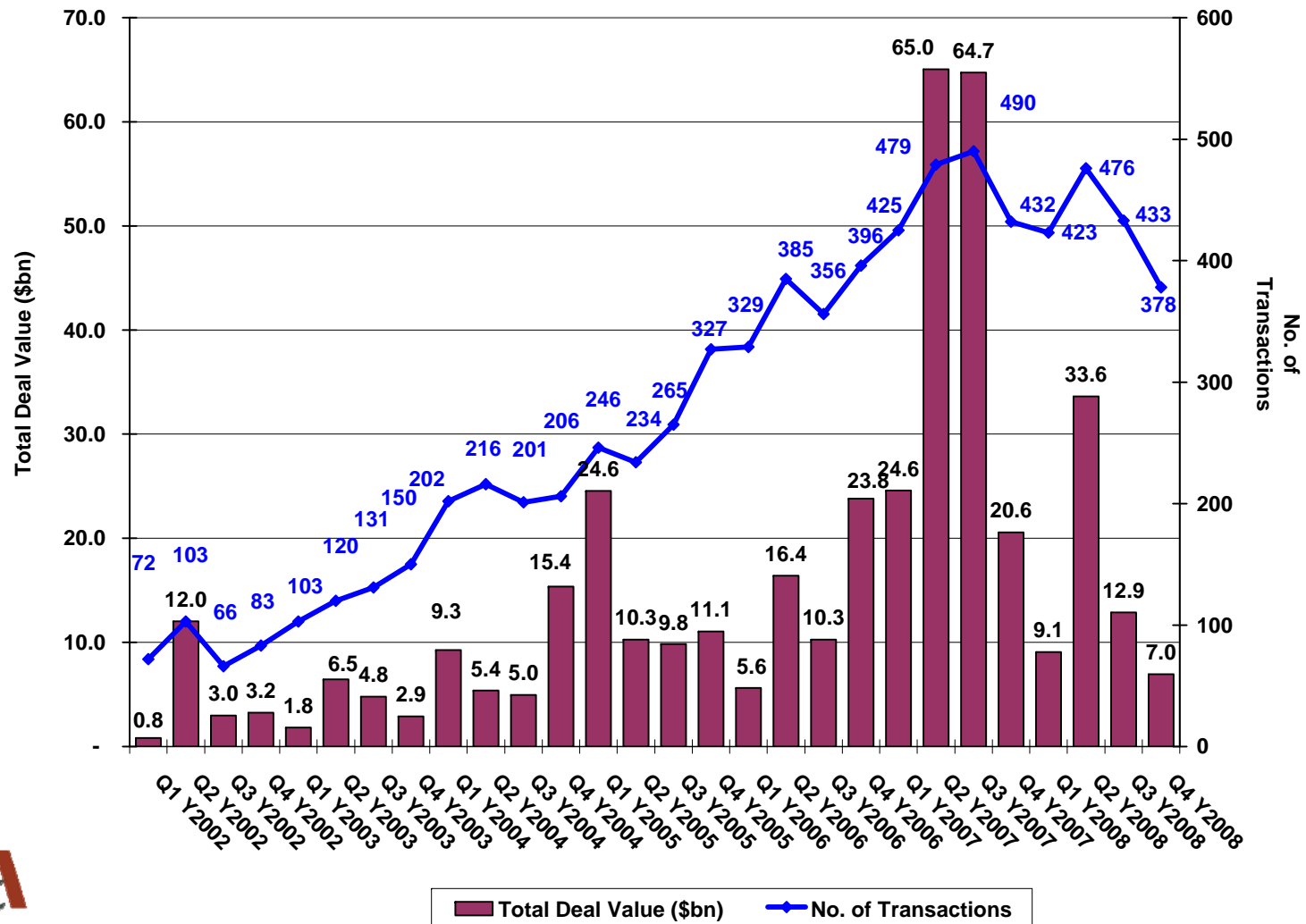


MWS Supply Chain Index

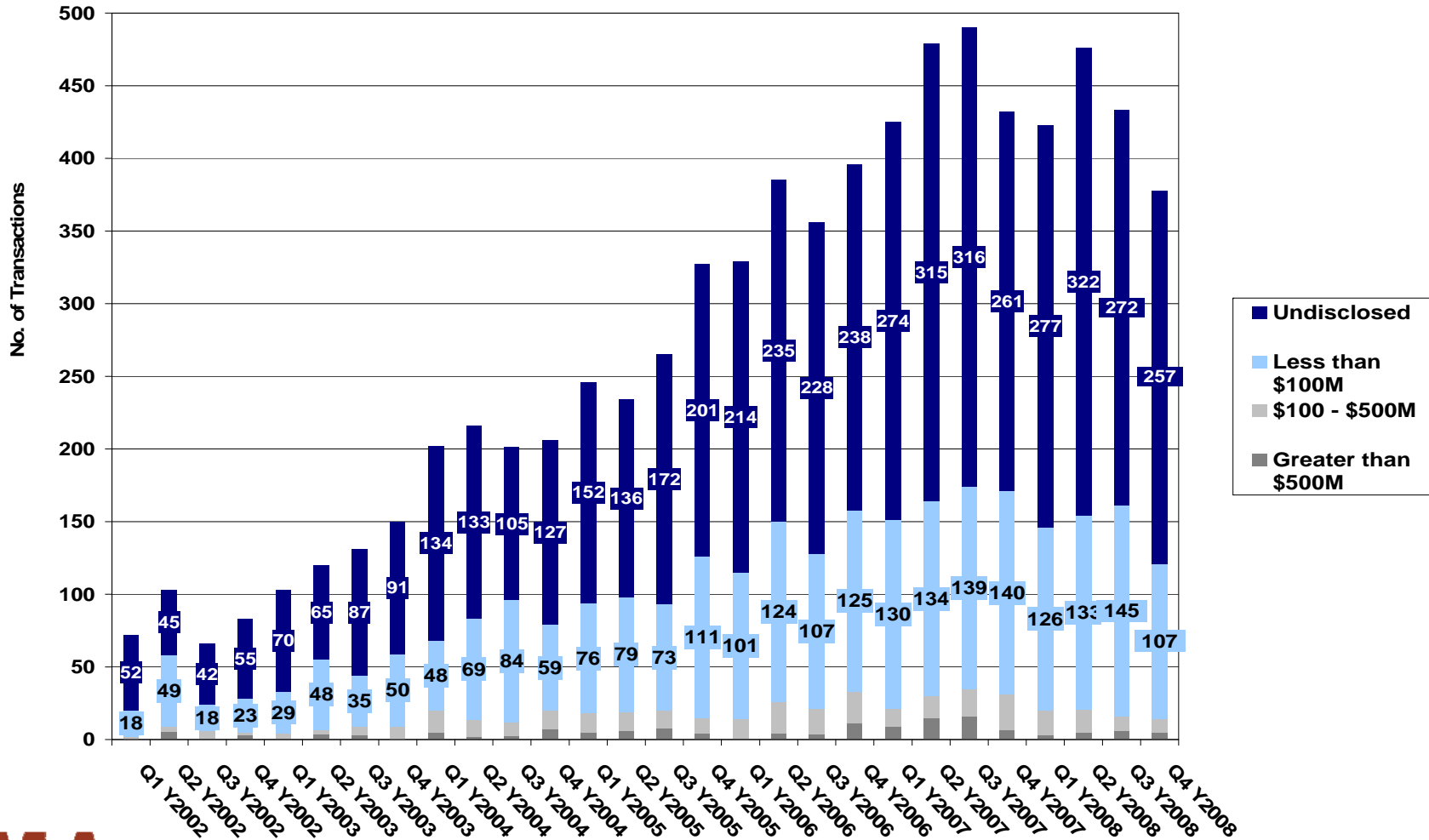
Valuations of 2006 and 2007 Peak



Global IT Solutions M&A Activities vs. Deal Value



Global M&A Activity IT Solutions



M&A Dynamics

Key Themes in IT Solutions



- No absolutes...your **individual situation** dictates likely outcomes
- As ever—**consolidation continues**...around key solutions
- **Strategic buyers are in the market**
- Financial buyers are mostly on the sidelines, but stepping in
- Growth and earnings are key factors
- If you **need** or **want** to now go to market with your IT business—you can—we will help you do it

Common Fallacies



- **Values Always Rise:** “I will wait to sell until next year (or 20XX) when the value will be a lot higher than it is today!”
- **If Only:** “I only need to increase my revenue by \$XXXXXX and my profit by \$YYYYY, and then I will be able to get the value I really want!”
- **Sour Grapes Ahead:** “If I sell my business today, and it turns out it could have been worth more ____ years from now, I will feel badly that I left money on the table!”
- **Kindness is Virtue:** “I am not going to sell my business today because it is my legacy for _____ and _____, and they will be able to not only make a great living, but sell it for a lot more in ____ years!”

