MERCER CAPITAL

BUSINESS VALUATION &
FINANCIAL ADVISORY SERVICES

Selling Your Business

Practical Steps Business Owners Can Take to Ready Their Businesses for the Best Transaction Outcome

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INTRODUCTION

Selling your business is a daunting exercise that requires careful preparation and real-time vigilance. In this whitepaper, we define some practical steps business owners can take to ready their businesses for the best transaction outcome. These steps include identifying the right kind of buyer and transaction design, setting expectations for the timeline to consummate a transaction, hiring an advisor, understanding the various advisory fee structures that best suit each transaction scenario, as well as a few considerations every owner should contemplate before bringing their business to market.

THE POTENTIAL BUYERS OF YOUR BUSINESS

An Overview of the Different Types of Buyers for Closely Held, Mid-Market Companies

We regularly encounter business owners contemplating the dilemma of ownership transition. After years (maybe even decades) of cultivating the business through hard work, determination, and perhaps a bit of luck, many prospective sellers believe now is a sensible time to exit.

Tax changes are looming, pandemic and post-pandemic winners see solutions to a myriad of operational challenges, and valuations remain favorable in most industries. However, a seller's timing, the readiness of the business, and the readiness of the marketplace may not be aligned without careful seller preparation and real-time market awareness.

Little do most sellers realize that their preparation, their tolerance for post-deal involvement, their health and ability to remain active, and their needs for liquidity will influence the breadth and priorities of their options and will influence who the potential buyers might be and how they might target the business. Proactivity (or backfilling for the lack thereof) will also influence the design and costs of the process for effective M&A representation.

Under ideal circumstances, the planning process for an exit will begin well before the need for an actual ownership transfer arises. One of the first steps in planning for an eventual sale is to understand who the potential buyers might be and the different characteristics of these buyers.

In this section, we discuss some exit options and summarize some of the specifics of certain types of buyers and what that could mean for transaction structure and economic outcomes.

Internal Ownership Transition

When done carefully, an internal transition can be desirable in order to protect both the existing employees and the culture of the business. Potential buyers in an internal transition generally include the next generation of the owner's family or key employees of the company (or a mix thereof).

These transactions generally occur one of two ways: through a direct sale from the exiting owner to the next generation or through the establishment of an Employee Stock Ownership Plan (ESOP).

While these transactions may not yield the pricing or turnkey liquidity that selling to an outside buyer might, they can provide comfort to exiting owners regarding their legacy and the continuing prospects of the business as an independent going concern.

Sale to Next Generation

A key consideration in selling to family members or to employees is price. Equally important is the question of how the transaction is financed.

Internal transactions are often achieved by share redemptions in installments and/or through a leveraged buyout process. Often, the seller will provide financing using one of many potential structures.

Seller financing carries the risk of the buyer's inability to pay, which often requires the seller to reinsert into active leadership. Many may view seller financing as acceptable, if not necessary or desirable, in order to control the terms and costs of the arrangements and to benefit from the interest payments and other terms of the financing.

As noted, a seller's liquidity requirements and the underlying fundamental borrowing capacity of the business play a big part in determining how much third party capital can be employed. Many sellers want their buyers, family or otherwise, to have real skin in the game by way of at least partial external financing.

If the next generation of family members and/or employees are not well-situated to achieve a buyout as a concentrated ownership group, then the feasibility of a more formal collective buyer group may be a good alternative. Following is a brief overview of Employee Stock Ownership Plans, which can serve as an alternative to a concentrated internal transition.

Establishing an Employee Stock Ownership Plan

ESOPs are a proven vehicle of ownership transfer. They can provide for either an incremental or a turnkey ownership transfer. They also facilitate the opportunity for legacy owners to continue contributing to the stability and success of the business while allowing employees to reap the rewards and benefits of capital ownership.

Assessing the feasibility of an ESOP requires the advisory support of experienced financial and legal professionals who help ensure that best practices are implemented and that compliance awareness governs the transaction. To that end, owners contemplating an ESOP need to be keenly aware of the importance of following a well-designed process that satisfies the requirements of the Department of Labor and adheres to governing rules and regulations.

As a qualified retirement plan subject to regulations set forth by ERISA (Employee Retirement Income Security Act), ESOPs are regulated using strict guidelines for process, fairness, and administration. Accordingly, the entire life cycle of a contemplated ESOP needs to be studied in a process generally referred to as an ESOP Feasibility Study. Valuation, financing, plan design, plan administration, future repurchase obligations, and many other concerns must be assessed before venturing down the ESOP path.

In function, the establishment of an ESOP includes the creation of an ESOP trust, which, using one of many possible transaction structures, becomes the ultimate owner of some or all of the stock of the sponsoring ESOP company. ESOPs are unique in being the only qualified retirement plans allowed to use debt to purchase the shares of the employer corporation.

