

## WHEN IS THE RIGHT TIME TO SELL?

-- Jack Woodcock, President

After 17 years in mid-market M&A, I have realized there is no easy answer, particularly for the owner who has devoted a large part of his/her life to building a business.

It isn't surprising that it is not easy to part with something you have nurtured for the last 10, 20, 30 years, maybe most of a lifetime. And the decision is fraught with emotion. One cannot eliminate the emotion, but every client I have worked with understands that logic must be the determining factor. And it is possible to determine the right time to sell based on a critical, logical examination. That examination must carefully and realistically consider the external factors, such as market trends, competitive strengths, technological advances, customer demand, and the economy. Having said that, the most compelling reason to sell – in a nutshell – is when the owner(s) would rather be doing something else, and can afford to do that something else, if the business is sold successfully. "Today is the first day of the rest of your life," and all that.

In a transparent attempt to defuse the difficulty of the decision to sell, I counseled one of my long-term clients, on the brink of the decision, that all he must do was "decide what he wanted to do with his life." The difficulty of the conundrum that question caused was evident when my client threatened, "to punch my lights out the next time I asked that question" (I am still not sure if he was totally kidding). The story has a happy ending; as we sold the business successfully, and he has gone on to do some wonderful new, interesting and very personally rewarding things with his life.

The decision in a family business can be even more emotional and more complex, due to family members working together, and the often incendiary combination of love and money. We have seen the circumstances when selling the business actually returned the family to harmony. A win-win!

Given that reaping optimum value from any sale is a driving factor, clearly the best time to sell is when past performance has been positive and improving (revenue and profit, growth), the current structure is healthy, and prospects for the future are good (more revenues and profit growth likely). Businesses with momentum command premium value. When those factors are not present, buyers demand a lower value.

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### M&A INTERNATIONAL INC.

The numbers for 2003 are out...

#### MEMBERSHIP

Numbers:	35
Countries:	28
Staff:	300 +

#### CLOSED DEALS

Number:	183
Value:	\$5.6 B
(Value was \$4.2 B in 2002)	

#### DEALS ANALYZED BY TRANSACTION TYPE (MAIN CATEGORIES ONLY)

Advisor to Seller	89
Advisor to Buyer	38
Fund raising – other Finance	8
Strategic Advisory	6
MBO	5

#### DEALS BY CONTINENT

Europe	97
North America	43
Australia	6
Asia	3
South America	1

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Specialists in mid-market acquisitions, divestitures,  
strategic alliances, valuations, and corporate finance —  
member of M&A International,  
global network of 35+ firms

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## CLARITY CORNER



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:

### **IPO: (Initial Public Offering):**

The first time a company sells securities (generally equity) through the public markets, ending its status as a private company.

### **IRR (Internal Rate of Return):**

The rate of return required such that the present value of annual cash flows (usually an initial outflow or investment, and subsequent annual inflows) over the life of a project equals zero.

### **JUNK BONDS:**

Slang term making reference to the very poor quality of this type of debt as an investment. Popularized through their use as financing in large leveraged buy outs in the mid to late eighties, these securities have little or no security backing, are not of investment grade, and generally bear an extremely high coupon rate. Also becoming known as "High Yield Debt".

### **LBO (Leveraged Buy Out):**

An acquisition where the purchaser finances a very large portion of the purchase price with debt, counting on strong future operating cash flow and perhaps asset sales to cover interest costs and pay down the debt as quickly as possible.

### **LEHMAN FORMULA:**

An M&A industry standard advisory fee structure for calculating an intermediary's Transaction Fee payable on Closing. A "Single Lehman" fee calls for 5% on the 1st million of purchase price, 4% on the 2nd, 3% on the 3rd, 2% on the 4th, and 1% on the balance of the purchase price. A "Double Lehman" fee calls for the same percentages, but they are applied to successive \$2 million increments rather than \$1 million increments. The purchase price upon which the fee is based includes the total consideration paid or assumed by the purchaser, and in turn is the total benefit received by the seller. Therefore the Purchase Price includes any interest bearing debt assumed by the purchaser, in addition to cash paid.

## A NEW VICE PRESIDENT

It is with great delight we announce the appointment of Kevin Tremblay, C.A. as a Vice President of JR/Janus Merchant Brokers Ltd. Kevin joined the firm in January 2001 from Ernst & Young. Kevin earned his Chartered Accountancy designation with that firm in 2000, and practiced as a member of the mid-market audit team. He recently completed the first year of the Chartered Business Valuators program, with distinction. Kevin is a valued member of JR/Janus' M&A team, and also supports the activities of Janus Corporate Finance.

## JR/JANUS & THE 2004 FEDERAL PRIVACY LAW

JR/Janus is committed to protecting your privacy and the confidentiality of your personal information.

