



Formulating a buy-side acquisition strategy

Presented by:

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David P. Bauer, CPA

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Baker Tilly Capital, LLC

Dave Bauer helps lead Baker Tilly Capital's buy- and sell-side advisory practice. Dave has been with the firm since 1997 assisting clients with acquisitions, sales, and recapitalizations. He has extensive experience in assisting clients with formulating and executing on acquisition strategies to grow their business.



Corey Vanderpoel

Director

Baker Tilly Capital, LLC

Corey Vanderpoel is new to Baker Tilly Capital, but comes with a wealth of knowledge working within the investment banking industry. Corey has focused his career exclusively on serving clients through mergers and acquisitions and has a long history of leading buy-side engagements. Corey has extensive experience assisting clients to develop and execute acquisition strategies. Additionally, Corey is recognized within an international M&A organization for his buy-side experience and has hosted a seminar to an international audience of investment bankers.

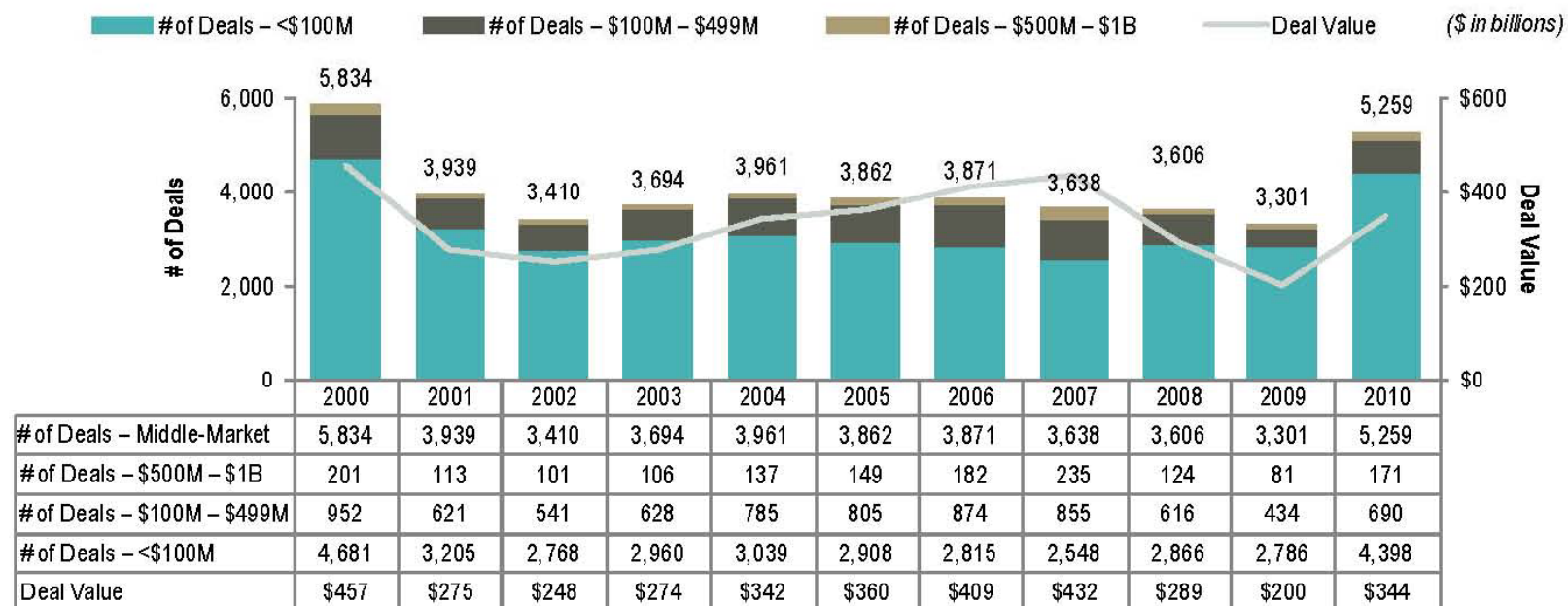
- > Overview of current M&A market
- > Overview of the buy-side process
- > Developing strategic acquisition criteria
- > Questions

Overview of current M&A market



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U.S. Middle-Market M&A Activity



Source: Dealogic and Robert W. Baird & Co. Incorporated M&A Market Analysis.

Note: Middle-market transactions defined as those with a disclosed transaction value of less than \$1 billion. Figures exclude transactions involving minority stakes, stock repurchases, and spin-offs.

