Absentee owners, 54–56

Accountants
  attestation levels, 111, 112, 116
  fees, 154–155
  and financial due diligence, 247, 248
  financial statements, preparation of, 75
  importance of, 110, 111
  negotiations, role in, 202, 203
  role of, 116, 117, 154, 155
  tax advice, 113

Accounting methods, 112, 342–343, 347

Acquisition Profile, 66, 67, 85

Adjustments to purchase price, 316, 319, 340

Affirmative response clause, 179–181, 186

Amortization, as part of EBITDA, 285, 286

Angel investors, 389

Antitrust legislation, 1

Appraisals. See Valuation

Arbitrage and pricing multiples, 297, 298

Asset acquisitions
  escrow agreements, 250
  tax consequences, 223, 339–340, 342, 346

Asset Purchase Agreement. See
  Definitive Purchase Agreement

Assets
  and balance sheet normalization, 317, 318
  financing assets, 310, 311
  fixed operating assets, normalizing, 317–319
  hidden values, 284
  non-operational, 312, 313, 318, 319, 323, 324
  operating, 310, 311, 323, 324
  real estate. See Real estate valuation

Attorneys
  fees, 154, 155
  legal due diligence, 248
  review of Financial Services Agreement, 136, 137, 163
  role of, 117
  selecting, 110, 116
  tax counsel, need for, 112, 113, 116, 343
  as team leader, 250, 253

Auctions
  buyer attitudes toward, 215, 219
  effect of, 94, 95, 106
  formal (controlled) auction, 126–128, 133
  and investment value, 72, 129, 277, 278, 284
  and Letter of Intent (LOI), 127, 128, 178, 186
  need for, 130–132
  negotiated (effective/informal) auctions
    benefits of, 128, 129, 278, 279
    buy-side representation, 216–219
    document rooms, use of, 127, 128
    and due diligence, 74, 247, 248
    earnest money deposits and breakup fees, 129, 130
Auctions (continued)
  and multiple buyers, 26, 364
  overview, 125, 126, 133
  pace of negotiations, 219
  platform versus financial approach, 172, 175
  steps, 127
  and Super Rule of Five, 276–279
  and synergies, 174, 277, 328
  and valuation, 26, 28, 98, 141, 167, 265, 269, 276
  overview, 125, 133
  and pricing, 219
  and valuation, 98

Baby boomers, 11, 12, 14, 54–56

Balance sheets
  conventions, 307–319
  and Letter of Intent, 314
  liabilities, 249
  and Mom-and-Pop businesses, 308
  net worth targets, 315, 316
  non-operational assets other than cash, 312, 313
  normalization, 317, 319
  operating in the normal course of business, 316, 317
  targets, 223, 309, 313, 314, 316–319
  and transaction value, 146, 147
  working capital, 314, 315
  Basis, stepped-up, 223, 340
  Best efforts offerings, 386
  Boca Raton shops, 386

Book. See Confidential Information Memorandum (CIM)

Breakup fees, 129, 130, 149, 150
Bubbles, 57–64, 95
Bucket shops, 386–388, 390
Buckets (baskets), 249
Business brokers, 3, 7, 9, 86
Business life cycle, 12–15, 95
Business process innovation, 1
Business recapitalization, 391
Buy-side representation
  client issues, 165, 166
  conflicts of interest, 174–176
  and creative deal structure, 216
  and discounted future earnings method of valuation, 287–290
  fees, 168, 169, 175
  infrequency of, 166, 167
  investment value, 70, 284, 289, 328
  and Letter of Intent, 185, 186
  negotiations, 172, 173, 176
  and number of targets to introduce, 171, 175
  planning, 169–171, 175
  platform versus financial approach to acquisitions, 171, 172, 175
  sales-side representation compared, 167, 168
  and Super Rule of Five, 278
  valuation of targets, art versus science, 173–176

Buyers
  approaching, 32–34
  and auction process. See Auctions
  creative uses of consideration, 229, 231
  identifying potential buyers, 29–31, 34
  initial meeting, 212
  management and issues with earnouts, 239–241
  post-closing changes in attitude, 235
  problems with, 5, 9
  and public company divestitures, 26, 27
  remorse, 235, 241
  representing. See Buy-side representation
  and sense of urgency, 218, 219
  single buyer and problems with negotiations, 130–133
  types, need for understanding, 18
  types of, 18–29, 34