Once an ESOP is in place, the qualifying employee participants are allocated interests in the trust annually according to the Plan's design. As employees cycle through their employment tenure, they trigger milestone events that allow for the effective sale of their accumulated ownership positions, providing a nest egg for retirement.

During their tenure of employment, the employee's account is mostly concentrated in company stock, the valuation of which determines the amount they receive when nearing and eventually reaching retirement age. The stock accumulated during active employment is converted to cash and the plan shares are either redeemed or recycled to perpetuate the ESOP.

There are certain tax-related and transaction design features in an ESOP transaction that can benefit sellers in numerous different ways. Sellers in ESOP installations must understand the necessary complexities and nuances of a well-run ESOP transaction. Sellers lacking the patience and gumption for an ESOP process or those who require turnkey liquidity in their ownership exit should likely consider an alternative liquidity strategy.

External Sale

In general, the ability to sell your business to an external party yields the highest proceeds. If you have succeeded in creating a sustainable business model with favorable prospects for growth, your business assets may generate interest from both strategic and financial buyers.

The Strategic Buyer

A strategic buyer is usually a complementary or competitive industry player within your markets or looking to enter your markets.

Strategic buyers can be generally characterized as either vertical or horizontal in nature. Such buyers are interested in the natural economies of scale that result from an expanded market area (cost and operational leverage in our terminology) and/or from specific synergies that create the opportunity for market and financial accretion (think 1 + 1 = 3).

There is a good chance that a potential strategic buyer for your business is someone or some group you already know. Such buyers don't require the full ground-up familiarization process because they are already in tune with the risk and growth profiles of the business model. Accordingly, owners interested in a turnkey, walk-away sale of their business are often compelled toward a strategic buyer since strategic buyers can quickly integrate the seller's business into their own.

The moving parts of transaction consideration paid by strategic buyers can cover a broad spectrum. We see simple, nearly 100% cash deals, as well as deals that include various forms of contingent consideration and employment/non-compete agreements.

Most sellers in strategic deals are not inclined to work for their buyers other than in a purely consultative role that helps deliver the full tangible and intangible value the buyer is paying for. In many cases, strategic buyers want a clean and relatively abrupt break from prior ownership in order to hasten the integration processes and cultural shift that come with a change in control.

Additionally and/or alternatively, strategic deals may include highly tailored earn-outs that are designed with hurdles based on industry-specific metrics. In general, earn-outs are often designed to close gaps in the bid/ask spread that occur in the negotiation process. These features allow sellers more consideration if post-transaction performance meets or beats the defined hurdles and vice versa. Sellers must be aware of the sophisticated means by which larger strategic buyers can creatively engineer the outcomes of contingent consideration.

In certain industries strategic buyers may structure consideration as part cash and part or all stock. Sellers in the financial sector are often selling equity ownership as opposed to the asset sales that dominate most non-financial sectors. In such deals, sellers who take equity in the merged entity must be cognizant of their own valuation and that of the buyer. The science of the exchange rate and the post-closing true-ups that may apply are areas in which sellers should seek skilled professional advisory guidance.

The Financial Buyer

Financial buyers are primarily interested in the returns achieved from their investment activities. These returns are achieved by the conventions of 1) traditional opportunistic investment and 2) by means of sophisticated front-end and back-end financial engineering with respect to the original financing and the subsequent re-financings that often occur.

Most traditional buy-out financial investors are looking to satisfy the specific investment criteria of their underlying fund investors, who have signed on for a targeted duration of investment that, by nature, requires the financial investor to achieve a secondary exit of the business within three to seven years after the original acquisition (the house flipping analogy is a clear but oversimplified one). Financial investors may have significant expertise acquiring companies in certain industries or may act as generalists willing to acquire different types of businesses across different industries.

In general, there are three types of financial buyers:

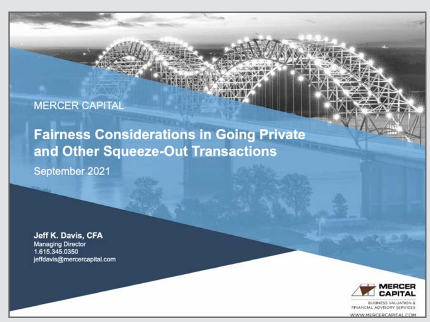
1. Private Equity Groups or other Alternative Financial Investors
2. Permanent Capital Providers
3. Single/Multi-Family Offices

Despite their financial expertise, financial buyers usually do not have the capacity or knowledge to assume the management of the day-to-day operations of all of their business investments. As such, the seller's management team at the time of a sale will likely remain involved with the Company for the foreseeable future. A sale to a financial investor can be a viable solution for ownership groups in which one owner wants to cash out and completely exit the business while other owners remain involved (rollover) with the business.

With respect to work force and employee stability, financial investors will ultimately seek maximum efficiency, but they often begin the process by making sure they secure the services of both front line and managerial employees. In many cases, the desired growth of such investors can bolster the employment security of good employees while screening out those that resist change and impede progress.

