

Selling Your Company
A Guide for Owners of Middle-Market Businesses



Raymond James Mergers & Acquisitions Group

Raymond James M&A Group is comprised of seasoned professionals who specialize in assisting owners of middle-market companies achieve their liquidity objectives. Whether you are considering selling to a strategic buyer, partnering with a private equity firm or implementing a leveraged employee stock ownership plan (LESOP), the Raymond James M&A team will provide the sound advice and expertise necessary to structure and execute a successful transaction.

Deciding if, when and on what terms to sell your

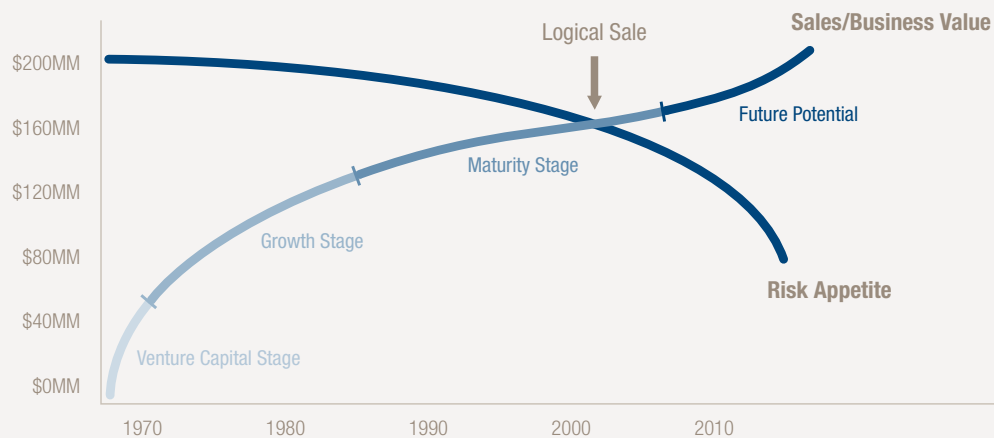


business is one of the most important –
and difficult – decisions you will make during your life.

WHY CONSIDER A SALE?

The most common reason expressed by business owners for selling a full or partial stake in their businesses is to achieve diversification. The typical owner of a middle-market company has spent his or her entire life building a successful business, usually reinvesting profits to enhance the value of this single asset. At the appropriate time, achieving liquidity for all or a portion of the value of this asset will enable you to diversify your net worth, reduce your exposure to the risks inherent in your business and enjoy the lifestyle you deserve.

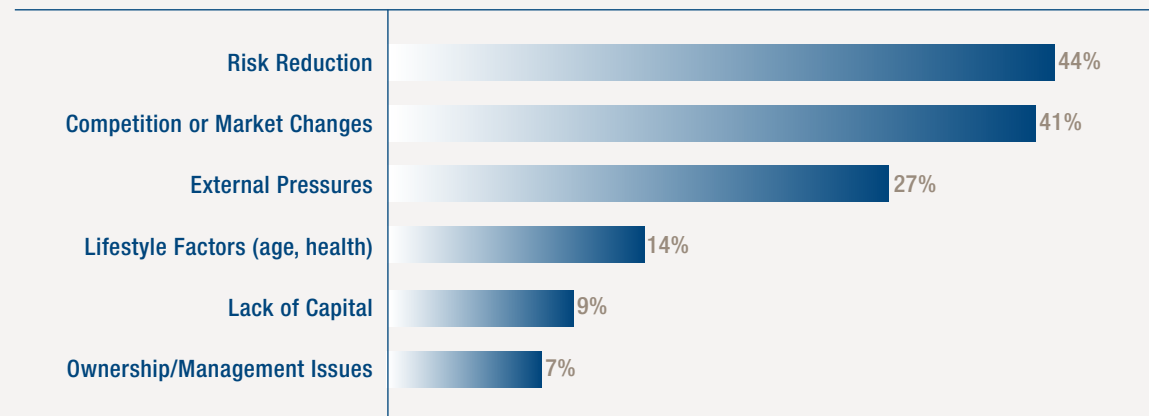
Owner Risk Profile vs. Business Stage



The elimination of personal liabilities – such as a personal guarantee of company debt or liabilities related to environmental issues, worker safety or income taxes – can also be a motivating factor for a sale.

