

**PARIS WELCOMES M&A INTERNATIONAL**

Following an extremely successful Spring Conference in Beijing in May of this year, Paris was the site of the Fall Conference. The Westin Hotel was the venue for 180 MAI professionals, 50 spouses, and over 250 invited guests. There was ample reason to celebrate on behalf of the organization, and its clients around the globe. Year to October 31<sup>ST</sup>, MAI closed 270 transactions, versus 260 in the same period 2006. It appears 2007 will be another record year, exceeding the 290 transactions, valued at \$17.5 Billion in 2006. A clear indication of the health and momentum in the mid-market is the current inventory of 433 transactions under management by MAI on behalf of our clients, led by IT, Food & Beverage, Healthcare and Business Services.

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Specialists in mid-market divestitures, strategic alliances and valuations — member of M&A International.  
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**IS A SUBPRIME MELTDOWN INEVITABLE IN THE MIDMARKET?**

At the beginning of November M&A International surveyed their over 400 professionals in 38 countries to seek their feedback as to the effect of the subprime fiasco on mid-market M&A. The detailed results can be reviewed on [www.mergers.net](http://www.mergers.net), “debt market turmoil survey”. In summary, while mega deals are being hard hit, as lenders have dramatically altered their risk tolerance, mid-market transactions, \$20 to \$250m million haven’t been greatly affected. However, within that bracket, the momentum has shifted away from Private Equity purchasers, and towards strategic acquirers. As a result, price levels seem to have eroded somewhat, as buyers, PEs in particular, are denied excessive leverage, and are reluctant to step up the level of equity in a transaction. Another factor which has emerged, and may dramatically change the landscape is the failure of some of the hedge funds, whose aggressive purchases have driven prices up, in some cases to levels which are likely not sustainable in more normal financial circumstances.

While the US has proven more vulnerable, followed by Western Europe, the Canadian market has been less affected to date by the turmoil, but there are those who suggest the other shoe hasn’t dropped yet. Our professionals in Eastern Europe, China and India observe that the internal factors in those countries more than offsets the negative lending climate, and mid-market M&A continues to boom. As mentioned above, Additional detail can be found at [www.mergers.net](http://www.mergers.net).

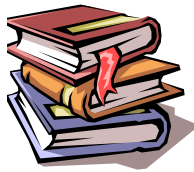
**ASIA - PACIFIC MUSCLE: VIETNAM & CHINA**

In October the latest M&A International member firm was launched in Ho Chi Minh City. A second office will open in Hanoi before the end of the year. With 82,000,000 people, a GNP of \$45 Billion, and an economy growing at over 8% annually, (faster than India and Taiwan), Vietnam has become a very attractive opportunity for companies from around the globe. Foreign investment was up 49% in 2006. Research conducted by Audon Partners, the M&A International member firm in Denmark, in conjunction with and supported by the State of Denmark, identified the lack of M&A capability. Delta Partners, a joint venture between Audon and four very senior experienced local Vietnamese businessmen, will be the first investment bank servicing Vietnam business.

In September, Morgen Evan, headquartered in New York City, built upon their Shanghai base, announcing the formation of a WOFE, (wholly owned foreign enterprise), a joint venture with Dr. Bruno Wu, Chairman of Sun Media, the largest private media company, and various major Chinese businesses. Known as Morgen Evan Redrock, the 10 person team will focus on traditional M&A, IPOs and privatizations.

**FEATURES**

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In an effort to reduce the complexity in M&A and Corporate Finance terminology, M&A Monitor includes a few definitions of terms whose meaning may not be obvious to those outside the industry:

**REPS & WARRANTS:**

Short for the Representations and Warranties that are given by parties to a transaction, to each other which, if later prove to be false or misleading may, under specified circumstances lead to damages or possibly the annulment of part or all of the transaction.

**RIGHT OF FIRST OFFER:**

A right generally held by a current owner or want-to-be owner of a business, granting the holder the right to make the first offer for the business, or that portion which he does not already own, once the current owner has decided to sell his stake. Once the offer is received, the current owner is free to solicit higher bids from third parties with the proviso that if none are received, the owner will be compelled to sell to the submitter of the "first offer".

