The McLean Group
INVESTMENT BANKING

M&A White Paper

Your source for information about today's mergers & acquisitions market October 2009

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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.

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.

Feature Article:

A buyers' market for businesses:

If you plan to sell within the next couple of years, how can you attract a premium buyer?

By Scott Wait, Managing Director

In a recent issue of *Inc. Magazine*, signs of our economic downturn were quite clear. The values of the US' top private companies have fallen significantly. Business values, multiples of private companies' earnings (defined by earnings before interest, taxes, and depreciation, or EBITDA), have dropped 20% or more vs. 2008.

Uncertainty in predicting future cash flow and huge revenue decreases constitute two reasons for the drop in values. The national credit freeze hasn't helped either, especially for high growth companies. The lack of funds available for credit purposes has created uncertainty for companies that stood on solid financial ground as recently as six months ago. Poor credit conditions continue to hamper the working capital requirements of many top quality companies.

Many sellers appear willing to negotiate relatively low cash on a sale and extended earn-out terms. Earn-out terms allow buyers to pay for performance on future sales, earnings, or other factors that are dependent on future conditions. Meanwhile, buyers have grown cautious for two reasons: 1) financing availability remains a challenge, and 2) many prospective sellers of solid companies remain on the sidelines, awaiting improved conditions rather than dealing with bargain hunters.

If you are thinking of going to market within the next 12 to 36 months, what should you be doing now? If the economic recovery remains slow or lethargic, consider a plan that will put your company in the top 25% of its industry to attract a premium buyer. As a general rule, there will be more sellers than buyers for the foreseeable future. In a slow, sporadically improving recovery, buyers will be more selective and will undertake significantly more due diligence. This will make them more likely to seek out acquisitions of best-in-class sellers.

In other words, buyers are: 1) looking for more predictable revenue streams and steadier cash flow than they might have found acceptable during the past five years; 2) looking for industry leaders and possible intellectual property (IP) that can be sold or licensed in multiple industries,

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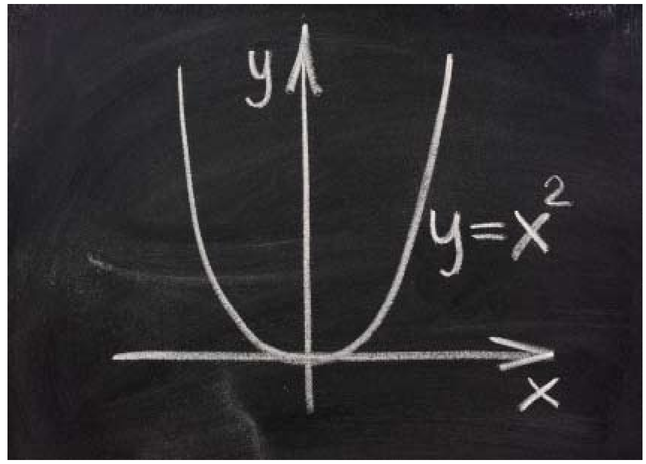
and c) interested in shorter time frames when it comes to demonstrating significant sales and earnings growth (having grown far less patient with longer term financial projections).



If the recovery is "V shaped," sellers should bide their time and wait for the pent-up demand to materialize as buyers go shopping. The "V shaped" recovery may be unlikely, however, based on the slow bank lending policies and regulations that seem to be hampering even aggressive bankers who would prefer to get a jump on their lending competitors in this environment.

Well-managed companies should consider each of the aforementioned scenarios to optimize their value when going to market. What industries will flourish as the economy recovers? Inc. Magazine concludes that the staffing industry should experience early growth during our upcoming recovery given the expected demand for labor. In addition, banks and finance companies historically have enjoyed skyrocketing values during early phases of prior economic recoveries.

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Trends To Act On:
Beginnings of a Rebound?

By Mike Baca , Intern

Financial advisers are beginning to express optimism about a potential M&A market recovery. Such a rebound requires two ingredients, bankers say, and both could materialize during the second half of 2009 in many industries.

First, buyers need financing. Emerging evidence suggests that credit investors have been taking more risks lately, especially on the riskier high-yield debt often used to finance M&A transactions. Second, buyers are becoming somewhat more confident while predicting the profits of the companies they intend to acquire. This had been difficult in a declining economy.

"If there is no stability in your cash flow, you can't sell your business now. Period," observed Howard Lanser, an investment banker at Robert W. Baird.

The stock market rallied from March to June on hopes the economy had ended its slide and corporate profits had begun to stabilize. As a result, there has been an uptick in discussions among dealmakers even though it could take three to six months before such discussions result in announced deals.

Still, it may take a while before that recovery fully materializes. In the meantime, dealmakers impatiently await economic recovery. When the M&A market does recover, it likely will do so very quickly as participants work off pent-up demand.

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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.

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