Overview of current M&A market



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U.S. Middle-Market Enterprise Value to Median EBITDA, EBIT, and Revenue Multiples

Transaction Size	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<u>EV/EBITDA</u>											
<\$100M	7.4x	5.9x	7.0x	6.8x	7.6x	9.2x	8.1x	8.5x	7.8x	7.0x	7.0x
\$100M-\$499M	8.5x	8.3x	7.7x	8.2x	9.0x	9.9x	9.2x	11.2x	11.1x	8.1x	10.1x
\$500M-\$1B	8.7x	8.4x	8.4x	9.6x	10.3x	10.1x	12.0x	10.8x	10.6x	7.8x	9.0x
Middle-Market	8.2x	7.2x	7.3x	7.5x	8.6x	9.7x	9.2x	9.9x	9.5x	7.6x	8.6x
<u>EV/EBIT</u>											
<\$100M	9.0x	7.3x	9.5x	8.9x	9.6x	10.8x	10.0x	10.8x	10.1x	7.8x	10.3x
\$100M-\$499M	11.8x	11.7x	11.2x	11.0x	11.7x	13.5x	13.3x	14.5x	13.7x	11.0x	12.2x
\$500M-\$1B	11.4x	10.6x	12.2x	12.9x	14.0x	13.8x	17.0x	16.1x	13.7x	13.6x	13.4x
Middle-Market	10.7x	9.2x	10.7x	10.8x	11.2x	12.4x	12.5x	12.8x	11.6x	9.7x	11.3x
<u>EV/Revenue</u>											
<\$100M	0.92x	0.75x	0.69x	0.76x	0.95x	0.95x	0.96x	0.92x	0.91x	0.80x	0.94x
\$100M-\$499M	1.15x	1.19x	1.09x	1.06x	1.34x	1.31x	1.24x	1.27x	1.30x	1.22x	1.24x
\$500M-\$1B	1.45x	1.41x	1.27x	1.42x	1.33x	1.55x	1.69x	1.51x	1.42x	1.46x	1.56x
Middle-Market	1.00x	0.89x	0.80x	0.88x	1.11x	1.10x	1.08x	1.01x	1.00x	0.90x	1.07x

Source: Capital IQ and Robert W. Baird & Co. Incorporated M&A Market Analysis. Median multiples are calculated using deals for which meaningful data is available.

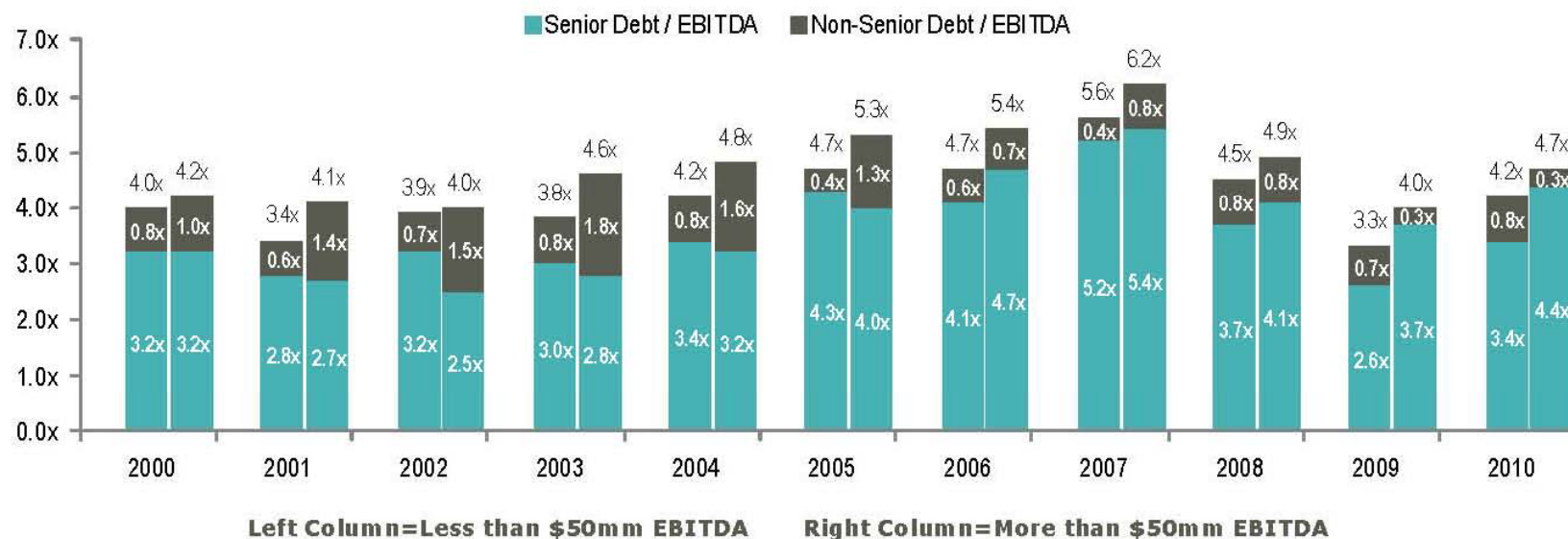
Note: Figures exclude transactions involving minority stakes, stock repurchases, and spin-offs.

