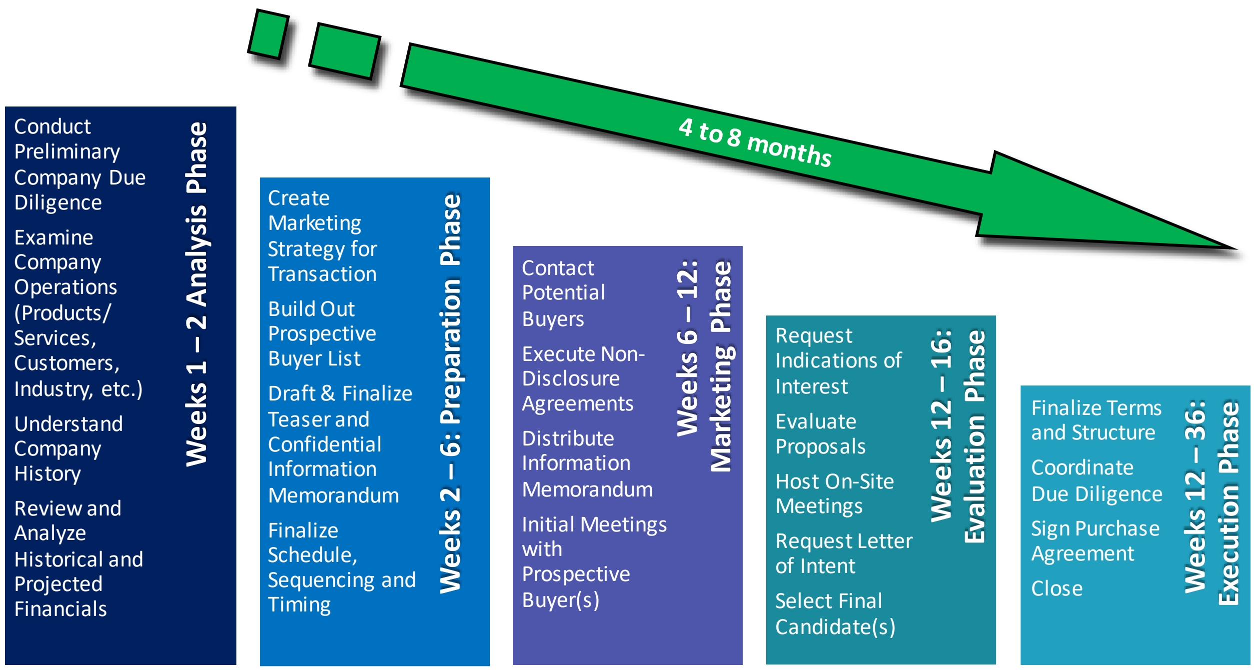
M&A Transaction Process

Carleton McKenna & Co.

Investment bankers, lawyers, accountants and other M&A professionals often refer to the “process” when discussing an advisor’s role in a company’s sale. This generally refers to the five phases of a sell-side transaction: Analysis, Preparation, Marketing, Evaluation and Execution. Throughout each of these steps, the investment banker, in conjunction with the business owner, has an opportunity to strategically position the company to enhance the sale price. ***This brief overview highlights the sale process, however the Carleton McKenna team would be happy to discuss an individualized plan to help you prepare for a potential transaction.***



The Analysis Phase

During the first phase of the process, an investment banker will learn nearly everything there is to know about the Company. The investment banker will conduct preliminary due diligence and establish a data room which typically includes corporate and operating documents, tax filings, insurance paperwork among other materials. A list of requested documents will be provided to the seller at project kick-off.

The advisors will review the data room, have in-depth discussions with the seller and/or management, and examine the Company’s operations, including: products and/or services, customers (and customer concentrations), vendors/ suppliers, management and employees, industry dynamics, and competition, among other topics. The advisor will learn the Company’s history and growth story, including periods of difficulty and success.

Additionally, the investment banker will review the historical and projected financial statements. This analysis will identify appropriate adjustments (such as EBITDA addbacks) and will vet the projections against previous financial metrics and comparable companies.

This initial review will bring to light factors that may be an issue with certain prospective buyers later in the process. It is important that the deal team is aware of any possible issues in order to preemptively disclose the information in the best possible manner.

The Preparation Phase

Throughout the Preparation Phase, the investment banker works with the Company to determine the strategy and goal for the transaction, as well as prepare the Confidential Information Memorandum and other key documents.