The value of the assembled workforce is becoming a more meaningful asset to prospective buyers in the marketplace, whether they be strategic or financial in nature. Further, larger acquirers often can present employees with a more comprehensive benefit package and enhanced upward mobility in job responsibility and compensation. All this said, financial investors will ultimately seek to optimize their returns with relentless efficiency.

Lastly, as the financial buyer universe has matured over the past 20+ years, we have witnessed directly that many strategic consolidators are platform businesses with private equity sponsorship, which blurs or even eliminates the notion of a strictly strategic or financial buyer in many industries.



HOW LONG WILL IT TAKE TO SELL YOUR BUSINESS?

That Depends on the Type of Transaction…

Ownership transitions, whether internal among family and other shareholders or external with third parties, require effective planning and a team of qualified advisors to achieve the desired outcome. In this section, we examine some "typical" timelines involved in various types of transactions.

Internal Transitions

Sale to Next Generation

Internal transitions are often undertaken in accordance with provisions outlined in the Company's existing or newly minted buy-sell agreement. A buy-sell agreement is an agreement by and between the owners of a closely owned business that defines the terms for the purchase when an owner requires liquidity. Buy-sell agreements typically specify how pricing is determined, including the timing, the standard of value used, the level of value, and the appraiser performing the valuation.

As a matter of practicality, the timing for transfers using an existing buy-sell agreement is often dependent on the readiness of financing and the service level of the assisting legal and valuation advisory professionals. Experience suggests this can take as little as four to eight weeks, but often involves processes that can require three to six months to carry out.

In circumstances where a newly crafted buy-sell agreement is being developed, you should expect a lengthier process of at least several months so that the attending financial, valuation, and legal frameworks are satisfactorily achieved.

Mercer Capital has published **numerous books** on the topic of buy-sell agreements, which readers of this article should avail themselves of, or better yet, contact a Mercer Capital valuation professional to make sure you get directed to the most useful content to assist in your circumstance.

Companies with an existing buy-sell agreement and those that obtain regular appraisal work, stand the best chance of achieving a timely process. Those Companies that are embarking on their first real valuation process, and that have stakeholders who require a thorough education on valuation and other topics, should allow for a deliberate and paced process.

In the event of an unexpected need for ownership transfer (death and divorce to name a few), it is sound advice to retain a primary facilitator to administer to the potentially complex sets of needs that often accompany the unexpected.

Employee Stock Ownership Plans

The establishment of an Employee Stock Ownership Plans (ESOP) is a necessarily involved process that requires a variety of analyses, one of which is an appraisal of the Company's shares that will be held by the plan.

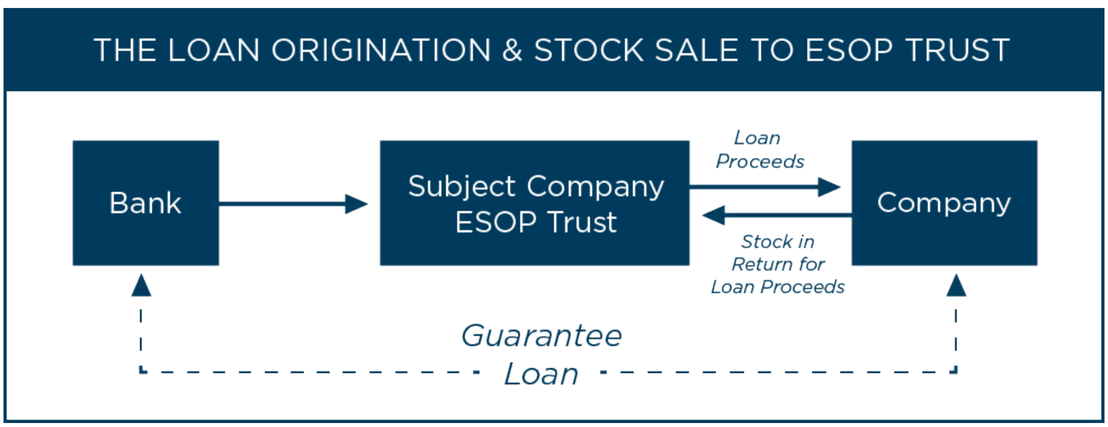
For a Company with well-established internal processes and systems, the initial ESOP transaction typically requires four to six months. In a typical ESOP transaction, the Company will engage a number of advisors who work together to assist the Company and its shareholders in the transaction process. The typical “deal team” includes a firm that specializes in ESOP implementation, as well legal counsel, an accounting firm, a banker, and an independent trustee (and that trustee’s team of advisors as well).

