

# [Capital Connection]

## A New Year, a time for change

With the dawning of a new year and a new decade, many embrace this as a time for change. Even though the days are shorter and colder, the mood seems to warm up to the idea that there is real opportunity and greater options for success - as long as we can embrace change.

There are so many ways to make a business thrive - to make it more profitable and more successful. You work hard - putting checks and balances in place, implementing professional advice, managing more efficiently, and carefully controlling costs. But, sometimes, after putting all the pieces in place, it just comes down to a matter of time. Change, after all, means to cause a transformation over time.

At CapitalValue Advisors, we can help you manage change and provide you with the tools necessary to adequately prepare your business for the next step. We provide our clients with the experience, creativity and integrity needed to successfully execute a transition and offer the highest levels of service to ensure that day-to-day business operations continue without interruption. With our combination of experienced valuation skills and extensive mergers and acquisitions expertise, we continue to provide valuation services for businesses between \$3M and \$70M in value.

Thank you for taking the time to read the Capital Connection and learn more about market activity, proven business tips, and valuation tools. If we can ever answer any questions for you or your clients regarding valuation or mergers and acquisitions, please call us. We'd be happy to assist!

- David Tolson and Chris Younger Managing Directors, CapitalValue

*CapitalValue Advisors is now a registered broker/dealer and member of the Financial Industry Regulatory Authority (FINRA).*



## Ten strategies for rebuilding corporate value

How distressed companies approach the process of repairing their broken businesses

Efficiency. It's the Holy Grail of every business. Through efficiency, companies can build more effective managerial and financial structures, increase revenues, reestablish corporate value, and get back on track. Ironically, however, achieving efficiency is easier said than done.

Hence, bankruptcy attorneys, accountants and turnaround professionals are often used to help struggling businesses improve efficiency and create value with the ultimate goal to get these companies a fresh start. Here are ten strategies that can help businesses avoid problems and rebuild corporate value:

### Plan ahead

A company should prepare an agenda of what the bankruptcy filing should accomplish and how those goals will be achieved before running off to Bankruptcy Court. Planning a company's exit from Chapter 11 before filing puts a debtor in a better position to reduce the time spent in bankruptcy and minimizes the costs of the process.

# 10 strategies

10 Strategies, Cont on page 2

## Ten strategies for rebuilding, cont from page 1

### Seek help early

Business owners are frequently in denial regarding the status of their companies and delay seeking critical assistance about whether the costs and risks associated with the filing outweigh other options. Some other options to consider include negotiating an arrangement with creditors outside of court or even closing the company. The bottom line is to seek help promptly — before it is too late.

### Minimize expenses

While the services of attorneys, accountants and others are vital in facilitating a recovery, it is crucial that their costs do not outweigh the benefits of using them. The costs can often be a drain on limited resources of the company these professionals are attempting to revitalize.

### Evaluate the corporate structure

During this time, a company must complete a productivity review since excess payroll often is a key issue that prevents a floundering company from resuscitating. It's time to evaluate employees, especially middle managers, to determine if they are truly necessary. Effective owner-managers must remain open to the idea of stepping aside if that is best for the company.

### Pick battles carefully

A troubled company should fight only those battles that, if successful, result in real gains. Often, it is more cost-effective to pay an obligation that a company may not believe it owes simply because the cost — in terms of legal expenses and the potential drain on the business' resources — cannot be justified.

### Dispose of excess baggage

Now it's time to trim the fat. Unnecessary assets should be sold at the highest achievable price, contracts should be evaluated to determine need, and economies of scale should be taken advantage of wherever possible.

### Control the budget

Because an insolvent company is operated for the benefit of creditors, the company should work with its creditors, not against them. Creditors and bankruptcy court will be scrutinizing the company's budget to ensure that it is not wasting assets. Management must recognize that its budget must be used to maximize value for its creditors.

### Increase employee productivity

Employees are the most valuable intangible asset any company has. A business in trouble should find ways to increase employee productivity. Incentives, such as bonuses or the promise of employment once they are back on track, must be provided to encourage employee buy-in which helps increase and encourage productivity. It's also important to keep employees informed on the process throughout the restructuring.

### Be realistic and flexible

Sometimes the best way to rebuild corporate value is to just close up shop. Recognize the loss and move on — even if that means selling the company to a competitor, a related business, or some other acquiring entity.