**RIGHT OF FIRST REFUSAL:**

A right generally held by a current owner or want-to-be owner of a business, granting the holder the right to match any offer received by the current owner of the business, or that portion not already owned by the right holder, and to be the successful buyer at that price. If the holder decides not to match the outside offer, he generally gives up all future rights to buy the business, and the current owner may sell to the party of his choice at a price not less than that refused by the right holder.

**SECOND STAGE FINANCING:**

Generally the fourth level of Venture Capital (after Seed, Start Up, and First Stage) these funds are used to support the initial expansion of companies that are making progress, but are not yet self sustaining.

**ENSURING SUCCESS IN A FAMILY BUSINESS**

Family businesses have been a pivotal part of the JR/Janus practice since we went into the mid-market M&A business in 1987. Throughout those years we've known and respected **Aron Pervin**, perhaps the foremost advisor to family business owners in the country. Aron understands the unique challenges facing a family in business, and knows that each situation may be unique unto itself. The subject has been of great interest to us, particularly when we are retained to help a family grow the business through acquisition, or sell to realize their liquidity, often representing generations of dedication and hard work. In either case the competence of the family as managers is the primary influence on the success of the venture. Over 20 years we've observed that the most successful family businesses involved qualified outsiders on a board of advisors, or a more formal board of directors. In that context, Aron's article "Outsiders on the Family Board can Make a Difference" is a must-read.

This article "**Outsiders on the Family Board can Make a Difference**" is courtesy of **Aron Pervin**, CMC, ICD.D, TEP, Head of Pervin Family Business Advisors Inc.

Recently, a family business owner was advised that his company could really benefit from an outside board of directors. He resisted the idea. If we had a board, it would have told us not to do the outrageously risky things we did to become successful, he said.

His comment highlights two problems with the growing family enterprise. Success often substitutes as evidence of good planning. And family patriarchs and matriarchs are usually accountable to no one – and like it that way.

A board of directors could offer a solution for both dilemmas. Unfortunately, boards are usually an unused appendage. For most family businesses, boards of directors are made up of family members and the companies' lawyers.

Surveys by Pervin & Co. in Canada in 1998 and by MassMutual in the United States in 1995 indicate that more than 60 per cent of family businesses have a board of directors or advisory board. But both surveys suggest that more than 80 per cent of board members are insiders – family and close associates only.

These boards exercise little authority. Less than half of the survey respondents believed that their boards made a contribution. It seems members' principal function is to affix their signatures in the proper place to signify that a legally ordained meeting was held, even though it never took place.

Should things be any different? After all, the boss generally is the controlling shareholder. Why would the people with the most at risk want to be accountable to outsiders who would question all major decisions?

My own experience suggests three reasons why they should.

First, an independent board lifts the family business owner's aspirations, confidence and commitment. Its mere presence signals to employees and potential financiers that the family remains interested in keeping and expanding the business.

# OUTSIDERS ON THE FAMILY BOARD CAN MAKE A DIFFERENCE

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This article is courtesy of **Aron Pervin**, CMC, ICD.D, TEP, Head of Pervin Family Business Advisors Inc.

Second, effective boards stimulate action on essential but taboo family issues. Too often, such topics as estate planning, succession, family compensation and benefits, dividend policy, and authority of family members — all loaded issues with family consequences — are set aside for more proper or more comfortable consideration. A board considers these to be routine points of business discussion.

Third, managers gain professionalism and momentum by reporting to a board. When internal family disputes arise over the business — a time when communications in family businesses may become undignified — directors act as the voice of reason.

Making sure a board succeeds in a family business environment isn't easy. Family managers have to break out of old habits of authoritarianism and secrecy. They should also provide some guidelines for the board, such as a written mandate and clearly defined boundaries to set off their responsibilities from those of shareholders and management.

The family will also have to give up some of its sinecures. Everyone who sits on the board should be a contributing member, which means honorary positions are abolished. This can be troublesome when the honorary position is occupied by the chief executive officer's spouse, or a passive owner who understands little about business and does not work in the firm.

In fact, most insiders don't belong on the board — neither key employees, family members nor the company accountant or lawyer, whose advice the business already has. Getting inside directors to leave can be a delicate matter. If insiders' board membership constitutes their chief source of company information, they still need to be kept informed once they're off.

