AEM Advisors AG
Corporate Finance & Consulting

The M&A Deal Cycle

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Overview: The standard sell-side process

Coordination between client and other advisors as well as the target and its advisors

Identification of buyers	Non-Binding Offer	Revised (Binding) Offer	Negotiations / Signing
• Prepare the firm for sale (e.g. internal structure, legal form) • Identification of value drivers • Identify potential buyers (long list) • Selection of most promising buyers (short list) • Approach potential buyers • Signing of a non-disclosure agreement	• Drafting of the information memorandum • Sending procedure letter and information m. to potential buyers • Support in preparation of the documents for the due diligence • Evaluation of the non-binding offers	• Organizing the due diligence (e.g. data room) • Support at the management presentation • Evaluation of the revised offers	• Support in the negotiations • Support in drafting a purchase agreement (for the commercial terms)
Goal: Approaching potential buyers	**Goal:** Reception of non-binding offers	**Goal:** Reception of revised offer	**Goal:** Favourable purchase agreement

Reasons for a sale

Reasons of the owner/entrepreneur

- Desire for a change
- Realization of the firm value
- Health
- Age
- Family affairs
- ....

Reasons Company

- Below critical mass
- Lack of financial means for further development
- Missing know-how
- Recapitalization necessary
- ....

Preparing the company for a sale

Creation of the right structure

- Adaptation of internal structures
- Documentation of the business processes
- Completion of management team

Clearing up legal and tax issues

- Minimization of tax risk
- Restructuring / change of legal form
- Settlement of open legal disputes

More potential buyers

Higher sales price

Higher chances of success

Shorter duration of sales process

Do not underestimate lead time!

Groups of potential buyers

Family members →

- Is there a qualified and willing successor in the family?
- Law of succession (legal portion)?
- Valuation of the firm?
- Is the entrepreneur ready and willing to retire?

MBO* / MBI* →

- Is the current management suitable and willing?
- Are there external managers who might be suitable?
- Valuation of the firm?
- Financing of the transaction?
- Transaction structure?

Sale to third party →

- Who is the best buyer?
- Valuation of the firm?
- Transaction structure?

*MBO = Management Buyout
*MBI = Management Buy-In

Bilateral Process vs. Auction

Bilateral Process

Advantages

- Easier to keep confidentiality
- Less complex and costly

Disadvantages

- No maximization of sales price
- Buyer is on the driver seat
- Lower chances of success

Auction

Advantages

- Maximization of sales price
- Seller is on the driver seat
- High chances of success of the transaction

Disadvantages

- More difficult to keep confidentiality
- More complex and costly

Valuation Methods

Discounted Cash Flow (DCF)

Discount future free cash flows
- Theoretically the correct method
- A budget is needed
- Estimation of capital costs necessary

Capitalized Earnings

Capitalization of normalized earnings
- The figures of the last years are the basis
- Normalization to get sustained earnings.
- Estimation of capital costs necessary

Multiples (e.g. P/E)*

*P/E = Price / Eranings

Comparable quoted companies valuation
- Valuation based on the analysis of comparable quoted companies

Recent transactions valuation
- Analysis of recent transactions

The Information Memorandum

The Information Memorandum is a sales document which comprises all important facts about a firm.

Purpose →

- Basis for the buyer to decide if he wants to hand in an unbinding offer
- Basis for the valuation of the buyer

Content →

- Usually contains 30 to 50 pages
- Typically structured as follows: History, Organization, Employees, Services offered, Market, Clients, Financial Part

The Due Diligence

A "Due Diligence" is a thorough examination of the firm.

Purpose →

A potential buyer wants to make sure that he knows all the facts/issues that

- are that serious that a transactions does not make sense ("Deal Killers);
- need to be settled before a transaction;
- which are relevant for the valuation;
- which need to be taken into account for the integration.

Sections →

Usually a Due Diligence is divided into the four following sections:

- Business DD;
- Financial DD;
- Legal DD;
- Tax DD

The Seller should prepare the DD carefully to present his firm as positive as possible which needs a lot of time.

Transaction Structure: Cash vs. Earn-Out

Cash →

The whole sales price is paid at the closing of the transaction.

- Simple method as no adjustment or new calculation of the sales price is necessary
- No potential conflicts on the calculation of the sales price
- Advantageous for the seller

Earn-Out →

A portion of the sales price is paid later, depending on the future development of the business.

- Limits the risk of the buyer as he pays less if the business deteriorates
- Exact definition of the sales price is of utmost importance
- The calculation of the sales price / adjustment of sales price needs to be chosen in a way that the buyer can not manipulate.

Tax and Law

Law

Important legal questions:

- Are there legal risks that need to be settled before a potential transaction?
- Drafting of a sales contract (Reps & Warranties, Withdrawal etc.)
- Possibly further contracts such as employment contracts for the current owners or service level agreements

Tax

Important tax questions:

- Are all conditions met that the sales price is a tax free capital gain?
- Are there open disputes with the tax authorities?
- How may taxes be optimized apart from the tax free capital gain?

The early involvement of a lawyer and a tax specialist pays off.