The introduction of Bill C-6 Personal Information and Electronic Documents Act (PIPEDA) on January 1, 2004 focuses on protecting the privacy rights of individuals concerning the collection, use, and disclosure of their personal information (information about you that is personally identifiable like your name, address, and telephone number).

The personal information we collect about you comes from the information you provide and your communications to us. JR/Janus only collects and uses this information to establish and maintain communications with you, to confirm the accuracy of your identity, to process service requests, and to notify you of certain products or services offered by us. JR/Janus does not release your personal information to anyone. All of the above uses are based on your consent. If at any time you would like to be removed from our mailing list, please let us know (see back page for coordinates).

JR/Janus is committed to being at the forefront of information security to protect the privacy and confidentiality of your personal information. Various security safeguards are in place to protect this information.

For further information, please see our website, [www.jrjanus.com](http://www.jrjanus.com), and click on *Privacy Policy* at the bottom right-hand corner of the screen.

## WHEN IS THE RIGHT TIME?

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Even when the above factors are present, the owner(s) may see events on the horizon, which could change the prospects for the business, and thus significantly alter their future risk. That could be as simple as the possibility of a declining market, (and then Caveat Emptor). Other factors altering the risk could include new strong competitors, (China?) new technologies, and the need for substantial capital investment. In many industries the concentration of the customer base has changed the balance of power, with customers demanding cost reductions, which sometimes can only be realized with large-scale production. All may be valid reasons to sell.

Owners must recognize that except in the rarest of circumstances, (an ego-centric buyer), a meaningful transition period will be necessary, during which the owner can transfer accumulated goodwill. That goodwill is most often thought of in terms of the business' customer base, but it can apply equally to suppliers, and importantly to employees. Therefore, owners should consider their health as well as their desires. Being able to provide that transition role is vital to a purchaser's assessment of value.

The final factor I have chosen in this brief summary must be the economic climate, which certainly influences value. Given the other factors point this way, when interest rates are low, as they are now, and when prospects for growth in the economy are relatively optimistic, as they are now; and of particular importance, when there is a huge overhang of money in the hands of private and institutional funding sources, it may well be the right time to sell. "Today is the first day...."

# MAXIMIZING THE FULL VALUE OF UNDER-PERFORMING BRANDS

*This article is a reprint from the autumn newsletter of Cavendish Corporate Finance Limited, a sister firm and member of M&A International Inc, based in London, UK.*

Marketing people have always known that genuinely strong brands add value to the business proposition by increasing revenues and reducing operating and financing costs. The main change in the market over the last few years has been the increasing recognition that there is potentially considerable value in brands, which are tired, distressed, or generally under-performing.

“Brand Guardians” like the Saatchis, (through SAATCHiNVEST), have identified the opportunity and are increasingly willing to step in when current owners are either unable or unwilling to unlock a brand’s true potential.

The SAATCHiNVEST vehicle is not the first of its kind. In the 1980’s Sir Paul Judge, then strategy director at Cadburys, bought a parcel of non-core brands out of Cadburys to form Premier Brands and five years ago John Murphy, the founder of Interbrand, led a small consortium to buy Plymouth Gin out of Allied Domecq. Cavendish subsequently acted for John Murphy on the sale of Plymouth to Vin & Sprit AB of Sweden at a considerable profit.

Now however most of the large conglomerates like Unilever, Diageo and Arcadia are reviewing their brand portfolios and spinning off those that do not fit. This has created an active and willing market, with competition hotting up between private equity players, mini-conglomerates and individual “angels.”

The difficulty is that most investors and bankers have little idea what makes a brand that is likely to deliver the expected benefits, and therefore which under-performing brands are dogs waiting to expire and which are the downtrodden stars.

We have noticed that it is often the smaller PLC’s and the private equity houses, which do not necessarily have the requisite in-house brand management resources, which are failing to secure best value on the disposal of such brands.

In the majority of cases all that they need is a rigorous appraisal of the underlying potential of a brand and practical advice on how to realize its potential. Essentially, can the brand be strengthened, is it worth the effort, and, if so, how? What is its value and, if it is best to sell the brand, how can it be presented to the market in such a way as to maximize value?

We have labelled this a “Brand Due Diligence Review.”

Typically the following five key steps would be included in such a review:

## 1. Legal review and risk analysis

Involves understanding the nature of the franchise:

- Are trademarks registered in all territories and business classes?
- Are trademarks properly protected?
- Are trademark rights sold, shared or licensed?
- Are sales being lost through parallel trading or counterfeiting?

## 2. Market review and risk analysis

Involves understanding the risk profile of the industry:

- Is the industry in a growth or decline phase?
- Is the industry stable or particularly vulnerable to social, economic, political, technological or environmental factors?
- How are developments in e-commerce and the internet affecting the distribution channels in the industry?