### Rely on turnaround professionals

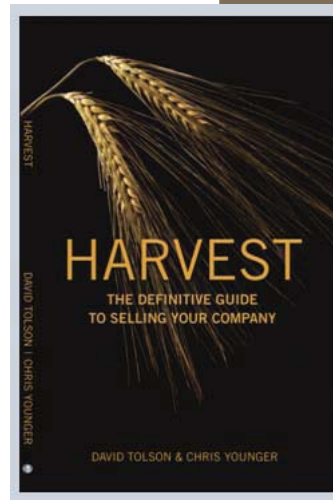
Outside help is the only viable way to uncover the most objective options for a company in dire straights. Fresh eyes are needed first to evaluate whether there is a business that can be saved and then determine how to go about saving it. Without them, a company's chances of recovery diminish.

*Source: Rewritten from an article by Jeffrey A. Wurst from Ruskin, Moscou Faltischek, P.C. printed in the October 2004 issue of The Journal of Corporate Renewal*

## HARVEST: Now available on Amazon

*Email the author for HARVEST (The Definitive Guide to Selling Your Company)*

The two managing directors of CapitalValue have taken their collective experience handling more than ninety transactions as buyer, seller or advisor and incorporated it into a guide to help business owners with the sale or transition of their business.



HARVEST provides a unique and practical perspective on the business of mergers and acquisitions and why the time a business owner spends today thinking about the future sale will yield some of the greatest rewards — both financially and personally.

If you would like an advance copy of the book, please email: [chris@capitalvalue.net](mailto:chris@capitalvalue.net) or contact him at 720.733.0400.

# The pitfalls to avoid on the way toward a successful M&A

*Some common errors senior executives make when making acquisition decisions*

More and more acquisitions are taking place due to current economic conditions, where realistic CEOs are considering the options for survival. On the other hand, executives who worked through the economical challenges with responsible money management are now poised to take advantage of the circumstances. Let's look at some of the common errors senior executives make during acquisition proceedings.

**Vision**

Outlining a clear and convincing vision is one of the first steps necessary when considering an acquisition or merger. CEOs and top teams from both enterprises should meet and realistically determine the strengths that each organization brings to the table and why this blending of organizations should occur. This process is not just about organizational and operational value; it should include an assessment of the cultures of both companies and how the similarities and differences may affect the integration process and the value of the deal itself.

..... This process is not just about organizational ..... to manage integration  
 ..... and operational value; it should include an ..... operations and report  
 ..... assessment of the cultures of both companies ..... directly to the CEO will  
 ..... and how the similarities and differences may ..... enhance the effectiveness  
 ..... affect the integration process and the value of ..... of the integration teams and  
 ..... the deal itself. ..... the change agents that are  
 ..... recruited as part of these  
 ..... critical teams.

**Engaging workforce**

Vital to the acquisition is the understanding that the integration of companies

is really the integration of human capital. A successful integration process identifies and retains what is good from each culture and inspires individuals to contribute positively to the new organization. The following guidelines can help inspire the workforce and minimize counterproductive behaviors which can occur during an acquisition:

- Use the business strategy to keep employees grounded and focused
- Publicly acknowledge the contribution of both companies
- Discuss what will need to be addressed post-acquisition before contracts are signed
- Be swift. Speed is crucial to an effective integration along with the involvement of key people
- Communicate early and often
- Learn about employee concerns
- Solve personal issues first so employees can concentrate on business
- Deal with resistance directly and respectfully
- Educate employees regarding the new vision and processes
- Measure performance against goals very specifically
- Celebrate the successes and address the failures

**Ego**

Always consider the power and involvement of the CEO in the acquisition integration process. If the charisma and control of the founding CEO is inseparable from the culture of the organization, requirements of the new vision can be very threatening and critical merger issues may not be brought to the table for discussion and resolution. CEOs on both sides of the deal need to acknowledge this possibility and put their egos aside to allow objective focus on the investment thesis.

**Management due diligence**

Due diligence around management is often a tougher process than anything dealing with contracts and profit margins. Unfortunately, avoiding the "soft" issues like assessing the senior management talent pool with the new vision in mind can cause major delays in productivity once the deal closes. To gain a competitive edge, asking these five questions is essential during a methodical management due diligence process:

- Will this management team be able to execute our growth strategy?
- Will the organization's culture support the objectives or get in the way?

*Source: Rewritten from an article written by David Astorino, management due diligence practice group, RHR International and originally appeared in The Deal.*

# 5 Ways

to beat the recession

## 1. Take Fast and Decisive Action

The administrative and operational cost structure of all companies tends to grow disproportionately in good times, without a corresponding reduction when the economy and business volume slows. In order to maintain liquidity and manage debt, management must quickly determine core needs and shed excess costs.

## 2. Develop a Comprehensive Approach

A comprehensive plan will include, at a minimum, implementing a cost reduction program, improving inventory controls, enhancing purchasing procedures, accelerating cash flow and extending cash retention. Today's business environment calls for fine tuning the entire business enterprise and making sure all the components work effectively together to maximize value.