C corporations, 339, 346
Capital
  availability of and merger activity, 1
  expenditures, 286, 291
  hedge funds, 3
private equity groups, 3
working capital, 146, 147, 286, 291, 314, 315, 319
Capital gains, 51, 223, 341, 345
Capital markets
angels (real and “wannabe” angels), 389
availability of capital and merger activity, 1
business recapitalization transactions, 391
commercial banks, 386, 387
credit unions, 394
early-stage venture capital. See Venture capitalists
economic development programs, 394
employee stock ownership plans, 392
export/import bank financing, 395
factors, 393
federal government insurance programs, 395
friends, fools, and family (three “Fs”), 388
industrial revenue bonds, 394
industry stakeouts, 390
initial public offerings. See Initial public offerings (IPOs)
leasing programs, 388, 389
management buyouts, 25–28, 55, 392
merchant bank sponsors, 395
mergers and acquisitions, 392
mezzanine financing, 24, 388–393
non-bank banks, 393
overview, 385, 386
PIPEs (private investments in public equities), 387, 389
project finance, 394
public shell reverse mergers, 388
Regulation D private placements, 390
Regulation S offerings, 391
SBA programs, 389, 395
secondary public offerings, 389
Small Business Innovative Research Programs, 393, 394
SPACs (special purpose acquisition corporations), 394
sweat equity, 388
thrifts and mutual savings banks, 394
Capitalization rate, 287, 294
Carve-outs, 150, 151, 163
Cash as consideration, 222, 230
Cash flow as part of EBIT and EBITDA calculations, 284–286
Charitable remainder trusts (CRTs), 344, 345, 347
Clients
advising client to reject deal, 229
assisting, 106, 107, 374, 375
buy-side. See Buy-side representation collaboration with, 66–69, 78, 198
difficult clients, 135, 136
difficulty in due diligence, 115–117
end runs, 115–117
and fee reductions, 138, 139
intake management, 378, 379
and negotiations, 109, 110, 114, 115, 188, 189, 193–199, 208
Closings, 250–253. See also Post-closing transactions
Cohen, Herb, 98, 133, 188, 189
Commercial banks, 386, 387
Commitment fees (retainers), 147, 163
Compensation
incentive compensation (earnout), 236. See also Earnouts
tax consequences, 223, 341
Confidential Information Memorandum (CIM)
as agenda for sale of business, 71, 72
collaboration with client, 66–69, 78
collaboration with client, 66–69, 78
collaboration with client, 66–69, 78
collaboration with client, 66–69, 78
collaboration with client, 66–69, 78
Confidential Information Memorandum (CIM) (Continued)
terminology, 66
and weaknesses in seller’s business, 72, 73, 80
Confidentiality
and Acquisition Profile, 85
agreement, sample, 89–92
and auctions, 129
confidential information memorandum. See Confidential Information Memorandum (CIM)
controlled-disclosure approach to dealing with seller’s employees, 83, 84, 88
and Executive Summary, 85
importance of, 81, 82
and inefficiency of Middle Market, 5
investment banker/client communications, 84, 85, 88
and Letter of Intent, 177, 179
non-disclosure agreements, 85–88, 179
overview, 82
and securities laws, 88
seller’s employees, approach to dealing with, 83, 88
Web site business-for-sale listings, 85, 86
Conflicts of interest, 174–176
Conglomerates, 2
Consideration. See also Deal structure;
Price; Terms of deal
buyer creativity, 229, 231
cash, 222, 230
earnouts, 223, 230. See also Earnouts and interest rates, 222
lease agreements as part of, 145
non-cash consideration, 144
private company stock, 223, 226, 227, 231
promissory notes, 222–224, 230, 231
public company stock, 223–226, 229, 231
and time value of money, 224, 227, 230, 231, 234
types of, 222–224, 226, 227
typical mixes of, 230, 231
weighting comparative offers, 222, 227, 230
Consolidators (roll-up promoters), 18–20
Contracts
consulting contracts, 145
valuation, 288, 290, 327, 328, 335
Conventions
balance sheet, 310–319
in M&A deals, overview, 309, 310
need for, 307, 308
partial and mixed business acquisition deals, 334, 335
and venture capital investments, 335
Corporate culture, 255–259
Corporate development staff, 32, 33
Corporations, 339–340, 346, 347
Creative destruction, 12, 13
Credibility, 189, 190, 192, 217. See also Honesty and integrity
Credit worthiness, 224, 230
Deal structure. See also Consideration;
Terms of deal
buy-side representation and creativity, 216
factors considered, 223, 224
and tax consequences, 223, 230, 341, 346, 347
Debt, effect of on value, 285, 318
Definitive Purchase Agreement, 113, 114, 248–250
Depreciation as part of EBITDA, 285, 286
Deregulation, effect of on merger activity, 2
Discounted cash flow (DCF) method, 216, 287–290, 328
Discounted future earnings (DFE) method, 287–291, 328
