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Next Stage Solutions, Inc., Lexington, MA 02420

617-449-7728

By Rudi Scheiber-Kurtz, CEO of Next Stage Solutions, Inc.

M&A ACTIVITIES ARE PICKING UP? HOW SHOULD YOU PREPARE?

NSS conducted a survey last year with a diverse group of EXPERTS about the internal and external approach a business needs to consider to end up with a successful exit.

Growing a company takes all the energy of a CEO and Exit Planning is mostly on the periphery. Developing a long-term approach is essential in achieving a successful exit. This will be the biggest game you will ever play and you want the end result to reflect that. With this survey summary we want to showcase the necessary steps for you to consider. Mitigate risk up front and consider early on an advisory team.

The EXPERT survey takers included prominent Investment Bankers, M&A Advisors, Attorneys, CPAs and Financial Advisors, Valuation and Management Consultants.

The summary below represents the overall sentiment from the EXPERTS and is not a scientific study.

Top 3 mistakes companies make that you can avoid:

- 1) Not allow enough time, not prepared enough and have unrealistic valuation expectations
- 2) Not understanding the M&A process leading with an inadequate team and not being prepared psychologically for the next generation
- 3) Shareholders and management not being aligned and seller becoming distracted, affecting negatively revenue and valuation

Top 3 suggestions to consider when thinking of an exit:

- 1) Get your house in order in terms of contracts, corporate matters, audited financial statements, current quarter reports. Have copies of everything and start a file for all of the above.
- 2) Start early and plan ahead.
Understand what is needed to obtain higher valuation. Coordinate with all advisors on clear objectives, goals and strategy.
- 3) Avoid surprises and know your business inside out.
Recognize and explain problems rather than allow discovery by potential buyer.
Structure compensation of key employees so they have an incentive to stay.
Great companies' assets are *bought* not sold, especially great talent.

What is the best time to start planning an exit and maximize value?

Overwhelmingly the experts suggest 3-5 years as optimal. When you're in your early stages, think about every decision you make and how it will impact the value of the business. What would the buyer want? What is true value creation for the business? Focusing on valuation is important to do from the beginning as healthy companies are always maximizing value. Keep your ears open to what is going on in the market place and keep building value for short and long term results.

What should you be looking for in an advisor to help you through this most important transaction?

When creating your advisory team, make sure the advisor has done it before and spends at least 40-50% of the time devoted to M&A activity. Your own lawyer, CFO or Accountant may not be the right person if they do not have this expertise. Why is it so important to surround yourself with M&A experts? They add value with their deep experience of understanding the buyer's motives, industry knowledge, connections and deal negotiations. Make sure you choose a senior level team that is reasonably accessible throughout this process.

What are the top 5 most important Advisors for your M&A team?

- 1) Lawyer - manages contract negotiations and all legal M&A aspects
- 2) Accountant - conducts audits and due-diligence
- 3) Financial Advisor | CFO - internal, prepares and guides CEO and other executives
- 4) Investment Banker – external, runs the process and attracts buyers
- 5) Wealth and Estate Advisor - helps structure deal with personal finances to save taxes

Specialists may be needed to address such issues as IP, Insurance and Family.

What value do these advisors provide up to and during a transaction? (Only an example and not all inclusive)

- Review Strategy and organizational structure
- Advise in how to build the advisory team
- Educate you for the road ahead and set expectations
- Discuss and incorporate where you need to be post-deal, the soft side of the transaction, but very important
- Identify current value and how to maximize value over time
- Develop a plan to increase EBITDA
- Tell a story through the financial reports
- Expedite the process with upfront preparedness
- Advise how to remain attractive by packaging IP and key employees
- Evaluate liquidity options
- Document transactions, identify and quantify risk
- Evaluate your current tax structure and advise on different scenarios

What are the most common pricing models in an M&A transaction?

Typically your CPA and lawyer will work with you on an hourly basis whereas the M&A advisors and investment bankers will want a monthly retainer and a success fee or just a success fee. Wealth Advisors are fee based and CFO/Finance Advisors work on hourly or project basis.

Conclusion:

We support the EXPERTs strong recommendation that hiring an advisory team is extremely important when preparing for an M&A process and event. The opportunity cost of doing it yourself is too high and could expose your business in a negative and potentially irrevocable way.

NSS works and has strong connections with M&A folks and we help you shape your team. NSS serves as internal CFO/Financial Advisor working directly with the CEO and the advisory team in guaranteeing a seamless process. We make sure you stay on track, do not lose momentum, get your books in order and get you pre-audit ready. Every hurdle NSS avoids for you during this transaction, adds to your ROI. We understand how to create and maximize value.

Management has to be aligned with the deal. Communications is extremely important and often overlooked. No one will benefit if you don't clearly understand how your business will change. There is a nuts and bolts side to a transaction, but also a human side that cannot be glossed over.

Call us at 617-449-772 to talk more about this process and how NSS can support you during this arduous path.