Pitfalls

Every step of the transaction process entails pitfalls. Important examples that may be costly or lead to a failure of the sales process are:

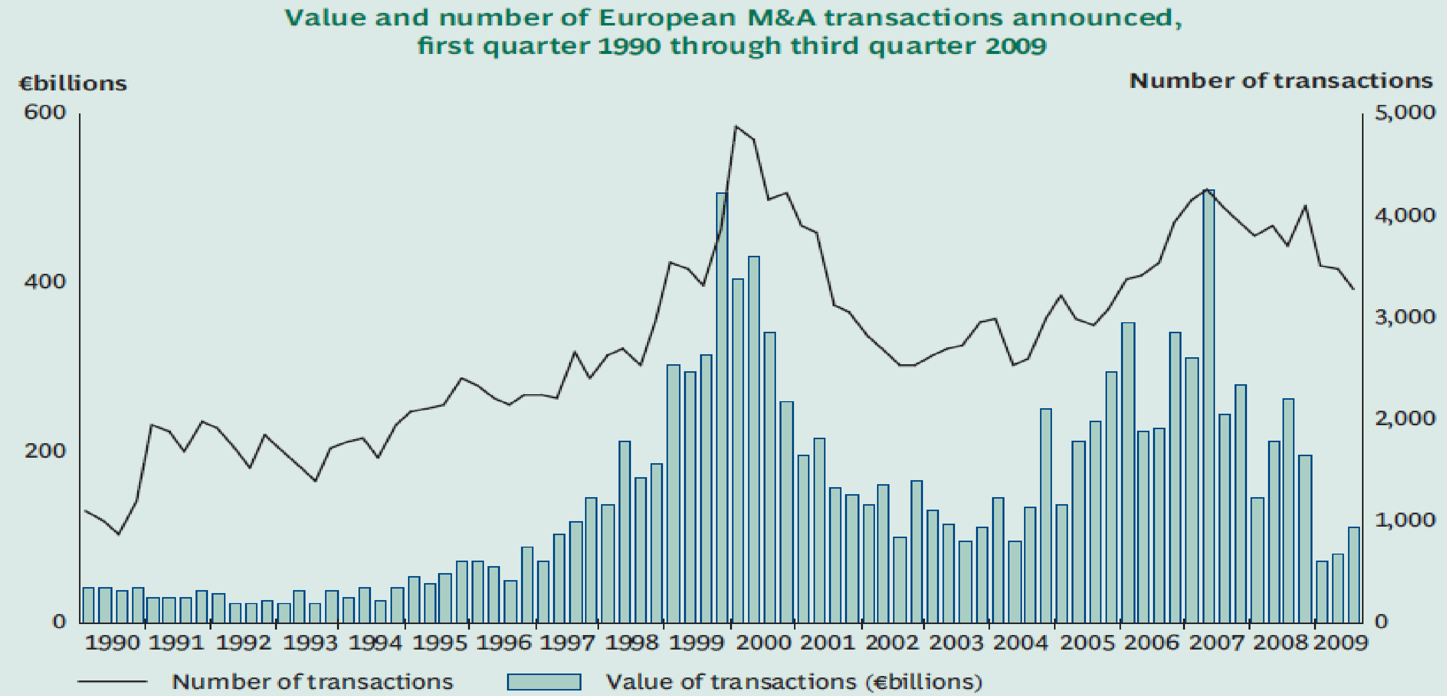
Costly mistakes

- Poorly drafted earn-out clauses.
- Excessive or poorly defined reps & warranties
- Tax effects have not been clarified carefully.

Reasons for a failure of the sale

- Emotionally the seller did not yet take the definitive decision to sell.
- The seller demands an unrealistically high price.
- The buyer is not willing to pay a fair price.
- Buyer and seller mistrust one another.

The current state of the environment



Source: Thomson Financial.
Note: This exhibit includes all M&A transactions announced January 1, 1990, through September 30, 2009, that involve either a European acquirer or a European target.

Source: M&A: Ready for Liftoff; Study done by Boston Consulting Group and UBS; December 2009

AEM Advisors' view on the current state

Potential sellers are reluctant →

- Sellers are reluctant to sell because (they think) that the price for their company would be low.
- Sellers that are forced to sell tend to wait too long.

Potential buyers are cautious →

- Buyers are cautious because they do not know when the economy will recover.
- Due to the financial crisis buyers know how quickly value may be destroyed and tend to overweight the negative aspects of a potential target.

Less private equity deals →

- Financing has become more difficult, meaning that the high leverage ratios of the past are no longer possible.
- PE-Firms are busy to solve the issues caused by the financial crisis.

Outlook for 2010

The study from Boston Consulting Group and UBS* states among other findings the following points:

- One in five companies plans to buy a business in 2010.
- M&A transactions are most likely to be “horizontal” consolidation deals.
- Restructuring deals are expected to rise steeply because companies want to strengthen their financial and strategic position by divesting businesses.

BCG and UBS expect M&A transaction values in 2010 to be roughly 20 percent higher than in 2009.

*M&A: Ready for Liftoff; Study done by Boston Consulting Group and UBS; December 2009

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