“Can I Really Consider a Sale of My IT Channel Business Now?”



- The value of your business as of today, may never be higher—and could decline.
- There is no guarantee that producing better results ahead, will always lead to a higher valuation...
- You should get an estimate of the value of your business before you decide to move ahead.
- If you move ahead, you don't have to stay the course if you don't want to—you have free will to stop or to change course.
- Diversifying your business risk by partnering with a larger organization may be the better part of going it alone.
- Same for credit risk...
- Same for market risk...

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Valuation Methodologies



- A multiple of trailing 12-month EBITDA is the principal metric
- Also considered:
 - Revenue mix
 - Strategic value
 - Transaction comps
 - Public company comps
 - What the buyer can pay

Public Comparables



Sector	Revenue Growth %	GM %	EBITDA %	Debt / Assets %	P/S	P/E	EV / LTM Revenue	EV / LTM EBITDA
IT Resellers	-0.8%	20.1%	0.8%	21.7%	0.10	8.3	0.19	5.5
Direct Marketers	9.6%	13.8%	3.3%	11.4%	0.05	5.9	0.07	2.3
Commercial IT Services	11.1%	30.8%	7.3%	1.4%	0.35	9.4	0.28	3.7
Government IT Services	19.8%	19.5%	8.8%	18.3%	0.68	19.9	0.66	7.2
IT Staff Augmentation	0.1%	23.0%	3.6%	5.2%	0.09	7.4	0.11	2.8
IT Outsourcing	14.6%	31.8%	15.6%	12.9%	0.74	9.5	0.82	5.3

Note: Private company valuation is discounted vs. public company valuation.