Dividends, 24, 226, 318
Document Rooms, 127, 128
Dot.com bubble, 2, 57–59
Dribble rules, 225, 230
Due diligence
   and auctions, 129
   and Confidential Information Memorandum, 73, 74
   confirmatory, 179, 247, 248, 250, 253
   and deposits and breakup fees, 130
   and Document Rooms, 128
   financial, 247, 248, 253
   legal, 248, 253
   and Letter of Intent, 73, 74, 177, 179, 186
   operational, 248, 253
   preliminary, 179, 247
Earnest money deposits, 129, 130
Earnings, 283–285, 287, 326, 327
Earnings before interest, taxes, depreciation, and amortization. See EBITDA (earnings before interest, taxes, depreciation, and amortization)
Earnings before interest and taxes. See EBIT (earnings before interest and taxes)
Earnings multiples
   EBIT. See EBIT (earnings before interest and taxes)
   EBITDA. See EBITDA (earnings before interest, taxes, depreciation, and amortization)
and industry bubbles, 59–61
present value of future earnings, 284
trailing, 283, 284
Earnouts
   agreements, 240, 243–246
   as bonus consideration (frosting on the cake), 242
   and buyer's management, 239–241
   collection, likelihood of, 241–243
   comfort earnouts (true earnouts), 236–242
   fees based on, 143
   future earnings and growth rate, 235, 236
versus incentive compensation, 236
metrics, 237–239
and negotiations, 233, 234, 237–243
as part of consideration, 223, 230
problems with, 234, 235, 243
and promissory deferred payment notes, 224
royalty-based metrics, 239
seller's calculations, 243
tax consequences, 242, 243, 341, 347
true earnouts, 236–242
types of, 236, 237, 243
variations in terms, 240, 241
EBIT (earnings before interest and taxes)
   and bubbles, 59, 60
   earnings, 284, 285
   interest expense, 285
   multiples, 297
and normalizing financial statements, 76–80
and recasting financial statements, 76, 79
and Super Rule of Five, 275–278
taxes, 285
and technology valuation, 324
EBITDA (earnings before interest, taxes, depreciation, and amortization)
   amortization, 285, 286
   and bubbles, 60, 61
   and changes in working capital, 286, 291
depreciation, 285, 286
earnings, 284, 285
as earnout metric, 237–239
fast-growing businesses, 235
interest expense, 285
minus capital expenditures (EBITDA - CAPX), 286, 291
multiples, 236, 237, 290, 295, 296, 398
and normalizing financial statements, 76–80
and recasting financial statements, 76, 79
EBITDA (earnings before interest, taxes, depreciation, and amortization) (Continued)
and Rule of Five, 272–274
and Rule of Ten, 274
taxes, 285
and technology valuation, 324
Economic development programs, 394
Economies of scale, 19, 20, 62, 77–79, 174, 272, 277
Employee stock ownership plans (ESOPs), 27, 28, 392
Employees
confidentiality issues, 83, 84, 88
key employees, 47–50
Enterprise value, 273, 291, 318
Entity selection and tax issues, 339, 340
Escrow agreements, 249, 250, 253
Escrow hold-backs, 227, 231, 249, 250
Escrow set-asides, 143, 144
Exclusivity (non-marketing/no shop clause), 177–180, 186
Executive Summary, 85
Exit strategy, venture capital investing, 330, 331, 335
Factors, 393
Fair market value
versus investment value, 131, 263, 267
true merger transactions, 332, 333
use of, 264, 265
Financial Services Agreements (FSAs) contract term, 148
fee structure, 140–142, 155, 163
and measuring transaction value, 142–147, 163
provisions of, 155, 163
review of by attorney, 136, 137, 163
sample, 156–163
trailer periods, 149, 150
Financial statements
audited, 111, 112, 116
compiled, 111, 112, 116
importance of, 154, 155
normalizing, 76–80
as part of Confidential Information Memorandum, 74, 75
prepared by accountant versus investment banker, 75, 80
recasting, 76, 79
reviewed, 111, 112, 116
First Chicago method, 329, 330
Forensic experts, 110
Friends, fools, and family (three “Fs”) as source of capital, 388
contingent fee formulas, 140, 141
and earnouts, 143
and escrow set-asides, 144
estimates of, 155, 164
and failed deals, 139, 140
fee formulas, 140–142
Lehman fee variations, 140–142
reduction, 136, 137, 150, 151, 153, 154
retainers (commitment fees), 147, 163
and size of deal, 141
success fee formulas, 140, 141
and transaction value, 142–147, 163
warrants, options, and other equity, 151, 152
wire-transfer fee payments at closing, 154, 164
Financial buyers, 20, 21
Financial Industry Regulatory Authority (FINRA), 105, 148
Fees
accountants, 154, 155
and attitudes toward large sums of money, 137–139, 152, 153
attorneys, 154, 155
baseline transaction value, 141, 142
blended rates, 141
breakup fees, 129, 130, 149, 150
business brokers, 7
buy-side representation, 168, 169, 175
 carve-outs, 150, 151, 163

