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The Capital Network
Breakfast Roundtable

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Covington Associates Overview

- The firm was founded to provide senior level attention and expertise to middle market clients
- More than 150 deals completed with public and private companies since inception
 - Transaction values range from \$10 million to \$1.8 billion
 - “Sweet Spot” is \$20 million to \$250 million
 - Collectively, professionals have completed hundreds of transactions
- More than 60 transactions completed between 2006 – 2009 representing \$8.7 billion in transaction value
- Primary focus is Mergers & Acquisitions (buy and sell-side)
- Other services offered are:
 - Debt and Equity Capital Raising
 - Strategic Advisory Assignments
 - Debt and Equity Restructuring
 - Fairness Opinions



Keys to a Successful Transaction

- Keep your exit strategy in mind
- Start early – raise the visibility
- Know the value drivers
- Articulate the story of your business
- Build relationships with potential buyers
- Run your business “well” – knowing the benchmarks
- Get organized – advisors, finances, legal





Keep Your Exit Strategy in Mind

- Company building is fundamentally about building long term monetary value
 - Liquidity should be on the CEO and board's mind from day one as one of the important company building tasks
 - Think as the “Chief Exit Officer”





Start Early – Raise the Visibility

- Build relationships with buyers
 - Identify & study
 - Generate revenues and shared customers
 - Bi-annual updates with senior management
- Aggressive and good PR
- Industry participation
 - Speaking engagements
 - Organization leadership
- Consistently dedicate time and resources





Concrete Value Drivers

- Revenue growth
- Profit contribution
- Sales leverage
- Expense synergies
- Unique technology/business process
- People: knowledge and experience
- Geography
- Low risk: No revenue concentration, sales visibility, strong controls
- Clean and simple: No legal issues, simple cap structure, etc.
- Product Differentiation
- ACCRETION





Intangible Value Drivers

- Hype: “hot market”
- Market presence
- PR: Frequency and quality of news
- Analyst coverage
- Leadership within industry trade groups and organizations
- CEO / Senior team with prior success and industry contacts
- High profile investors
- “Gotta have”: Real or perceived strategic need
- Level of relationship with buyer(s): Trust, personality fit
- Cultural fit



Know the Buyer Universe

- Market/Channel Partners
- Vendors
- Suppliers
- Competitors
- Indirect
- Direct
- Investors
- Angels
- Venture Capital
- Private Equity





Build Relationships

- Take a long term view
 - Make sure potential acquirers know who you are
 - Keep them updated on your progress
- Dating before marriage – Play the field
 - Multiple partners allows you to make better decisions
 - Perception as desired commodity drives up your value
- Take steps to accelerate the “right” partnerships
 - Product integration
 - Collaborative marketing
 - Joint project
- Successful partnership has two-way benefits at exit time
 - Both parties know what they might be getting into
 - Clearer understanding of value and potential
 - Culture fit, business expectations, and other intangibles already experienced



Know Your Options

- Know what you are worth
- Understand the deal steps and process from A to Z
- Know “deal market terms”
- Know your exit options
- Know the landscape
 - Map the partner/competitor/acquirer landscapes and get to know the important ones
 - Keep your map current





Planning

- Develop an interactive financial projections model
 - P&L, balance sheet, and cash flow
 - Illustrate the incremental value produced with outside capital
- Develop a 3-year business plan
 - Include a polished executive summary
 - Credible budgets and forecasts
- Assess/enhance the leadership plan
- Prune unprofitable operations that could drag down valuation
- Protect your IP



Clean and Paint

- Business as usual?
 - Working capital management
 - Capital expenditures
 - R&D levels
 - Don't play games
 - Manage for profitability, not lifestyle
- Establish financial controls
- Establish record-keeping, governance and capital structure procedures
- Develop standards for key customer, vendor and employee contracts





Management Team

- Augment as needed
- Who will be part of the deal team?
- Provide incentives for their cooperation on the deal
 - Equity
 - Employment contracts (severance, change of control)
 - Deal bonuses
- Align objectives with shareholders (valuation, confidentiality, focus on business during process)
- Continuity of management is also critical



Assemble the Right Team of Advisors

- Each member of the “Deal Team” will deliver a specific skill set and style to the transaction
- Cooperation and synergy among the Deal Team (often perfect strangers) is critical to success
 - Investment Banker
 - M&A Attorney, Tax Attorney, Environmental Attorney
 - Accountant and Personal Financial Advisor
 - Company Resources
- Involve them early in thought process, not sale process
 - Assist in forming opinion of transaction viability
 - Relationship building is important
 - Be better prepared for changing market conditions



Reasons Why the Sale Process Does Not Succeed

- Weak financial recordkeeping
- Surprises in due diligence
- Insufficient IP protection
- Unrealistic price expectations
- Poor marketing plan
- Failure of owners to stay actively involved in managing the business
- Not articulating your value proposition and products
- Missed financial projections



Contact Information



Covington Associates is a specialty investment banking firm founded in 1991 serving business service, consumer, industrial, healthcare and technology companies throughout the country. Focused on mergers and acquisitions, debt and equity capital raising, debt and equity restructuring, and strategic advisory assignments for middle market companies, Covington Associates has completed transactions ranging in value from \$10 million to nearly \$2 billion for both private and publicly traded companies

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