Other reasons mentioned by sellers of middle-market companies include increased competition, industry consolidation, capital needs or the death of a stakeholder. In many cases, the owners realize that it is in the best interests of the company and its employees to find a partner, either strategic or financial, to assist the company in achieving its true potential.

Reasons to Sell*



*Multiple responses accepted. Source: DAK Group Columbia Business School M&A Survey of Middle-Market Companies, 2006



Enjoy the wealth you've accumulated.

YOUR OPTIONS

Many business owners never contemplate selling their businesses, assuming that the next generation of the family will be interested and capable of running it. In reality, however, this does not always happen, and a sale may be the best alternative for you and your family.

Potential buyers of middle-market businesses typically fall into one or more of three categories: 1) competitors or companies in related industries (strategic buyers); 2) private equity groups desiring to partner with existing management (financial buyers); and 3) LESOPs, which allow ownership of a business to pass to its employees in a series of transactions over time.

Strategic Buyers

A strategic buyer might be interested in your business for a variety of reasons including to gain market share, to realize cost savings, to gain access to new products and technologies, and/or to add management talent. Strategic buyers may leave your business essentially intact or fold it into one of their existing business units, thus eliminating its corporate name, employees and culture – elements that are often important issues for sellers of middle-market businesses. However, if there are meaningful synergies that can be achieved by a strategic buyer, your value may be enhanced. Generally, strategic buyers are limited in their ability to acquire less than 100% of your company.

Financial Sponsors

Private equity funds, which raise capital from institutional and individual limited partners, are flexible in how they invest in companies. Many private equity funds specialize in specific industries and/or markets, potentially making them value-added partners. These funds will typically structure deals in one of three ways: 1) purchasing a minority position; 2) acquiring a controlling interest in the company; or 3) buying 100% of the company. The last scenario is less common as most private equity funds prefer that a company's existing management team remain in place and maintain an ongoing ownership interest in the business. Thus, you will need to decide whether you want to retain some or all of your existing responsibilities – while surrendering a significant portion of your authority – in exchange for the financial benefits that come from bringing an experienced investor/partner on board.

Leveraged ESOP

A leveraged ESOP is a tax-advantaged way to pass ownership to your employees over time. Typically, there is an initial transaction in which the ESOP borrows money from a third-party lender to acquire stock from the owner. The first transaction is usually a minority purchase, generally in the range of 30% to 50% of ownership. After the ESOP has repaid most of the debt – through annual contributions by the company on behalf of the employees – the ESOP would borrow additional funds and purchase additional ownership. For patient benefactors, this can be a very effective strategy to achieve liquidity and transfer ownership.

Comparison of Potential Buyers

	Merits	Considerations
Strategic Buyer	<ul style="list-style-type: none"> Complete liquidity Potential higher value due to synergies Enhanced future growth prospects	<ul style="list-style-type: none"> Loss of independence Integration issues Role of management going forward
Financial Sponsor	<ul style="list-style-type: none"> Significant liquidity Capital for growth Participation in future liquidity event Maintain operating control	<ul style="list-style-type: none"> Financial sponsor involvement/control Valuation based more heavily on company's existing cost structure Use of leverage
LESOP	<ul style="list-style-type: none"> Partial liquidity with tax advantages Aligns employee incentives with company goals Minimal impact on current operations	<ul style="list-style-type: none"> Lack of fresh capital for growth Gradual path to full liquidity Use of leverage