for more on EBITDA (earnings before interest, taxes, depreciation, and amortization) please see page 274 in the index.
Index

 Generally accepted accounting principles (GAAP), 110–112
 Gifts, 344, 345, 347
 Global economy, 3, 13–15, 29
 Gross margin as earnout metric, 238, 239
 Guideline public company method, 296, 297
 Hedge funds, 3, 23
 Historical background of mergers and acquisitions, 1–3
 Horizontal mergers, 1
 Hostile takeovers, 4, 5
 Income tax consequences, 223, 341.
   See also Tax consequences
 Indemnification, 249
 Individual buyers, 24, 25
 Industrial revenue bonds, 394
 Industry stakeouts, 390
 Information Memorandum. See Confidential Information Memorandum (CIM)
 Initial public offerings (IPOs), 230, 296, 330, 331, 335, 340, 388
 Installment notes, 342, 343
 Interest, 222, 224, 231, 250, 285
 Internal Revenue Code (IRC). See also Tax consequences
   C corporations, 339, 340
   reorganizations (Alphabet Section), 343, 344
   S corporations, 339, 340
 section 368, tax-deferred merger transactions, 343
 section 1045, qualified small business exclusion of gain on sale of stock, 346
 section 355 (Morris Trust), tax-deferred distribution of assets, 345
 section 338(h)(10) election, 340, 347
 International deals, 13–15, 29
 Investees, 386
 Investment banks and bankers
   advising client to reject deal, 229
   and business terms, 250
   buyers, representing. See Buy-side representation
   characteristics of, 351–353, 381
   client assistance, 106, 107, 374, 375
   client intake management, 358–362
   conflicts of interest, 174–176
   cultural issues, 358–362
   discounted future earnings method, use of, 290, 291
   fees, 7, 136–142, 155, 378, 381
 Financial Services Agreements. See Financial Services Agreements (FSAs)
   and identifying potential buyers, 29
   industry specialists, 101–104, 107
   and initial meeting location, 212
   investment banking described, 350, 351
   listening, importance of, 213, 214
   marketing and business development, 362–371, 381, 382
   matchmaker myth, 104, 107
   as mediator when represented both sides, 175
   and Middle Market deals, 5, 9, 95–100
   networking, 371–374
   as part of external team, 110.
   See also Professional advisors
   preliminary valuation by, 97, 98, 266–268
   profession entry points, 353–358, 381
   reputation, 374, 375
   retainers, 378
   role of, 95–100, 107, 114, 117, 213, 214
   securities law issues, 105, 376, 377, 382
   selecting, 100–107, 152, 153, 164
   size of, 101, 107
   success, tips for, 379, 380
Investment banks and bankers
(Continued)
teams of professionals, 95, 100, 101, 106
and $10-trillion opportunity, 380–382
time spent on deal, 99
and Upper Market companies, 7, 9
valuation expertise, 95, 105–107
Investment value
and accounting principles, 112
and auctions, 72, 129, 277, 278, 284
and bubbles, 60, 63
building, 38
buyer’s calculations, 70, 284, 289, 328
fair market value compared, 131, 263, 267
and financial approach buyers, 172
maximizing for seller, 31, 32, 38
and pricing issues, 214–216, 218
versus seller’s value, 167
subjective nature of, 131, 176
and valuations, 26, 28, 264–266, 268, 269, 329
walkaway price and creative deal
terms, 229
Investors, 386
Junk bond financing, 2
Key employees
and absentee owners, 54–56
avoiding problems with, 54
non-compete and non-intervention
agreements, 52, 53, 56
overview, 55, 56
reaction to sale, 47
rewards, 49–54, 56
and unwritten promises, 47–49
Large companies (Upper Market). See
Upper Market (large companies)
Lease agreements, 145
Leasing programs, 388, 389
Letter of Intent (LOI)
affirmative response clause, 179–181, 186
and auctions, 127, 128, 178
and balance of power, 178, 179, 186
and balance sheet targets, 314
buy-side perspective, 185, 186
and confidentiality, 177, 179
contents of, 178
disclosure of business weaknesses,
72, 73, 181, 182, 186
drafting process and negotiations,
184, 185
and due diligence, 73, 74, 177, 179, 186
exclusivity (non-marketing/no shop
clause), 177–180, 186
exclusivity period, activity during,
253
importance of, 177, 178
language usage, 183, 184, 186
negotiations, 182, 184–186, 205, 206
nonbinding, 177, 178, 180, 181, 186
reverse Letter of Intent, 185, 186
and sequence of events, 114
thoroughness of business terms, 182, 183, 186
Leveraged buyouts, 2, 7, 55, 278, 391
Liquidity
as driver of M&A activity, 11, 14
public companies, 298, 299
and venture capital strategy, 330
and weighting comparative offers,
222, 223, 230
Litigation, effect of on sale, 43, 54
Lock-up agreements, 225, 230
Management buyouts, 25–28, 55, 392
Mapping approach to identifying
potential buyers, 31
Merchant bank sponsors, 393
Mergers and acquisitions (M&A),
generally
failure rate, 256, 257, 259
historical background, 1–3
process, 8
Mezzanine financing, 24, 388–393
Middle Market, generally, 2, 3, 5–7, 14
Minority interests, 226, 227, 331–332,
335, 345
Mom-and-Pop businesses, 3, 4, 7, 9
Monopolies, 1
Multiples. See also EBIT (earnings before interest and taxes); EBITDA (earnings before interest, taxes, depreciation, and amortization); Rule of Five derivative, 295, 296
overview, 294
public versus private market, 296–209
and real estate valuation, 322
revenue, 295, 296
and risk, 295