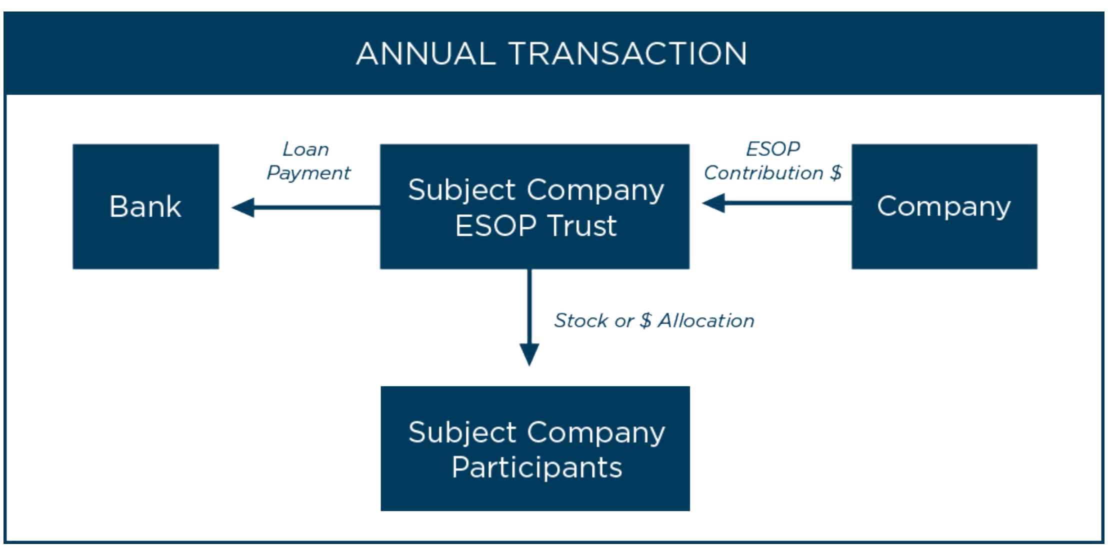
Most modern-day ESOPs involve complex financing arrangements including senior bankers and differing types and combinations of subordinated lenders (mezzanine lenders and seller notes). There are numerous designs to achieve an ESOP installation. In general, the Company establishes and then funds the ESOP’s purchase financing via annual contributions.

ESOPs are qualified retirement plans that are subject to the Employee Retirement Income Security Act and regulated by the Department of Labor. Accordingly, ESOP design and installation are in the least, a time consuming process (plan for six months) and in some cases an arduous one that requires fortitude and an appreciation by all parties for the consequences of not getting it right up front. The intricacies and processes for a successful ESOP transaction are many.

A more detailed assessment of ESOPs is provided **here** on Mercer Capital’s website.

The following graphics depict the prototypical ESOP structure and the flow of funds.





External Sales

Many entrepreneurs cannot fathom why success in business may not equally apply to getting a deal done. In most external transactions, there is a significant imbalance of deal experience: today's buyers have often completed many transactions, while sellers may have never sold a business. Accordingly, sellers need to assemble a team of experienced and trusted advisors to help them navigate unfamiliar terrain.

Without exception, we recommend retaining a transaction team composed of at least three deal-savvy players: a transaction attorney, a tax accountant, and a sell-side financial advisor. If you do not already have some of these capable advisors, assembling a strong team can require time to accomplish. Since many transactions with external buyers originate as unsolicited approaches from the growing myriad of private equity and family office investors, it is advisable to maintain a posture of readiness.

Up-to-date financial reporting, good general housekeeping with respect to accounts, inventory, real property maintenance, information technology, and the like are all part of a time-efficient transaction process. These aspects of readiness are the things that sellers can control in order to improve timing efficiency. As is often said in the transaction environment – time wounds all deals.

Sellers doing their part on the readiness front are given license to expect an efficient process from their sell-side advisors and from buyers. We do caution that selling in today's mid-market environment ($10-$500 million deal size) often involves facilitating potentially exhaustive buyer due diligence in the form of financial, legal, tax, regulatory and other matters not to mention potentially open-ended Quality of Earnings processes used by today's sophisticated investors and strategic consolidators. A seasoned sell-side advisor can help economize on and facilitate these processes if not in the least comfort sellers as to the inherent complexity of the transaction process.

The sell-side advisor assists ownership (or the seller's board as the case may be) in setting reasonable value expectations, preparing the confidential information memorandum, identifying a target list of potential motivated buyers, soliciting and assessing initial indications of interest and formal bids, evaluating offers, facilitating due diligence, and negotiating key economic terms of the various contractual agreements.

The typical external transaction process takes four to seven months and is done in three often overlapping and recycling phases. While every deal process involves different twists and turns on the path to consummation, the typical external transaction process takes five to seven months and is completed in the three phases depicted in the following graphics on page 10.