Key Considerations

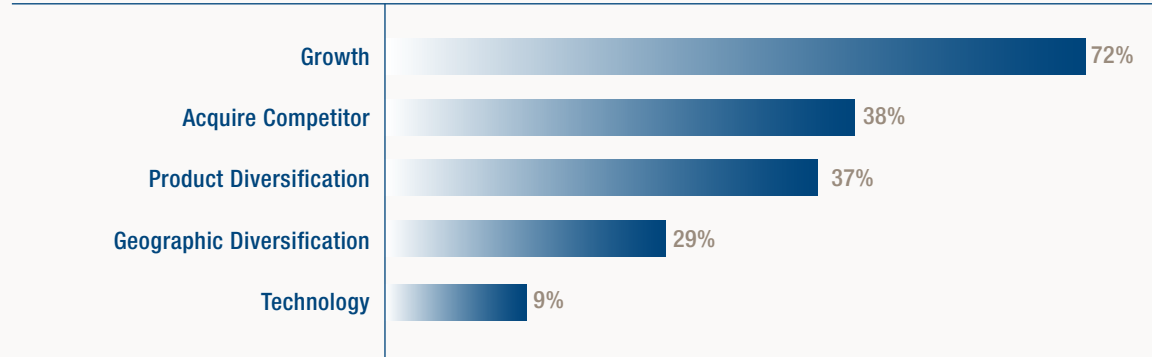
Factors that should be considered in determining the ideal exit strategy include the amount of liquidity desired, your time horizon for achieving liquidity, the size of your business, the depth of your management team, your desire to remain involved, your expectation for future performance of the company and your sale price expectation. An investment banker will devote significant time to understanding your personal and business goals as well as the factors discussed above so he or she can recommend how best to proceed.

WHAT IS YOUR BUSINESS WORTH?

Traditional methods of valuing businesses include: 1) comparison to similar publicly traded companies (multiples of revenues, net income and earnings before interest, taxes, depreciation and amortization, or EBITDA); 2) analysis of precedent transactions involving comparable companies (i.e., using similar metrics as for the comparison to public companies); and 3) the discounted present value of future cash flows. Using these metrics as a guide, an investment banker can estimate the value of your business. Other factors considered in estimating the value of your business may include revenue and profitability growth rates, sustainability of margins, current and prospective market size, and defensibility of market position.

As the owner, however, you should realize that these analyses are only estimates and that the “true” value of the business is determined by the market through a comprehensive sale process. Ultimately, value is “in the eye of the beholder.” In other words, a prospective buyer may be able to realize greater value from the business than the current owner because of what it brings to the table. This may allow a prospective buyer to pay more for the business than what traditional valuation methodologies would indicate.

Reasons for Considering an Acquisition*



*Multiple responses accepted. Source: DAK Group Columbia Business School M&A Survey of Middle-Market Companies, 2006

To optimize the value of your company, you and your advisor must objectively assess your business' strengths and weaknesses from a potential buyer's perspective. For example, ask yourself these questions:

- | What proportion of your sales are recurring, predictable revenue streams?
 - | Do you have a single large customer or a diverse customer base?
 - | Will access to your key customers or distribution network help the acquiring company?
 - | Does your business have substantial goodwill within the market it serves? Or, are you vulnerable to competition?
 - | Does your company have a technological edge over the competition? Or, are you at risk due to advances in technology by other companies?
 - | Does your company hold intellectual property, such as patents, trademarks and brand names, others will find of value?
 - | Is the purchaser likely to retain key staff, including members of your management team? What do those employees bring to the table?
 - | Can the buyer expect to derive synergies or enhanced efficiencies from the acquisition?
 - | Is your business model scalable?
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The answers to these questions will be important in determining the "true" value of the business.

HOW DO YOU SELL YOUR BUSINESS FOR THE HIGHEST PRICE?

Getting Ready To Sell

A business owner will realize higher values and a smoother process if he or she has properly prepared the business for sale. In some cases, this may require years of planning to address issues such as preparing audited financials (not essential but helpful), completing the management team and/or opening new locations. At a minimum, there are short-term areas that can be addressed, which will improve the process as follows:

- | Make sure your facilities and capital equipment are in good condition and well-maintained;
- | Ensure that environmental, employee, tax, and legal records are complete and in order;
- | Resolve any outstanding litigation or contingent liabilities;
- | Write-off uncollectible accounts receivable;
- | Mark down or write-off aging or stagnant inventory;
- | Quantify “private company expenses” that would not be incurred by a new owner; and
- | Remove any personal items from the balance sheet.