Directors also have to make adjustments. They should appreciate that family run firms are different from other businesses, and sometimes impose special demands. For instance, family businesses often embody deep seated values or religious

feelings that family members consider important. There may also be specific financial considerations for the family with respect to money it withdraws from the firm.

It's the family's job to forge a consensus on these matters and give board members a clear mandate. A board cannot function without family consensus, and perhaps the company can't either.

To work with an outside board, the family CEO's chief prerequisite is to have enough confidence to relinquish a degree of control. The leader must be convinced that the benefits justify surrendering some control.

If this condition is met, the CEO can learn to live with the board by following a few rules:

- Treat the board members as if they represented shareholder control of the business, whether or not this is the case. Competent board members will not stay unless they believe their decisions carry weight.
- Define the board's mandate, functions, responsibility and authority in writing.
- Encourage board members to learn as much about the business as possible and to improve any skills that would aid in the decision making process.
- Share business problems. Remember, everybody has them. The board cannot help unless it knows about them.
- Prepare for board meetings. The agenda and all additional relevant information should be sent to each board member in advance.
- And, prepare minutes for each meeting, summarizing action plans and timetables.

The owner who is willing to make the giant leap from sole decision maker to accountability may find that an independent board provides a valuable source of business experience. It's a first step to making sure future successes don't depend on outrageous risk.



## MA&I INTERNATIONAL PRESS RELEASE – NOVEMBER 2007

### ANOTHER MID-MARKET FORUM SUCCESS

M&A international's 7<sup>th</sup> Mid-Market Forum was held in Paris on November 8<sup>th</sup>. 180 M&A International professionals met in one-on-one meetings with over 250 guests from around the world. Just over 1,000 twenty minutes sessions were completed during the day, focusing on geographic and industry-specific requirements identified in advance by the guest attendees. In many cases, the MAI advisor was able to flag one or more opportunities which conformed to the guests' criteria. At a minimum, both parties left the meeting with a good understanding of how M&A International can help achieve the identified goals.

**The 8<sup>th</sup> Mid-Market Forum is scheduled for May 16<sup>th</sup>, 2008 in Boston.**



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#### ABOUT M&A INTERNATIONAL INC.

M&A International Inc. offers the unparalleled resources of 42 M&A advisory and investment banking firms operating in 38 countries. Our members are closely linked in a global alliance to advise clients on acquisitions, divestitures, funding and joint ventures. Focused on the middle market, M&A International members have completed over 1,000 M&A transactions in the last five years worth more than \$60 billion. During this period members have closed in excess of 250 cross-border deals. [www.mergers.net](http://www.mergers.net)

**FOR THE RECORD**



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**SEEKING ACQUISITIONS – EXTENDED WARRANTY INDUSTRY**

Our client is a major U.S Private Equity/Investment management firm. We are conducting a search across Canada to identify established, profitable businesses, servicing the automotive and other hard goods industries. A solid management team, and qualified sales resources, supported by excellent systems capability, will be characteristic of qualified candidates.

**MA&I INTERNATIONAL EVENTS**



<http://www.midmarketforum.com/>

**BOSTON M&A MID-MARKET FORUM – MAY 16, 2008**

The M&A Mid-Market Forum provides those with an interest in the acquisition and sale of medium-sized businesses a unique opportunity to meet one-to-one with M&A International Inc.'s advisors from more than 40 countries. Over the course of four hours, up to 1000 personalized 20-minute meetings can be held.



<http://www.mergers.net/saf.php>

**BOSTON M&A STRATEGIC ACQUIRORS FORUM – MAY 15, 2008**

The Strategic Acquirors Forum consists of tailored presentations to multinational corporations, or PEs, interested in identifying international acquisition opportunities. Up to 6 months earlier an M&A member firm has collected specific criteria from the attending firm, and working closely with a team selected from other members, identifies acquisition targets according to industry and geographic factors.



<http://www.mergers.net/maima.php>

The M&A International Inc. Media Awards honor outstanding journalism on mergers and acquisitions. There are nine awards under three categories covering print and electronic press in English and other languages.



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