## 3. Manage Costs with Targeted and Timely Reporting

Too often, businesses react to information two to three weeks after month-end. Reacting to changes in this business environment requires timely information for gross margin management, product line profitability analysis and administrative cost controls. With today's computer systems, data can be collected and reported on a daily basis, allowing management the ability to react in real-time to deteriorating gross margins and unexpected market changes.

## 4. Manage Operating Results Proactively

More than ever, management needs to proactively manage the operating results. Some unprofitable customers may need to be pruned or contracts renegotiated, certain low margin products may need to be shed or re-priced, and specific operating costs need to be closely monitored.

## 5. Conduct an Internal Assessment for Possible Restructuring

Sometimes it is essential to step back from the day-to-day and ask what adjustments are needed to correspond to the changing business environment. Is it time to consolidate facilities, make the business more scalable through outsourcing of functions, eliminate redundancies in operations and headcount, close selected store locations, or sell off excess assets? Whatever the actions determined, you need to build a comprehensive work plan, establish accountabilities and set a timeline for implementation.

Source: Reprinted from an article written by Bill Lenhart, Partner, BDO Seidman, LLP which originally appeared in Financial Executive Magazine

## Looking up from a down cycle

*Down cycle opportunities to the companies that comprise middle-market PE portfolios*

Businesses, organizations and society in general are feeling the effects of the tumultuous economy – and the private equity industry has not been immune.

While forecasts call for a pickup in investment activity, PE funds continue to save for a rainy day by working to preserve the value of their existing portfolios,

### Challenges: Small vs. large

The economic downturn has resulted in an increased emphasis on cutting costs and maximizing efficiency for smaller companies that comprise middle-market portfolio companies. Less of a challenge for larger-cap portfolios, this belt-tightening is especially evident when it comes to lower middle-market portfolio companies, valued between \$25 million and \$125 million. Because these smaller companies often lack the scale and resources to effectively manage difficult economic conditions, it is critical that middle-

market PE firms follow a few key practices designed to get through the downturn and position portfolio companies to grow when the market recovers.

- Private equity firms must be hands-on when it comes to teaming up with middle-market portfolio companies.
- Take a metrics-driven approach to managing the portfolio – maintaining a deep understanding of the variables that are driving the portfolio's performance and use it to shape the management planning and strategy.
- Keep a close eye on performance as the plan rolls out to ensure things are moving in the right direction. Set early goals so that management will gain acceptance within the organization.

**PE firms focused on the lower middle**

**market must adhere to key practices to**

**successfully manage their portfolios.**

Looking up, Cont on page 5

### Maintain focus on the future

Cost savings is one of the biggest top-of-mind strategies in a challenging marketing, but businesses should not lose sight of the long-term focus. In fact, building out the business in a down market, which could mean expanding internationally or creating a larger distribution channel, can be the key to driving momentum necessary to pull out of the down cycle.

- Look to reinvest savings into market share opportunities to take advantage of weaker management teams at competitors
- Identify costs, inefficiencies and other opportunities within the portfolio and develop strategies to address them
- Use the economic downturn to gain negotiation leverage with third-party vendors
- Aggregate purchase power to create the scale needed to cut costs on commodities like healthcare, insurance, freight, IT, telecom and office supplies.

### Use your network

Portfolio companies don't usually have the same tools and resources as their PE firms. When portfolio companies need help with items like strategic planning, supply chain management, top-grading

talent, and sales training and process, PE firms are usually in an excellent position to help. Typically, they can leverage their network to help and provide management with tools and resources that would otherwise be difficult or costly to attain. Additionally, PE firms should facilitate opportunities for portfolio company executives to tap each other for feedback and share best practices in forums like quarterly focus groups or executive roundtables.

### Not all things are equal

Flexibility is perhaps the single most important key to successful portfolio management in the middle market. Because all companies are unique, a portfolio management team needs to be nimble enough to accommodate those differences. At the end of the day, however, the goal should be to position the portfolio to meet or exceed investment objectives and generate meaningful returns for investors. PE firms that have a focused portfolio management team to drive these initiatives, analyze the risks of the portfolio and use the portfolio size and resources to its advantage will be the most successful in today's environment.

Source: *The Deal.com*, August 27, 2009 based on an article by Rob Ospalik, principal, and Fred Niemeier, vice president, Baird Private Equity.

Reading may be fundamental, but everyone has an opinion. Carly Fiorina, former CEO, Hewlett-Packard, has her favorites and lists the following as her picks for must-read business books.