Three Phases of the Typical External Transaction Process

Phase 1
Preparing for Sale

- Collection of Company information, including historical financials, multi-year projections, organizational charts, marketing materials, officer compensation, and the like
- On-site visits with management as needed
- Preparation of a benchmark valuation analysis, representing a range of value providing shareholders a reasonable expectation regarding potential purchase price
- Consultation with shareholders regarding the benchmark value and the decision to market the business for sale

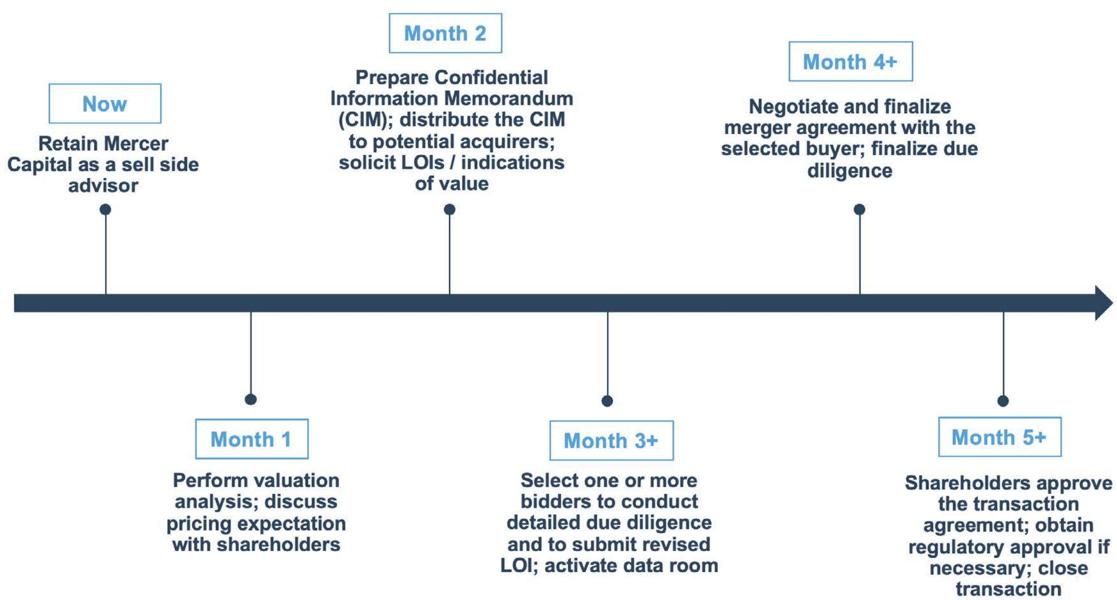
Phase 2
Going to Market

- Preparation of a Confidential Information Memorandum (CIM) for presentation to qualified parties who may have an interest in acquiring the Company
- Development of a list of potential acquirers based on market and industry characteristics and the unique characteristics and preferences of the Company and its shareholders
- Distribute CIM to potential acquirers and solicit initial indications of interest
- Select bidders to conduct initial due diligence review and submit letter of intent
- Conduct process to maximize proceeds through potentially multiple rounds of bidding from interested parties
- Review revised LOIs with shareholders and enter exclusivity with one party

Phase 3
Closing the Transaction

- Facilitate due diligence review to reduce distraction from ordinary business operations
- Negotiate with the prospective purchaser in order to reach a business transaction for the acquisition of the Company
- Support the shareholders' attorneys in the legal document drafting process to ensure the legal documents accurately reflect the business transaction from a financial point of view
- Promote a smooth and timely close

The Typical External Transaction Process Takes Five to Seven Months



BENEFITS OF HIRING AN ADVISOR WHEN SELLING YOUR BUSINESS

While many business owners have a general sense of what their business may be worth and a threshold selling price in mind, going at it alone in a transaction process involves more than a notion on pricing – it involves procedural awareness, attention to detail, as well as a good measure of patience despite the desire for an immediate outcome.

In most external transactions (i.e., a business owner selling to a third party rather than to family or employees) there is an acute imbalance of savvy and experience between buyers and sellers. For certain sellers who owe their business successes to personal effort, brute force, and honed skills, it's a difficult decision and an act of faith to turn the business asset over to an advisory team.

Buyers, both financial or strategic in nature, have completed many transactions while most sellers have never bought or sold a business. Given this near universal lop-sidedness in experience and resources, sellers need to assemble a team of experienced advisors to assist in navigating unfamiliar terrain. The time intensity and distractions of the process can cause the business to suffer if ownership sacrifices on operational oversight and foregoes the attention to detail that made the business an attractive acquisition target in the first place.

We strongly recommend hiring a full transaction team composed of, at a bare minimum, three primary players:

- Transaction attorney
- Tax accountant
- Financial (sell-side) advisor

By securing a turnkey transaction team, business owners benefit from the multi-perspective expertise and overlapping skill sets of the team. The diversity and breadth of the team often facilitates proactivity and response capability for a wide variety of developments that can derail or compromise the timing, process and financial outcome of the final deal.

Benefits of Hiring a Financial Advisor

The following are a few of the many benefits of hiring a qualified sell-side advisor to assist in the transaction process.