The investment bank will establish a marketing strategy for the transaction, identifying which types of prospective buyers will be approached and how the Company will be positioned to the market (i.e. "seeking a strategic partner," or "seeking an acquisition"). In the context of this marketing strategy, the investment bank will compile a list of potential strategic and/or financial buyers to discuss with the Company. The length and breadth of this list will vary based on size of transaction, the industry, and other preferences outlined by the seller. Additionally, the advisor's transaction experience and industry expertise will play a key role in determining the extent of the buyers list. A deep and diverse buyers list helps to maximize the company's potential valuation and should enable the seller to achieve any non-valuation transaction goals.

In tandem with building out the buyers list, the advisor will draft (and edit and redraft) the documents required in the Marketing Phase, all of which will receive final approval from the seller. In this phase, the final go-to-market schedule, sequencing and timing will be outlined.

The Marketing Phase

Once the documents are prepared and all parties are ready to go, the investment bank will begin the process of contacting prospective buyers and gauging their level of interest in the business. Initial contact with prospective buyers can be made via phone and/or email, depending on the marketing strategy. In most processes, an annonymous teaser is the initial communication to prospective buyers and contains a summary of the business, high-level financial and operation performance metrics, brief industry or market overviews, investment highlights and transaction goals.

After signing a confidentiality agreement, interested parties will then receive the Confidential Information Memorandum (the "CIM"), a detailed "book" outlining all aspects of the business including: financials, competition, industry metrics, employees, real estate, etc. The investment bank will field any initial, high-level questions about the company from interested parties and assess their interest level. In some processes, calls or meetings are scheduled between the Company and prospective buyers after their review of the CIM. These calls allow prospective buyers to ask specific questions to determine if they will submit an indication of interest ("IOI," a term sheet outlining the proposed transaction structure and valuation). The investment bank will set the deadlines for IOI submissions, per the sequencing schedule developed in the Preparation Phase.

The Evaluation Phase

The investment bank, in conjunction with the Company, will review all IOIs submitted by prospective buyers. A handful of prospective buyers (typically 3-6) will move on to the next phase of the process. The objective of running a competitive process with an investment bank is to generate IOIs, typically non-binding, from credible buyers. This allows the seller to review multiple term sheets with different valuation ranges, payment structures and deal terms. It is important to keep communication lines open between the prospective buyer(s), the seller and the intermediary as term sheets that are not evaluated properly may have a negative impact on the transaction.

Prospective buyers that make it to the Evaluation Phase will have the opportunity to conduct due diligence on the company's financials and operations while the intermediary continues to establish a competitive bidding or auction process. As part of this initial due diligence review, prospective buyers are granted access to the data room and may be invited on a site visit to meet with management or key employees, among other requests.

At the conclusion of due diligence, the remaining interested parties will provide a formal letter of intent ("LOI") which will be evaluated by the investment bank, the seller and the seller's external advisors, each assessing the party's formal interest in the transaction and reviewing valuation parameters. A final prospective buyer candidate will be selected to move into the Execution Phase.

The Execution Phase

The primary focus of the Execution Phase is negotiations.

The investment bank will send the LOI to the preferred buyer and once all parties are on the same page (including the parties' attorneys and accountants), the buyer will write up the purchase agreement and the Company will have an opportunity for review, comments and disclosures. (Note: During this time period, another round of due diligence occurs, typically with third parties reviewing the Company's financials, insurance, and/or real estate.)

The first draft of the purchase agreement will likely follow a preliminary meeting with the buyers to establish basic deal terms; the following negotiations will include items such as: the structure of the sale, assets to be transferred, payment terms, seller protections, seller warranties, buyer warranties, liabilities, ongoing owner involvement, and non-compete clauses.

After both parties endorse the purchase agreement, the Company moves to close. This requires the involvement of the entire deal team – investment bankers, attorneys, accountants and possibly insurance consultants and other service providers. The timeline to closing is fluid based on the deal type and seller's interest, but a strong investment bank will remain involved through every step, and well after the closing is complete.

The M&A Transaction Process: Adjustments for Pre-Transition Planning

Before the process can begin, there are preparation and planning activities that should take place. Business owners often reach out to M&A advisors once they have decided to sell their business, however they often risk "leaving money on the table" by nor preparing sooner. During early conversations about transition, an investment bank can positively impact the outcome of the transaction by identifying key strengths and weaknesses important to buyers which can be addressed to enhance valuation.

CM&Co has developed a **Pre-Transition Advisory Services** program to help business owners who may be considering a sale (or another transition) maximize enterprise valuation. We benchmark actual performance characteristics against those that yield higher valuations, and we identify the gaps for realization of a better valuation. This gap analysis, along with other analytic components, will produce a set of strategic opportunities that should help a company prepare for a successful sale well before beginning the sell-side process.

The impact CM&Co's Pre-Transition Advisory Services can have on the M&A process is demonstrated in the Transaction Process diagram below.