Overview of Current M&A Market



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Average Debt Multiples of Middle Market LBO Loans



Source: Standard & Poor's Leveraged Commentary & Data.

Source: Robert W. Baird and Co. Incorporated

Overview of buy-side process



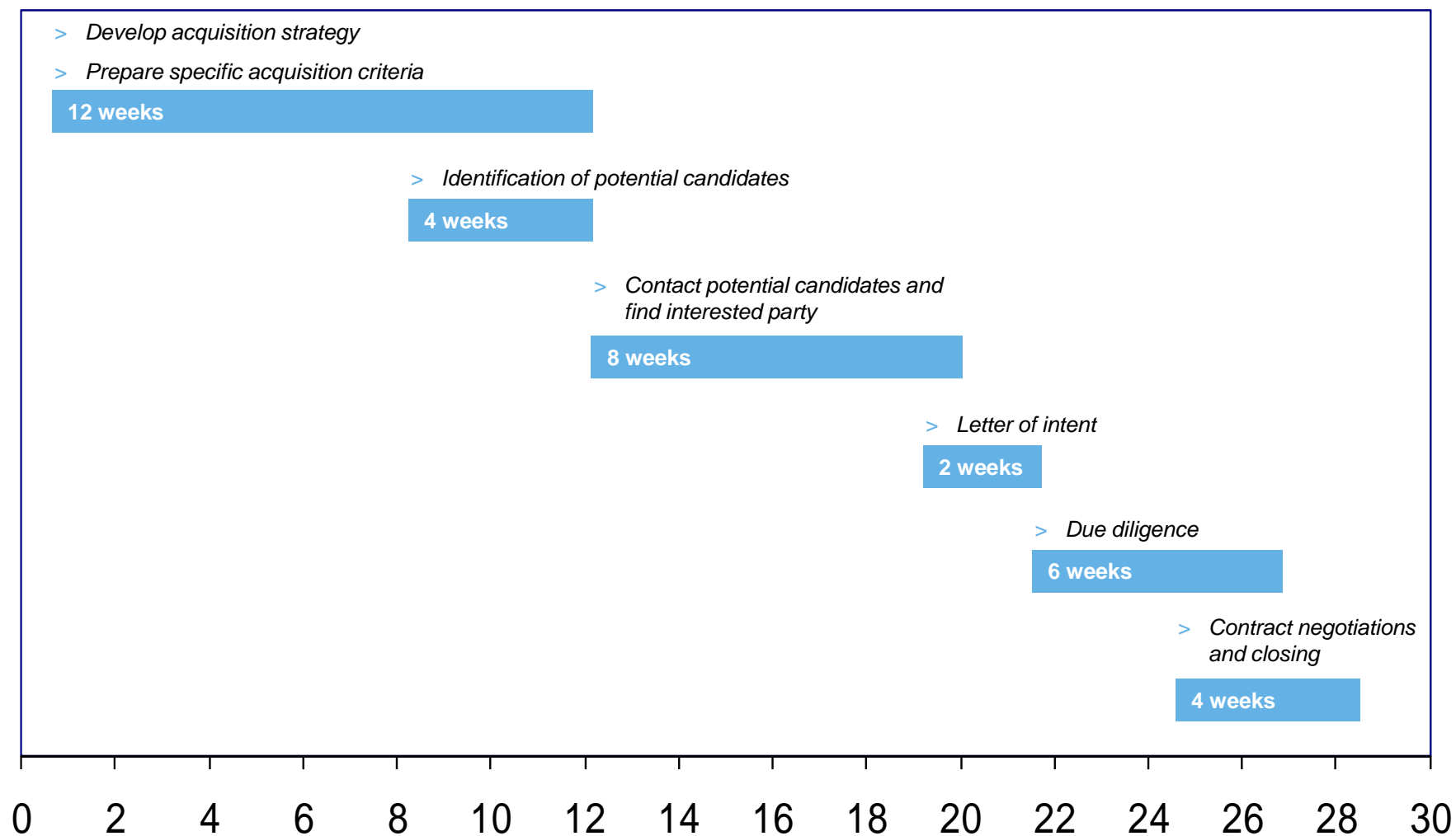
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- > Develop acquisition strategy
- > Prepare specific acquisition criteria
- > Identification of potential candidates
- > Contact potential candidates
- > Letter of intent
- > Due diligence
- > Contract negotiations and closing
- > Integration