Maximize Net Proceeds

The core components and key terms of a transaction are often complicated and sometimes deceptively obscured in the legal rhetoric of an LOI, APA or SPA. Hiring a sell-side advisor with the right experience and expertise can help business owners maximize the net proceeds from the transaction. Financial intricacies and other points of negotiation, such as working capital true-ups or contingent consideration arrangements, often require careful analysis and modeling in order to foster clear decision making regarding competing and differently structured deals.

A good sell-side advisor encourages objective comparative assessment of competing offers, negotiates key points, and helps acclimate sellers to certain realities of getting a deal done.

Negotiate Best Possible Terms

Sell-side advisors have years of experience reviewing purchase agreements and will work with ownership's legal counsel to ensure the transaction documents accurately reflect the agreed upon value and terms. These documents can often be cumbersome and need to be reviewed and crafted with the utmost attention to detail. Experienced advisors can help streamline the fine-tuning of these documents to assist the business owner(s) in negotiating favorable (or acceptable) terms of sale.

At some point in most deals, a seller has to pick the fights worth fighting and concede on those terms that aren't likely to change or have no real benefit. A good advisor should be frank and forthright with sellers, even when the recommendations or choices are not entirely satisfying. Sellers must be aware that a buyer needs a few wins and concessions to justify their investment. An informed seller, using the advice of a good seller representative, can better identify and prioritize the issues that impact the deal.

Drive Transaction to Closure

Seasoned sell-side advisors have often worked on hundreds of transaction engagements. This range of experience can be of great help if and when unexpected issues arise, and unexpected issues almost always arise. Sell-side advisors will work with the rest of the transaction team to manage these issues and provide the information necessary to make critical decisions regarding proposed solutions with the end-goal of driving a transaction to closure.

Confidentiality and Ownership Burden

Revealing a contemplated transaction to your employees and stakeholders can often lead to undue stress, which compounds the strain already present on ownership and management during a transaction process. With the help of a sell-side advisor, ownership and management can maintain their focus on running the business and generating profits while knowing that the transaction process is progressing in the background.

Ownership can also gain peace of mind in knowing that the transaction will become "public information" at the appropriate time, which allows the business to function normally throughout the entire process. Many of the delays and sensitivities involved in the selling process, represent the potential for unexpected breaches of information to employees and other stakeholders. Owners can avoid many water cooler dilemmas by using an outside representative who collects, organizes, and disseminates information and manages exchanges between the parties.

UNDERSTANDING TRANSACTION ADVISORY FEES

Real Expertise Is an Investment, and the Benefits in Return Should Well Exceed the Costs

In the previous section, we highlighted the various benefits of hiring a financial advisor when invesgating the potential sale of a business.

In a transaction with an outside party, the buyer will almost always be far more experienced in "deal-making" relative to the seller, who often will be undertaking the process for the first (and likely only) time. With such an imbalance, it is important for sellers to level the playing field by securing competent legal, tax and financial expertise.

A qualified sell-side advisor will help ensure an efficient process while also pushing to optimize the terms and proceeds of the transaction for the sellers.

As with anything in this world, favorable transaction processes and outcomes require an investment. fee structures for transaction advisory services can vary widely based on the type and/or size of the business, the specific transaction situation, and the varying roles and responsibilities of the advisor in the transaction process.

Even with this variance, most fee structures fall within a common general framework and include two primary components: 1) Project Fees and 2) Success Fees.

Project Fees

Project fees are paid to advisors throughout an engagement for the various activities performed on the project. Such activities include the initial valuation assessment, development of the Confidential Information Memorandum, development of the potential buyer list, and other activities. These fees generally include an upfront "retainer" fee paid at the beginning of the engagement.

Retainer fees serve to ensure that a seller is serious about considering the sale of their business. For lower middle market transactions, the upfront retainer fee is typically in the $10,000 to $20,000 range.

Often times, a fixed monthly project fee will be charged throughout the term of the engagement. These fees are meant to cover some, but not all, of an advisor's costs associated with the project.

For lower middle market transactions, monthly fees are typically $5,000 to $10,000. In certain situations, the engagement will include hourly fees paid throughout the engagement for the hourly time billed by the advisor. Such hourly fees are billed in place of a fixed monthly project fee.

Hourly fees are typically appropriate when the project is more advisory-oriented versus being focused on turn-key transaction execution. Hourly fees serve to emphasize the objective needs of the client by counter-balancing the incentive for an advisor to "push a deal through" that may not be in the best long-term interests of the client.

An hourly fee structure typically front loads the fees paid throughout the transaction process and is paired with a reduced success fee structure at closing which brings total fees back in line with market norms.

Mercer Capital has had favorable outcomes with numerous clients when fee structures are well-tailored to the facts and circumstances of the seller and the seller's options in the marketplace.

Success Fee

A success fee is paid to a transaction advisor upon the successful closing of a transaction. Typically, success fees are paid as part of the disbursement of funds on the day of closing. As with project fees, success fees can be structured in a number of different ways.