National Association of Securities Dealers (NASD), 105, 148
Negotiations
as an art, 191, 201, 205, 206, 208
buy-side representation, 172, 173, 176
buyers and sellers, direct communication, 199
concessions, 195, 196, 199, 200, 205, 208
credibility, 189, 190, 192
and deal-killers, 199, 200
detachment as attribute, 188, 189, 194, 208
and earnouts, 233, 234
and effective/informal/negotiated auctions, 126. See also Auctions
goals, presenting, 196
honesty and integrity, 129, 188–191, 206, 212, 218, 359
late entry into, 200, 201, 208
lead negotiator, need for, 202, 203, 208
Letter of Intent, 182, 184–186
and over-analyzing and over-strategizing, 205, 208
pace of, 218, 219
and partial truths, 217, 218
preparation, 188, 189
price, 217, 218. See also Price second-guessing, 194
and tax issues, 346
team, effective use of, 114, 115
terminating and reviving, 206, 207
timeframe for, 205, 206
tips for, 132
trust, importance of, 188, 217
unreasonable and hostile negotiators, 207
walking away, 203–208
water torture approach, 195, 208
and written communications, 191, 192
Net worth, 24, 226, 231, 313–316, 319
Non-cash consideration, 144
Non-compete agreements, 52, 53, 56
Non-disclosure agreements, 85–88, 179, 212
Non-intervention agreements, 52, 53, 56
Non-negotiable instruments, 222
Non-strategic industry buyers, 25
Nonprofitable businesses, valuing, 326–328, 335
Normalization
balance sheets, 317, 319
earnings, 283, 326, 327
financial statements, 76–80
fixed operating assets, 317–319
Offering Memorandum. See Confidential Information Memorandum (CIM)
Offshore buyers, 29
Options, as part of compensation, 151, 152
Ordinary course of business, 316–318
PIPEs (private investments in public equities), 387, 389
Planning, buy-side representation, 169–171, 175
Planning for sale
approaches to, 37, 38
and business operations, 42–44
and effect of litigation, 43
intermediate-term planning, 39, 40, 44
long-term planning, 38, 39, 44
short-term planning, 40–44
Index