Overview of buy-side process



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Reviewing the current business

- > Assess core competencies
- > Assess weaknesses
- > Assess current markets
- > Assess management talent and resource allocation
- > Assess financial capital

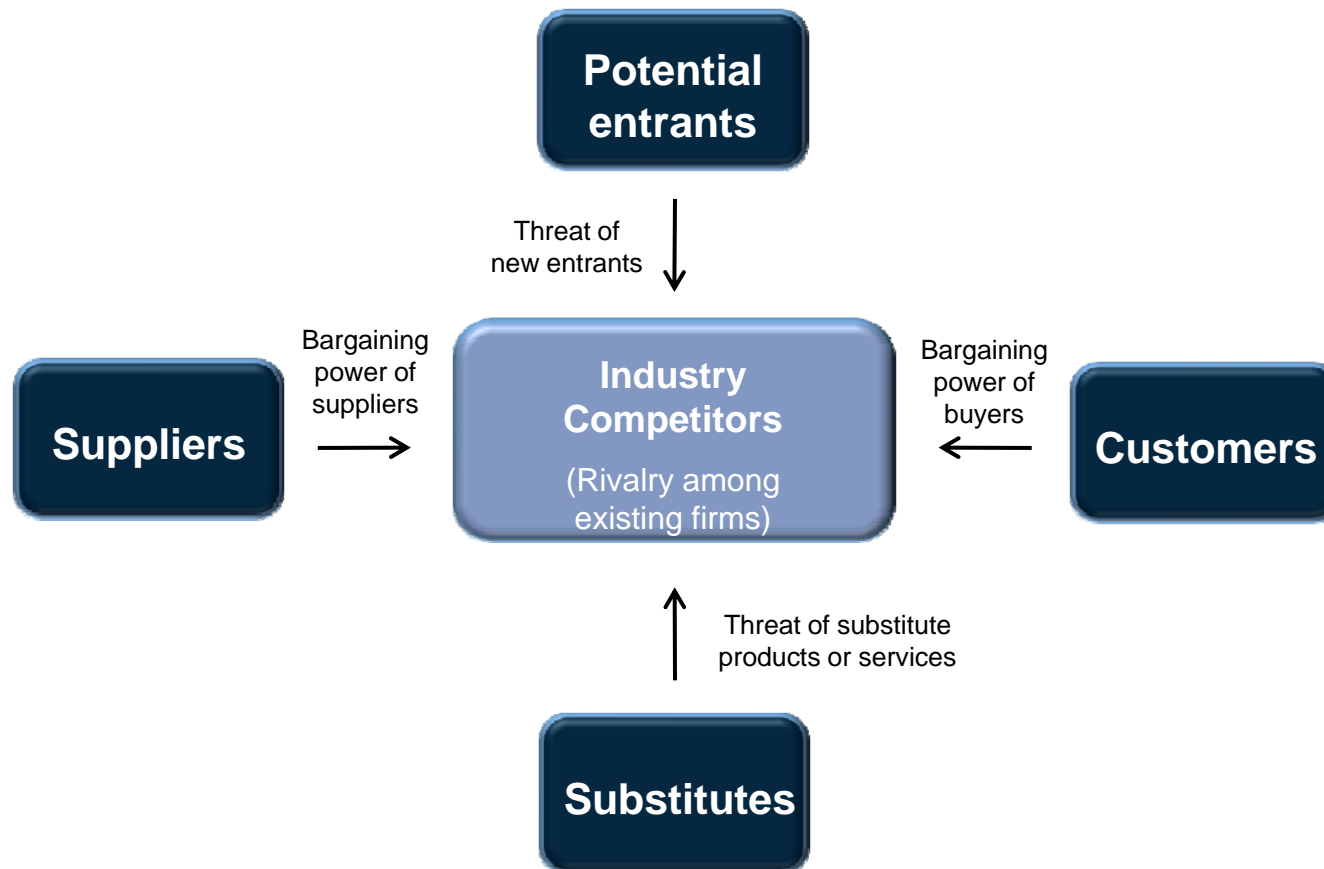
Assessing core competencies

- > Manufacturing processes
- > Materials
- > Tolerances
- > Distribution
- > Product life
- > Sales
- > Logistics
- > Management
- > Geography
- > Customer base

Assessing weaknesses

- > Manufacturing processes
- > Materials
- > Tolerances
- > Distribution
- > Product life
- > Sales
- > Logistics
- > Management
- > Geography
- > Customer base

Assessing markets – Five Forces Analysis



Assessing management talent and resource allocation

- > Top management talent
- > Middle management talent
- > Identify gaps and needs
- > Relocation barriers
- > Required training and mentoring
- > Revised organizational chart

Assessing financial capital

- > Evaluating existing capital base
- > Evaluating overall debt capacity