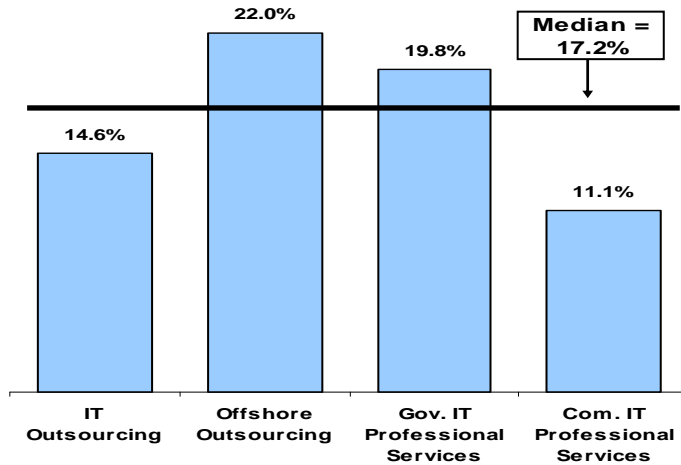
Data as of 2/22/2009

Source: MWS Research

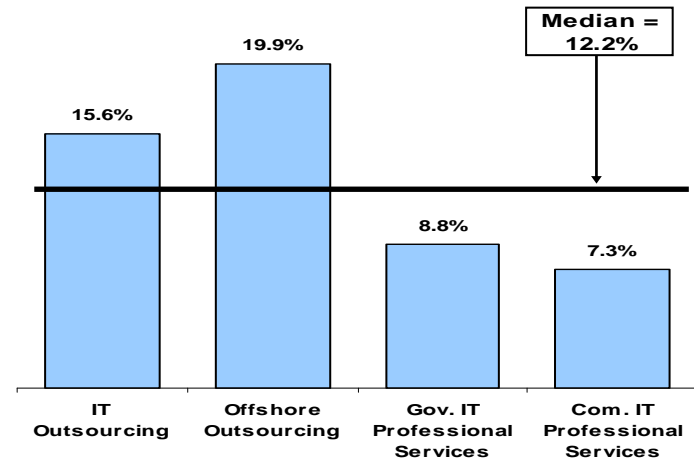
Operation & Valuation Metrics



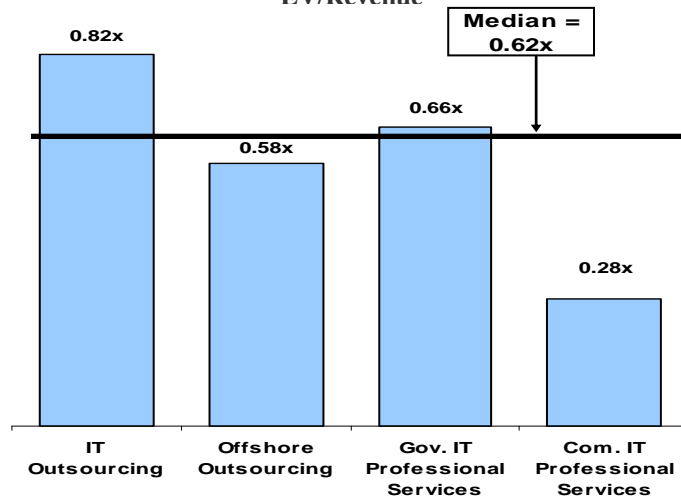
Revenue Growth



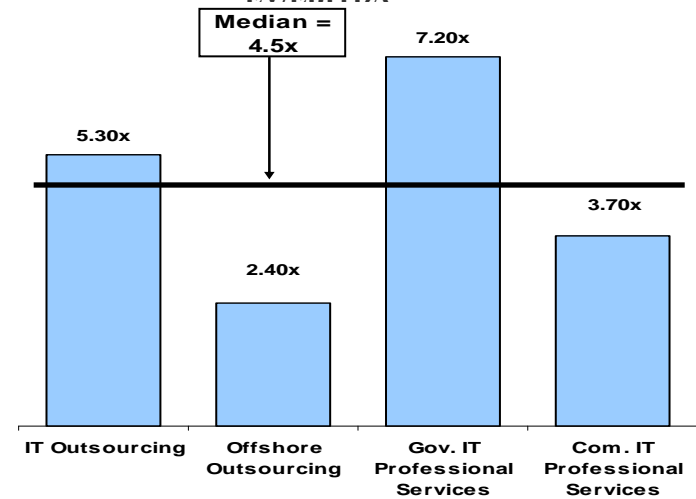
EBITDA Margin



EV/Revenue



EV/EBITDA



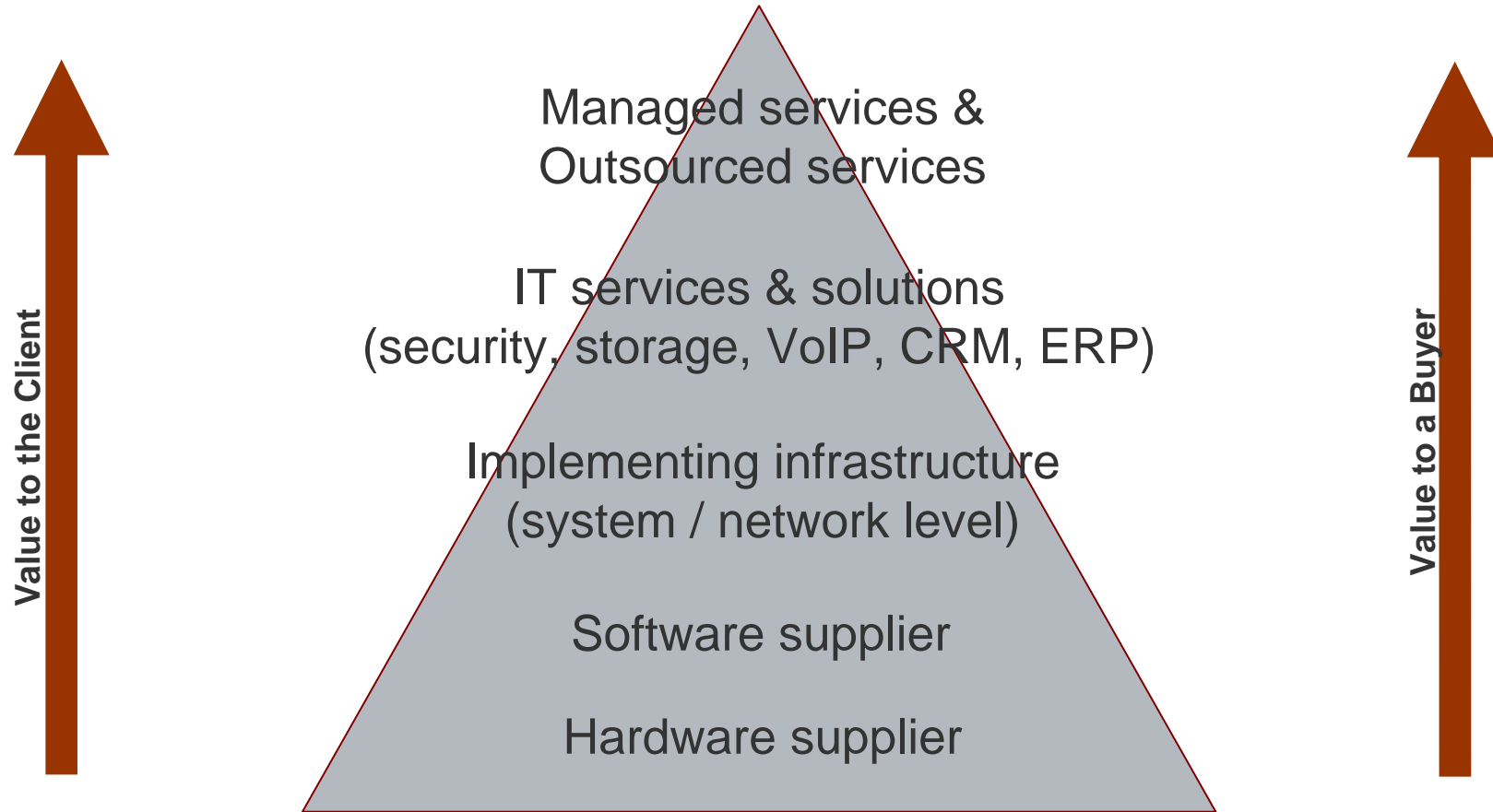
Valuation Drivers

Increasing the multiple



- Recurring revenue
- Value-added & premium relationships
- Higher *percentage* of services revenue
- Higher *value* services revenue
- Performance above competitor averages
- Desirable customer base
- Market presence
- Management and human capital

Business Value = Customer Value



Recurring revenue: Customer entanglement increases certainty of revenue acquired.

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The M&A Process: Seller Perspective

Seller Motivation

“Why sell now...?”



- Market and other risks are too high or unknown
- Unable/unwilling to compete independently
- Owners/investors need liquidity
- Greater resources are required for growth, or to realize the full potential of the business
- Need a successor for family business
- Ready to move on...

Seller Process



- Produce current and accurate financial statements
- Learn what the likely value of the business will be upon sale
- Identify your support team
 - M&A advisor, accountant, deal attorney
- Position and market the business
- Identify potential buyers
- Negotiate, close, transition

Finding Buyer Prospects



- Identify potential buyers
 - Known candidates - competitors
 - Search/list using M&A Forum online service (blind profile and confidential process)
 - Related deals – strategic deals already done
 - M&A Forum knows the buyers and can match your business with the most qualified buyers

Managing the Process



- Candidates identified
- Put non-disclosure agreements and protections in place
- Exchange information