**1.** *Execution: The Discipline of Getting Things Done*, by Larry Bossidy and Ram Charan (2002)  
Bossidy, the former CEO and now chairman of Honeywell, and his coauthor tackle "the missing link between aspirations and results."

Carly says it's a must-read because: "It's not rocket science, but on the other hand a lot of business isn't rocket science. This book is a very down-to-earth, timely reminder that in the end business is about results and the only way you produce results is by executing. While I think strategic vision is incredibly important, unless you're focused on execution, vision is just a PowerPoint presentation."

**2.** *The World Is Flat: A Brief History of the Twenty-First Century*, by Thomas Friedman (2005)  
The New York Times foreign-affairs columnist explains how the global economy has made the world smaller.

Carly says it's a must-read because: "Tom and I talked a lot while he was writing that book, and he used a number of things we did [at HP] as an example. For me, context is everything. When you're trying to make strategic choices on behalf of a firm, you need to understand very clearly the context you're operating in. I believe the 21st-century context is unique in human history, and I think Tom's book captured that. I can't say how it affected any particular decisions, since the way he and I both conceive of the 21st century affects all of our decisions."

Best books, Cont on page 6

# Quarterly Market Review by CapitalValue

Webinar reveals middle-market M&A market activity and forecast

Last month, CapitalValue presented a webinar on the **Middle Market M&A: Second Quarter Review**. The webinar reviewed overall M&A activity in the second quarter, private equity activity, distressed deals, trends, lessons and forecasts.

CapitalValue Advisors reviewed world-wide M&A deals, reporting that:

- In the first half of 2009, there was \$941 billion in announced deals which was down 40.2% from 2008
- This half marked the lowest deal level since early 2004
- Second quarter 2009 deals were \$466.6 billion, a slight decrease from the first quarter

U.S. year-to-date M&A deals were consistent with world-wide deals showing:

- \$289.4 billion in announced deals in the first half which was down 49.2% from 2008
- Financials, Materials, and Energy & Power were the strongest sectors in the second quarter
- Healthcare and Materials were the only sectors to see year-over-year gains in terms of value
- There was a 58% decline in the total number of private company transactions compared to the first half of 2008 and a 44% falloff from 2007

Also noted was a shift in deal focus from a former focus on financial to a more strategy-driven focus. The strategies include defense against a hostile bidder, handling the debt fallout of past deals, geographic expansion and line expansion.

## Lessons

CapitalValue Advisors reviewed the state of the industry using data and historical comparison, and presented their theory on valuations. The team believes that sellers' expectations are slowly reconciling to the market, assessing business risk factors is more critical than ever, traditional exit planning is being replaced with more strategic transition planning, and owners should begin to reassess risk over the next five years.

## Forecasts

The presentation wrapped up with some predictions for the coming months including the notion that private equity will deploy overhang capital within fund horizons, there will be further activity in Healthcare and Technology, Media and Telecom (TMT) sectors, credit markets will continue to thaw allowing for more junior capital and deals, and a stronger stock market will increase M&A activity.

CapitalValue will be presenting these FREE Webinars on a quarterly basis. To register, please email [info@capitalvalue.net](mailto:info@capitalvalue.net). In the meantime, you may view this presentation by going to [www.capitalvalue.net](http://www.capitalvalue.net).

## Best books, Cont from page 5

### 3. *Strategy and Structure: Chapters in the History of the American Industrial Enterprise*, by Alfred Chandler (1962)

A business historian, Chandler was one of the first scholars to systematically examine the corporate structures of four large companies: GM, DuPont, Standard Oil, and Sears, Roebuck.

Carly says it's a must-read because: "Some people have said strategy doesn't matter. I think that's fundamentally wrong. A lot of companies organize themselves based on what's easiest for people to do, and that may not be consistent with the strategy they're trying to follow. Sound strategy prioritizes investment and channels people's aspirations. It gives business both spirit and direction. The essence of this book is really around the importance of clear strategic vision as a way of prioritizing actions. Any goal will suffice if you have no sense of destination."

- **About CapitalValue**
- CapitalValue is a boutique investment bank providing business valuation, financial advisory, mergers and acquisitions, and private capital raising services.
- Based in Englewood, Colo., the company takes a value-based approach to mergers and acquisitions, and exit options for privately held businesses. They provide clients with the experience, creativity and integrity needed to successfully execute a transition and offer the highest levels of service to ensure that day-to-day business operations continue without interruption. Collectively, CapitalValue's principals have transactional experience in more than 90 business deals involving companies with revenues from \$2 million to \$1 billion, with aggregate purchase consideration of \$500 million. For more information, visit [www.capitalvalue.net](http://www.capitalvalue.net) or call (720) 733-0400.