- > Evaluating risk appetite for financial leverage
- > Identification of capital sources
- > Evaluating current cost of capital tranches
- > Evaluating current market conditions of various capital tranches
- > Guaranty requirements

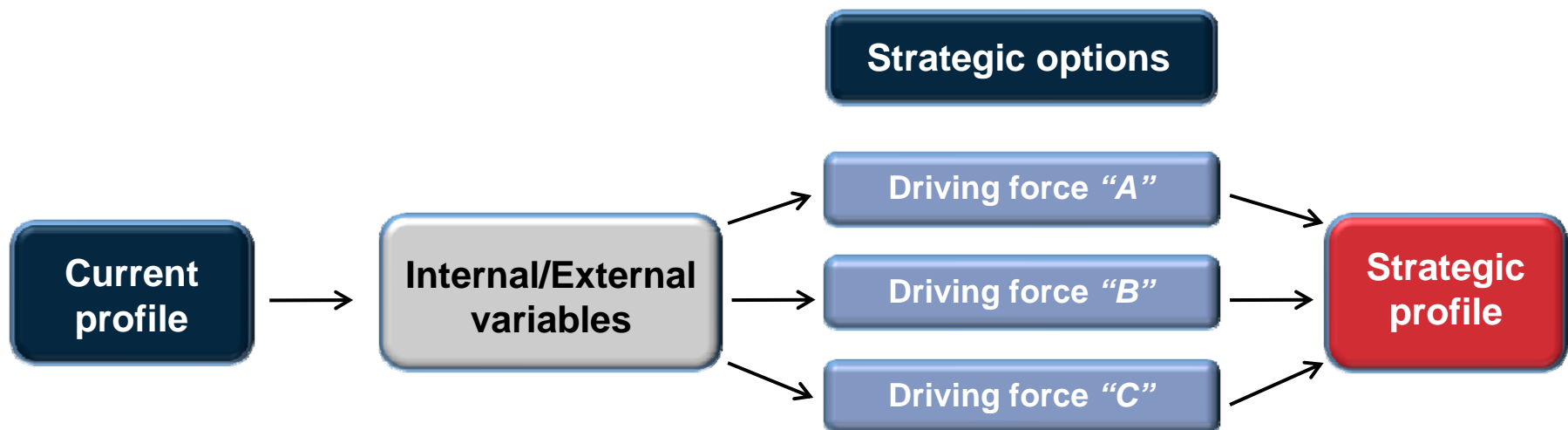
Defining strategic acquisition criteria

- > Evaluating all information gathered
- > Deciding what to pursue and what not to pursue
- > Deciding on what parameters will be acceptable
- > “Test” potential results
- > = “Strategic thinking”

Developing strategic acquisition criteria



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Identifying the driving force

Driving Force	Companies
Product/Service	GM, Boeing, IBM
Technology	Sony, 3M, DuPont
Sales	Amway, Mary Kay, Tupperware
Distribution	Wal-Mart
Brand/Image	Pepsi, Starbucks

Criteria should include the following

- > Business type
 - B2B/B2C
 - Materials
 - Tier ½
- > Products
- > Market requirements
- > Revenue and EBITDA ranges
- > Geography
- > Workforce
- > Business Performance

Contact information



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