Assembling Your Team

An effective team will not only make the process of selling your business more efficient, it will also increase your prospects of obtaining the best possible sale price and structure. To be most effective, your advisory team should be onboard early in deliberations to sell, helping you assess your company’s value and the prospects of achieving your goals in the current market.

In general, your team will be comprised of internal management employees as well as external professionals. The internal team members will typically include the CEO, the CFO/Controller and key managers in sales/marketing, operations and technology. The external team members will include your attorneys and accountants and an investment banker. If your existing attorneys do not have extensive experience in completing M&A transactions, it is recommended that you engage a firm that has such experience. In selecting an investment banker, it is important to select a firm (and individual bankers) with experience in selling companies of your size and within your industry, if possible.

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WHAT DOES AN INVESTMENT BANKER DO?

An investment banker's role is to assist you in achieving your goals by acting as your advisor and agent. The investment banker manages the entire sale process, from inception through closing. While the process will vary somewhat depending on your objectives, the size of the company, the nature of the industry and market conditions, the basic steps in the process are outlined below.

<p>Phase I: Preparation</p>	<p>As the company's advisor, the investment banker begins by gaining an understanding of your objectives as they relate to value, timing, confidentiality, ongoing ownership, existing employees and more. Then, the advisor performs a detailed investigation of the company in an effort to understand every facet of your business. This helps the investment banker assess the company's value and prepare marketing materials that effectively communicate the value proposition to potential buyers.</p>
<p>Phase II: Marketing</p>	<p>The investment banker then creates a list of potential buyers, including strategic and/or financial buyers, based on his or her knowledge of each buyer's acquisition criteria. While, in some cases, more than 100 potential buyers may be contacted, it is not unusual to target a much smaller number of the most likely buyers. In all cases, no potential buyer is contacted without your approval.</p> <p>The process of contacting buyers, communicating the investment merits, coordinating confidentiality agreements, answering questions and receiving initial bids is time-consuming. The investment banker manages this process, so that management can focus on operating the business.</p>
<p>Phase III: Due Diligence</p>	<p>Once initial bids are received, the advisor assists you in determining which parties are worthy of proceeding to the next step. In the next phase, the investment banker works closely with management to provide each party access to detailed information on the company, including a site visit and management presentation, to ensure they have sufficient information to make a final offer.</p> <p>When the final offers are received, the investment banker assists you in determining the winning bidder and negotiating the letter of intent, or LOI.</p>
<p>Phase IV: Closing</p>	<p>Once the LOI is signed, the process shifts to confirmatory due diligence and preparation of the legal documents. The advisor continues to act on your behalf, ensuring everything moves according to schedule towards closing. During this period, the investment banker works closely with your attorney and accountant in the negotiation of the remaining contractual terms to maximize after-tax proceeds and minimize ongoing liabilities.</p>

The typical sale process will take approximately six to nine months from the time your team is assembled.



Upon completion of this process,
you may rest assured that you have made wise choices
for the future of the company and its employees.



Committed to meeting client needs
and delivering superior advice

Why Raymond James?

Raymond James has one of the most highly regarded middle-market advisory practices, having completed more than 130 M&A sell-side or buy-side assignments, with aggregate transaction values totaling over \$20 billion over the last five years. We combine the extensive resources and strength of our parent company, Raymond James Financial (NYSE: RJF), with highly personalized service, giving you direct access to our most senior, experienced team members.



ABOUT RAYMOND JAMES

Founded in 1962 and a public company since 1983, Raymond James Financial (NYSE: RJF) is a diversified financial services holding company with subsidiaries engaged primarily in investment and financial planning, capital markets, and asset management. Through its broker/dealer subsidiaries, more than 4,900 financial advisors serve 1.8 million accounts from 2,200 locations throughout the United States and internationally. In addition, total client assets are approximately \$211 billion, of which \$36.1 billion are managed by the firm's asset management subsidiaries.

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