Post-closing transactions, 100, 113, 116, 145
Post-merger and acquisition failures, 255–259
Preliminary bid/proposal, 127, 128
Preliminary valuation. See Valuation
Present value of future earnings discounted future earnings. See Discounted future earnings (DFE) method
technology valuation approach, 326
Price. See also Consideration; Terms of deal
adjustments, 316, 319, 340
approaches to, 211
versus compensation, 341
as function of negotiated auction, 219
and investment value, 214–216, 218
offers, encouraging, 217
price versus terms, 215, 219, 221
pricing compatibility, 98, 99
range of values, 219
responding to buyer's initial query, 214, 215
seller's calculation of investment value, 216
Private companies, valuation, 296–298
Private company stock as consideration, 223, 226, 227, 231
Private equity groups (PEGs)
as potential buyers, 21–24
and pricing based on discounted cash flows, 216
and rapidly growing businesses, 288, 289, 329–335
as source of capital, 3
valuation issues, 329–335
Private investments in public equities (PIPEs), 389
Private placement offerings, 351, 390
Product lines, valuing, 288, 290, 327, 328, 335
Professional advisors, 110. See also Accountants; Attorneys
confidence in, 115
failure to use team effectively, 114, 115
fees. See Fees
sequencing of tasks, 114, 117
team of, 113–115, 117
Promissory notes, 222–224, 230, 231, 250
Public companies
divestitures, 26, 27, 126
stock as consideration, 223–226, 231
valuation, 229, 231, 296–298
Public offerings, secondary, 389
Public shell reverse mergers, 388
Public stock offerings, 386
Put options, 226, 227, 231
Real estate valuation, 321–324, 335
Reconstruction cost approach, technology valuation, 325
Regulation D private placements, 390
Regulation S offerings, 391
Relative value approach and measuring transaction value, 145, 146
Reorganizations, 343–345
Representations and warranties, 249
Research databases, 29
Resources, lack of as driver of M&A activity (glass ceiling), 14, 15
Restak, Richard, M.D., 188
Retainers (commitment fees), 147, 163
Return on investment (ROI)
and business valuation, 284
and discounted future earnings method, 287
and Mom-and-Pop businesses, 4
and multiples, 294
Risk assessment, 283, 284, 295
Roll-ups, 18–20, 62–64, 297, 298
Royalty-based earnout metrics, 239
Rule of Five, 60, 271–274, 279, 295.
See also Super Rule of Five
Rule of Ten, 272, 274
S corporations, 339, 340, 346, 347
Sales as earnout metric, 238
"Scared money" buyers, 17, 18, 24, 25
Securities Act private placement offerings, 390
Security and Exchange Commission (SEC)
  dribble rules, 225, 230
  Rule 144, 224, 225, 230
Securities laws
  and confidentiality issues, 88
  and distribution of Confidential Information Memorandum (CIM), 74
  and investment banks, 105, 376, 377, 382
Self-representation, 95–99, 106, 119–123
Sellers. See also Clients
  appraisals. See Valuation
  initial meeting with potential buyer, 212, 213
  investment value. See Investment value
  post-closing attitudes, 234, 235
  representations and warranties, 249
  as source of information on potential buyers, 31
Settlement. See Closings
Sherman Act, 1
Silo mate approach to identifying potential buyers, 29, 30
Small Business Administration (SBA) loan programs, 389, 395
Small Business Innovative Research Programs (SBIR/SBIR), 395, 394
Small businesses. See C corporations; Mom-and-Pop businesses; S corporations
SPACs (special purpose acquisition corporations), 394
Standalone value, 333–335
Stock deals, 250, 342
Stock Purchase Agreement. See Definitive Purchase Agreement
Strategic industry buyers, 20
Strategic planning. See Planning for sale
Subject matter experts, 110
Super Rule of Five, 126, 133, 275–279
Supply chain, 31
Sweat equity, 388
Synergies
  and discounted future earnings method, 287, 289
  economies of scale, 19, 20, 62, 77–79, 174, 272, 277
  overestimating and M&A failures, 257–259
  Super Rule of Five and synergistic growth rate, 276, 277, 279
  true mergers, 333
  and unprofitable businesses, 328, 335
Tax consequences. See also Internal Revenue Code (IRC)
  accounting methods, 342, 343, 347
  asset acquisitions, 339, 340, 342, 346
  attorney, need for, 112, 113, 116, 343
  built-in gains tax, 340, 347
  C corporations, 339, 346
  capital gains, 51, 223, 318, 341, 345
  and charitable remainder trusts, 344, 345, 347
  compensation as part of deal structure, 223, 341
  and deal structure, 223, 230, 341, 346, 347
  dividends, 318
  and earnings before taxes, 285
  earnouts, 242–243, 341, 347
  gifts and family limited partnerships, 344, 345, 347
  installment elections, 342, 343, 347
  and negotiations, 346
  ordinary income tax, 223, 341
  overview, 338, 339
  post-closing tax filing requirements, 113
  reorganization deal structures, 343, 344
  rewards to key employees, 51
  S corporations, 339, 340, 346, 347
  small business corporations, 346
  stepped-up basis, 223
  stock deals, 105, 318, 339, 340, 342, 346
Tax consequences (Continued)