- Follow up with interested parties

Negotiations & Structure



- Parties are interested and want to proceed
- Outline of the economic and other terms
- Term sheet/letter of interest/Intent
- Due diligence process
- Definitive Purchase Agreement

Employment Issues



- Owners
 - Commitment to transition may be needed to close deal
- Employees
 - Key employees & stakeholders must be considered
 - Understand and acknowledge importance to transaction, and to your potential for earn out
 - Potential staff redundancy should be addressed up front

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You and the M&A Process



- Select an *M&A Forum* Managing Director to be your guide, your M&A expert in managing the process
- Increase your market knowledge
- Understand your role and requirements in the M&A process
- Take a step – consider the potential value of your business
- Consider what kind of deal would work for you

Questions to Consider in the Current Environment



- What is your realistic financial cushion?
- What is the reality of the following: cash flow trend, receivables aging, currency of payables, credit availability (change in banking “relationship”, changes in borrowing covenants, personal guaranties, mortgaged assets...
- How can you reduce your risk of having to make decisions under greater duress in a few months?
- What decisions must you make now, to preserve business value? Time is, as ever, the enemy...
- Would ‘sharing the risk’ by being part of a larger organization serve your interests? Is there an opportunity to take something of the table now, and have upside too?

What is My Business Worth?



- Receive an informal estimate of the current value of your business for just \$1,995
- Contact us for a no-obligation consultation
- We will help you create your confidential M&A Forum blind profile

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END