## 3. Competitor review and risk analysis

Involves understanding the competitor landscape:

- Who is the market leader and what is its strategy - is it integrating up/down/ across?
- Which of the other businesses are considered market challengers/followers/ niche players and what appears to be their marketing strategy?
- What are the barriers to entry in the market?

## 4. Brand image review and risk analysis

- Is the brand well managed?
- Customer target profile
- Pricing strategy
- Adequate marketing support
- Responding to changing environment
- Is there protection against reputation damage?
- Product malfunction
- Personnel error
- Ethical or environmental problems

## 5. Branded business review and risk analysis

- Is there any sustainable competitive advantage?
- Product innovation
- Manufacturing capability
- Distribution/ channel structure
- Quality of service/ people
- Lowest cost/ price
- Customer loyalty/ inertia
- Intangible differentiation

The resultant report from such a review would include a branded business valuation, and commentary on what drives demand and loyalty and a detailed appraisal of various alternative growth and value realization options.

The Brand Finance and Cavendish view is that, with the right preparation and presentation there is no reason why the existing owners cannot extract considerable additional value from their brands. Often the value is hidden away, but why leave all of it for the next man?

Brand Finance and Cavendish successfully completed their first joint mandate in summer 2003 with the successful sale of BCP, the UK’s leading airport car park reservations businesses. In this exercise a brand due diligence review was carried out, which helped to highlight the strength of the brand and its potential. This ammunition was then used effectively by Cavendish to secure a very full price for the business. Cavendish and Brand Finance are currently working together on other projects.

-- David Haigh, Chief Executive, Brand Finance plc

-- Hugo Haddon-Grant, Director, Cavendish Corporate Finance Limited

## JR/JANUS SALE MANDATES

### POP Display Manufacturer

This Canadian private company was founded in 1968 and is now a multi-million dollar enterprise. It is the supplier of choice for a number of the world's leading market-oriented consumer goods manufacturers. Eighty per cent of sales are display product, and the company also manufactures some specialty equipment and is a contract manufacturer of certain original equipment components such as BBQ, fireplace, electronics, furniture, and refrigeration parts and products.

### FOOD PROCESSOR

Well-established manufacturer of branded and private label product sold through retail and food service. Revenues at \$25 million + with 10% EBITDA.

## ACQUISITION MANDATES

### Manufacturer / Distributor of Pumps, Motors, Valves & Controls

Formed in 1937, the Company's head office is in Toronto with manufacturing facilities in Canada, the US, and Britain. Annual sales are in excess of US \$ 100 million with top quartile industry margins. The Company seeks to expand via acquisition along existing and/or complementary product lines, with a focus on expanding coverage of distribution channels. Targets should have a purchase price in the range of US \$10 – 25 million. The Company's product groups include: pumps, circulators, heat exchangers, expansion tanks, engineered plumping and HVAC systems, engineered fire systems, and valves, meters and electronic controls for flow management systems. Products are for water based system applications only and specifically do not include larger industrial applications such as waste water, major industrial cooling systems for nuclear and other power applications, and / or applications for chemicals, petro-chemicals and other corrosives.

### Buyer Seeks Food Businesses in NA

Interest in either shelf stable or frozen, branded or private label, based in North America, and available for acquisition. Will consider any business with revenues of \$25 million to \$1 billion.

## ACQUISITION MANDATES (cont'd)....

### Canadian Manufacturer

A private mid-market company, located in Toronto, is seeking strategic add-ons, with revenue of \$3 to \$10 million. Profitable operations are preferred. The candidate business (entity, division or product line) should involve printing, textiles and/or should be manufacturing and marketing products relating to merchandising or promotion.

### Entrepreneur Buyers

We always have a roster of qualified individuals seeking mid-market businesses in the \$5 to \$20 million range of value. They cover diverse industries and geographic preferences. A few will consider turnarounds.

### Financial Services

U.S. based investment company seeks strategic add-ons, providing business financing, preferably short-term loans.

## JANUS CORPORATE FINANCE MANDATES

### Nutraceuticals

This Canadian private company was formed in 1997 and has developed and patented (or has patents pending on) 10 separate nutraceutical product formulations with medical treatment applications for Cancer, Type II Diabetes and Cardiovascular disease, including cholesterol reduction and anti-inflammatory capabilities. Fully tested in clinical trials, these nutraceuticals will compete head-to-head on a global basis with leading pharmaceutical products from multinational drug companies. The Company is self-sustaining and seeks a financial/strategic investor in a minority role to accelerate the development of its in-house product pipeline.

### NEW YORK M&A FORUM- MAY 2004

Following a successful Forum in Dublin in October, attended by over 250 clients, potential clients, and professionals from M&A International member firms, the first 2004 semi-annual conference will be held in New York from May 13<sup>th</sup> – 15<sup>th</sup>. The event will feature the opportunity for both sellers and buyers interested in the global market to meet with M&A representatives from 28 countries around the world.

**JR/JANUS**  
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