- tax-deferred distributions (Morris Trust), 345, 347
- tax-deferred stock or asset exchanges in the course of reorganizations, 223

Tax planning, 344, 345
Taxes as part of EBIT and EBITDA, 285, 291

Technology
- and life cycle of Middle Market companies, 12, 13
- valuation, 288, 290, 324–326, 335

Terms of deal. See also Consideration; Deal structure
- advising client to reject deal, 229
- and buyer creativity, 229
- comparative offers, weighting, 222, 227, 230
- importance of versus nominal price, 95, 106, 126, 221

Time value of money
- and computing deposits and breakup fees, 130
- and consideration, 224, 227, 230, 231, 234
- and escrowed funds, 234, 249, 250

Timeframe
- final days before closing, 250, 251, 253
- for Middle Market deals, 4, 5
- for negotiations, 205, 206

Timing sale of business, 57–64, 95
Trailer periods, 149, 150
Trailing earnings approach, technology valuation, 326
Transaction value, 141–147, 163, 284
Trust, importance of, 188, 217
Tunnel approach to identifying potential buyers, 30

Ultimatum Game, 137, 138
Upper Market (large companies), 4, 5, 7, 9

Valuation
- appraisals, 265, 266
- and auctions, 128, 129
- comparable transactions, 398
- contracts, 288, 290, 327, 328, 335
- costs of, 266
- discounted cash flow method, 287–290
- discounted future earnings method, 287–290
dynamic value, 265
- earnings multiples, 284–286. See also EBIT (earnings before interest and taxes); EBITDA (earnings before interest, taxes, depreciation, and amortization)
- enterprise value, 272, 291, 318
- experts, 105, 106
- fair market value versus investment value, 131, 263, 267
- formal valuation methods versus actual value in M&A deals, 282–284, 397, 398
guideline public company method, 296, 297
industry analysis, 305, 306
- investment bank expertise, 107
- and investment value. See Investment value
- long-term debt, effect of, 285
- Mom-and-Pop businesses, 3, 4
- nonprofitable businesses, 326–328, 335
- obsolescence, 304, 305
- preliminary valuation, 35–37, 44, 264–268, 290, 306
- private companies, 296–298
- private equity group issues, 329–335
- product lines, 288, 290, 327, 328, 335
- public companies, 297, 298
- quantitative and qualitative, 302–306
- rapidly growing businesses, 329–335
- real estate, 321–324, 335
- return on investment. See Return on investment (ROI)
sanity check, 398
standalone value, 333–335
of targets in buy-side representation, 173–176
technology, 288, 290, 324–326, 335
transaction value, 283–284
types of, 264–268
Value drivers, 36, 37, 303–306. See also
   Synergies

Venture capitalists
   as potential buyers, 21, 22
   and rapidly growing businesses, 288, 289, 329–335
   as source of capital for early-stage companies, 391

Warranties, 249
Warrants as part of compensation, 151, 152
Web site Document Rooms, 127, 128
Widow-and-orphan shops, 386