

# M&A

## White Paper

Your source for information about today's mergers & acquisitions market

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### About Us

The McLean Group is a national, middle market investment bank serving businesses generating up to \$500 million in annual revenue. For more information, visit [www.mcleanllc.com](http://www.mcleanllc.com).

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### Buy the Book

Dennis Roberts' book, *Mergers & Acquisitions: An Insider's Guide to The Purchase and Sale of Middle Market Business Interests* is still available at [Amazon.com](http://Amazon.com).

### Feature Article:

## *Type of Buyer Determines Lead Time for Sale*

By Scott Wait, Managing Director

**D**oes the thought of exiting your business give you the chills? It is a challenging process. The timeline to exit depends on the type of buyer and three key factors. In general, there are three types of buyers: Strategic Buyers, Financial Buyers, and Individual Buyers.

Strategic Buyers will pay a premium for acquisitions. They may be current competitors, customers, or large companies looking for strategic diversification. These Buyers usually act quickly and close on acquisitions within twelve to eighteen months. An example of a strategic buyout is the sale of Kinko's to FedEx.

Financial Buyers include private equity groups, venture capitalists, or hedge fund companies. These buyers may pay a premium for a company if they are convinced that the company has growth potential within a five to seven year period with the ultimate goal of selling the target company. Financial buyers usually looking for a target that needs management changes or capital infusion to increase the value significantly. A recent Financial Buyer deal is the sale of Harrah's Entertainment to a private hedge fund.

The Individual Buyer is looking for a company that fits the buyer's industry experience. These buyers focus on small businesses with sales under \$5 million. In general, exit time can take twelve months to five years with payment plans.

Seller exit lead times also depend on three key factors:

- the size of the business
- its industry, and
- its ownership structure.

**Size of the business:** For companies with revenues of \$5 million to \$100 million, the exit time may run from eighteen months to thirty-six months to complete the sale. For small companies, lead times depend on an internal or outside succession. For internal Individual Buyers such as employees or family members, the timeline can be three to five years due to training and financing issues. Most employee based successors need as much as five years to payoff the owner. They usually do not have the funds or credit strength to payoff the owner immediately.

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*"Type of Buyer..." continued from p. 1*

**Its industry:** A business' industry is also a factor. Such industries as professional service firms - legal, engineering, architectural, or accounting firms - can take two to ten years for professional and management training of successors and to payoff the owner. If the professional service firm is sold to outside buyers, the timeline can be shorter depending on the resources of the buyer. In manufacturing, distribution, and technology industries, exit timelines range from twelve to twenty-four months.

**Its ownership structure:** A company's ownership structure will drive the exit time frame as well. A structure with more than three owners is more complicated; companies with multiple owners have personality issues with involved negotiations and possible disputes that can delay the process; each owner's perception of risk and return on investment can require extensive negotiation time.

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## Trends To Act On: *Distressed Companies Have Alternatives, Too*

By Sam Huang, Senior Analyst

PricewaterhouseCoopers' Transaction Services Group has reported that 2009's deal landscape will be dominated by distressed investments across the financial services, automotive, consumer products and retail sectors. "Troubled companies will look to align with larger, stronger players in order to survive, creating the perfect storm for mergers of necessity," stated PWC partner Robert Filek.

"Private equity players will be challenged to find new and innovative ways to put their money to work and to find deal mechanisms that can drive the kinds of returns their limited partners expect," concluded PWC partner Greg Peterson. "Historically, it has been during a downturn when strategic buyers and private equity firms have their best buying opportunities, yielding the best returns. The key will be the availability of financing."

In recent months, it has been widely reported that private equity firms actively are raising distressed funds to invest in the unique market opportunities arising from the current economic climate. Private Equity Intelligence reports that distressed funds raised \$36.8 billion during the first half of 2008, signaling significant acquisition activities to come. London's Daily Telegraph reported that industry sources indicated that private equity, hedge funds, and distressed debt specialists raised an additional \$26 billion since October 2008. Hedge funds themselves raised some 80% of that amount, indicating that hedge funds plan to play a major role in acquiring distressed companies in the months and years to come.

Clearly, distressed companies have options to be explored by considering exits to be structured with private equity, hedge fund and other financial players. To optimize their outcomes, however, distressed firms strongly should consider bringing an investment banker to the table with them as they explore those options.

*"Venture capital funds raised \$4.3 billion during the first quarter which marks an increase from \$3.5 billion in the previous quarter ."*

*-Thomson Reuters and NCVA*

## Our Locations:

Washington, DC (Headquarters)  
Anchorage, AK  
Atlanta, GA  
Austin, TX  
Baltimore, MD  
Baton Rouge, LA  
Boston, MA  
Bozeman, MT  
Cheyenne, WY  
Chicago, IL  
Cleveland, OH  
Columbus, OH  
Dallas, TX  
El Paso, TX  
Erie, PA  
Halifax, Nova Scotia  
Los Angeles, CA  
Lubbock, TX  
Miami, FL  
Phoenix, AZ  
Reno, NV  
Sacramento, CA  
San Diego, CA  
Silicon Valley, CA  
Tulsa, OK  
Winchester, VA  
Wooster, OH

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# About The McLean Group

The McLean Group is a national, middle market investment bank providing mergers & acquisitions (M&A), capital formation, market intelligence, business valuation, litigation support and exit planning services. The McLean Group serves businesses generating up to \$500 million in annual revenues. Headquartered in Northern Virginia's technology, communications and government contracting corridor, the firm is among the largest independent middle market investment banks in the Washington, DC area. The McLean Group is a FINRA Registered Broker/Dealer and Member FINRA/SIPC.

- **M&A:** The McLean Group uses its considerable expertise in a wide variety of industries to identify the most probable and suitable candidates to complete transactions under the most favorable terms for its clients.
- **Capital Formation:** The McLean Group arranges private equity, venture capital, senior debt and subordinated debt in amounts ranging from \$5 million to \$250 million to support clients' expansions, mergers & acquisitions (M&A), refinancings, recapitalizations, leveraged buyouts and shareholder liquidity objectives.
- **Market Intelligence:** By leveraging superior competitive analyses, the firm provides business executives with comprehensive market intelligence reports, which provide the market insight and analytical expertise required to reduce risk and uncertainty in strategic decision making.
- **Business Valuation:** As a core competency and complement to its M&A business, The McLean Group provides business valuation services, including intangible asset and financial security valuations for a variety of transactions, financial reporting and tax purposes.
- **Litigation Support:** From quantifying economic damages to valuing a minority interest in a business, the firm has the business valuation experience and credentials to support cases involving a variety of legal issues.
- **Exit Planning Services:** Based on its extensive experience advising owners of middle market businesses, The McLean Group has developed a proprietary process that analyzes more than 60 value/risk drivers that can have a significant impact on the value of a business.
- **Wealth Management:** A fee-only wealth advisory practice providing financial planning and investment management services. Through McLean Wealth Advisors, clients have access to unbiased advice, institutional-level investment management and highly personalized level of service to assist them manage their financial futures.