A simple approach is to apply a flat percentage to the aggregate purchase price to calculate the success fee. The use of a flat percentage fee seems to have increased in recent years, and makes a fair bit of sense as it allows the client to clearly understand what the fees will look like on the back-end of a transaction.

Traditionally, the most used success fee structure employs a waterfall of rates and deal valuation referred to as the Lehman Formula. This formula calculates the success fee based on declining fee percentages applied to set increments ("tranches") of the total transaction purchase price.

For lower middle market transactions, the simplest Lehman approach is a 5-4-3-2-1 structure: 5% on the first million dollars, 4% on the next million, and so on down to 1% on any amount above $4 million. The Lehman Formula, which can be applied using different percentages and varying tranche amounts, pays lower percentages in fee as the purchase price gets higher. Smaller deals may include a modified rate structure (for example 6-5-4-3-2) or may alter the tranche increments from $1 million to $2 million.

The Lehman Formula, in its varying forms, has been utilized to calculate transaction advisory fees for decades. While the formula may add some unnecessary complexities to the calculation (versus say a flat percentage), it has proven over time to provide reasonable fee levels from the perspective of both sell-side advisors and their clients.

A success fee can also be structured on a tiered basis, with a higher percentage being paid on transaction consideration above a certain benchmark. If base-level pricing expectations on a transaction are $15 million, the success fee might be set at 2.5% of the consideration up to $15 million and 5% of the transaction consideration above this level. If the business were sold for $18 million, the fee would be 2.5% of $15 million plus 5% of $3 million. The blended fee in this case would total $525,000, a little under 3% of the total consideration.

Escalating success fees are often favored by clients because they provide an incentive for advisors to push for maximized deal pricing rather than settling for an easier deal at a lower price.

Typical Total Fees

Transaction advisory fees, on a percentage basis, tend to be higher for smaller transactions and decline as the dollars of transaction consideration increases. Various surveys of transaction advisors are available online that suggest typical fee ranges.

Consensus figures from these sources are outlined below. Based on our experience, these "typical" ranges (or at least the upper end of each range) appear to be somewhat inflated relative to what most business owners should expect in an actual transaction advisory engagement.

Size of Deal	Typical Fee Range
Under $5 million	5% - 10%
$5-$10 million	3% - 6%
$10-$25 million	2.5% - 5%
$25-$50 million	2% - 4%
$50-$150 million	1% - 3%

Mercer Capital's View on Fees

At Mercer Capital, we tailor fees in every transaction engagement to fit both the transaction situation at hand and our client's objectives and alternatives.

In situations where a client has an identified buyer, we understand that our role will likely be focused on valuation and negotiation. Many sellers are unaware that price is only one aspect of the deal, and terms are another. Altering the terms of a definitive agreement can move the needle by 5%-10% and can potentially accelerate end-game liquidity by 6 to 12 months.

Accordingly, we design each fee structure to recognize what we are bringing to the process, typically utilizing some combination of hourly billings and a tiered success fee structure on the portions of the deal where our services are making a difference in the total outcome.

If we are assisting a client through a full auction process, it may be appropriate to utilize a more traditional Lehman Formula or a flat percentage calculation. A primary focus of our initial conversations with a potential client is to understand the situation in detail so that we can develop a fee structure that ensures that the client receives a favorable return from their investment in our services.

THREE CONSIDERATIONS BEFORE YOU SELL YOUR BUSINESS

After spending years, if not decades, building your business through hard work, determination, and a little luck, what happens when you are ready to monetize your efforts by selling part or all of your business? Exiting the business you built from the ground up is often a bittersweet experience. Many business owners focus their efforts on growing their business and push planning for their eventual exit aside until it can't be ignored any longer. However, long before your eventual exit, you should begin planning for the day you will leave the business you built.

We Suggest You Consider These Three Things

1. Have a Reasonable Expectation of Value

Many business owners have difficulty taking an objective view of the value of their company. In many cases, it becomes a highly emotional issue, which is certainly understandable considering that many business owners have spent most of their adult lives operating and growing their companies. Nevertheless, the development of reasonable pricing expectations is a vital starting point on the road to a successful transaction.

The development of pricing expectations for an external sale should consider how a potential acquirer would analyze your company. In developing offers, potential acquirers can (and do) use various methods to develop a reasonable purchase price. An acquirer will utilize historical performance data, along with expectations for the future, to develop a level of cash flow or earnings that is considered sustainable going forward. In most cases, this analysis will focus on earnings before interest, taxes, depreciation and amortization (EBITDA) or some other pre-interest cash flow. A multiple is applied to this sustainable cash flow to provide an indication of value for the company. Multiples are developed based on an assessment of the underlying risk and growth factors of the subject company.

Valuations and financial analysis for transactions encompass a refined and scenario-specific framework. The valuation process should enhance a buyer's understanding of the cash flows and corresponding returns that result from purchasing or investing in a firm. For sellers or prospective sellers, valuations and exit scenarios can be modeled to assist in the decision to sell now or later and to assess the adequacy of deal consideration. Setting expectations and/or defining deal limitations are critical to good transaction discipline.

2. Consider the Tax Implications

When analyzing the net proceeds from a transaction, you must consider the potential tax implications. From simple concepts such as ordinary income vs. capital gains and asset sales vs. stock sales, to more nuanced concepts such as depreciation recapture and purchase price allocation, there are almost unlimited issues that can come up related to the taxation of transaction proceeds. The structure of your own corporate entity (C Corporation vs. tax-pass through entity) may have a material impact on the level of taxes owed from a potential transaction.

We recommend consulting with your outside accountant (or hiring a tax attorney) early in the process of investigating a transaction. Only a tax specialist can provide the detailed advice that is needed regarding the tax implications of different transaction structures. There could be strategies that can be implemented well in advance of a transaction to better position your business or business interest for an eventual transaction.

3. Have a Real Reason to Sell Your Business

Strategy is often discussed as something belonging exclusively to buyers in a transaction. Not true.

Sellers need a strategy as well: what's in it for you? Sellers often feel like all they are getting is an accelerated payout of what they would have earned anyway while giving up their ownership. In many cases, that's exactly right! Your Company, and the cash flow that creates value, transfers from seller to buyer when the ink dries on the purchase agreement. Sellers give up something equally valuable in exchange for purchase consideration – that's how it works.

As a consequence, sellers need a real reason – a non-financial strategic reason – to sell. Maybe you are selling because you want or need to retire. Maybe you are selling because you want to consolidate with a larger organization, or need to bring in a financial partner to diversify your own net worth and provide ownership transition to the next generation. Whatever the case, you need a real reason to sell other than trading future compensation for a check. The financial trade won't be enough to sustain you through the twists and turns of a transaction.

The process of selling a business is typically one of the most important, and potentially complex, events in an individual's life. Important decisions such as this are best made after a thorough consideration of the entire situation. Early planning can often be the difference between an efficient, controlled sales process and a rushed, chaotic process.

CONCLUSION

Mercer Capital provides M&A advisory services to a wide spectrum of public and private companies and financial institutions. We have worked on hundreds of transaction engagements of every type since our founding in 1982.

We leverage our valuation and investment banking experience to help clients navigate the increasingly turbulent and exciting transaction environment - providing timely, wealth-changing outcomes. We have significant experience advising shareholders, boards of directors, senior executives, and fiduciaries of middle-market public and private companies in a wide range of industries. We understand the complications and opportunities in today's markets where private equity groups, family offices, and strategic buyers are increasingly in each other's footprint (and in everyone's email inbox!).

Mercer Capital postures itself as an objective and empathetic advisor to its clients while simultaneously advocating the merits of the business offering and taking aggressive positions with buyers when warranted and beneficial to the process. We facilitate balanced decision-making for our clients while taking care to recognize the crucial milestones at which challenging choices must be made.

Mercer Capital's multi-phased, tailored approach allows current and future sellers a wide range of options in planning for, testing, and acting in the market. Our advisory team is here to plan for and manage your transaction process. To discuss your situation in confidence, give us a call.

ABOUT MERCER CAPITAL

In addition to our corporate valuation services, Mercer Capital provides investment banking and transaction advisory services to a broad range of public and private companies and financial institutions.

Mercer Capital has been successfully executing mergers & acquisitions for a broad spectrum of middle-market companies since the mid-1980s.

We specialize in providing merger & acquisition services to sellers or buyers of private businesses or public companies divesting divisions and subsidiaries. In addition, Mercer Capital assists clients in industry consolidations, roll-ups, and refinancings.

Mercer Capital leverages its historical valuation and investment banking experience to help clients navigate a critical transaction, providing timely, accurate and reliable results. We have significant experience advising boards of directors, management, trustees, and other fiduciaries of middle-market public and private companies in a wide range of industries. Our independent advice withstands scrutiny from shareholders, bondholders, the SEC, IRS, and other interested parties to a transaction, and we are well-versed in the new industry standards.

The professionals of Mercer Capital guide you through the uncharted waters of selling your business, acquiring another business or division, mergers, valuations, fairness opinions, and other transaction advisory needs. Rely on the experience, independence, and transaction know-how of Mercer Capital.

Transaction Advisory Services

- M&A Representation
- ESOP Installation, Termination, and Transactions
- Squeeze-Out Transactions
- Fairness and Solvency Opinions
- Minority Shareholder Stock Repurchases
- Corporate or Partnership Recapitalizations

Advantages We Offer

- Maximize Net Proceeds
- Negotiate the Best Possible Terms
- Speed Up the Deal Process
- Ensure Transaction Closure
- Help Ensure Confidentiality
- Minimize Burden on the Ownership

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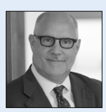

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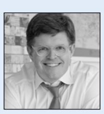

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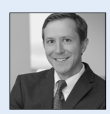

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