

Corporate Finance

ADVISOR

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Tucker Capital Advisors LLC

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Capital Markets Commentary

The SEC has suspended trading in over 45 pink sheet companies in recent months to crack down on email spammers that hype penny stocks. An estimated 100 million emails headlined with titles like "Ready to Explode" and "Ride the Bull" are sent out each week causing dramatic spikes in the share prices of these companies. It's the old pump and dump.

The Fortune 500 list was issued this week. The usual behemoths were in the Top10, but the real story is the huge 29% increase in profits to \$785B. Revenue for the 500 was \$9.9T, up about 9%. Of the 74 industry groups, only automotive retailing and motor vehicles and parts lost money. It figures.

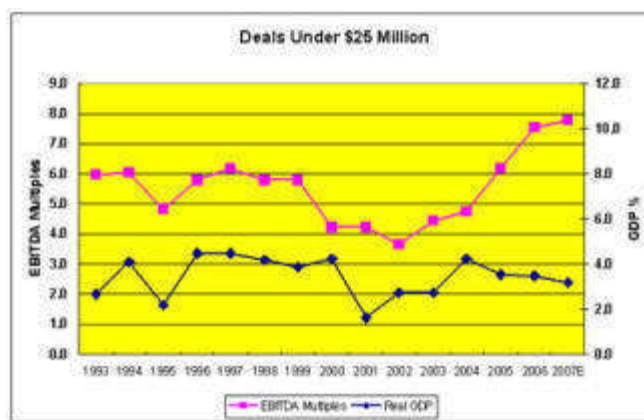
Buyout and Mezzanine funds raised a record \$103B during 2006, up 412% from 2002 (a bad year). Nevertheless, fundraising seems to have slowed in 4Q06, perhaps because many can't invest what they already have in house.

The inverted yield curve continues to confound our smaller banks as the traditional spreads on short term money vs. loans have shrunk. As long as the Asians love our long term treasuries, this yield curve will persist, causing some banks to be merged or consolidated.

And lastly, a word on subprime mortgages. Mortgage brokers make about a 3% commission on sub-prime mortgages vs. 1% on prime mortgages. Lenders make a bigger spread, as long as Joe Homeowner can make the payments. Seems that a lot of hedge funds are holding the paper and they will have a difficult year sorting these portfolios out. □

Where Are We In The Cycle?

The median purchase price multiples for operating companies with deal values up to \$25 million are currently at 7.8X EBITDA. Multiples for lower middle market privately owned companies tend to track Real GDP in the long run and the NASDAQ 100 in the short run. Small cap stocks are up 3.2% year to date.



However, the purchase price multiples and the Real GDP when graphed side by side are beginning to diverge (right side of graph). This divergence tends to indicate a coming pull back on privately held stock values. Over the last 14 years, price multiples have averaged about 5.5X EBITDA. The current pricing represents a 42% premium to the average. Consensus forecasts for Real GDP for the balance of 2007 are 2.4% and 3.0% or better for 2008-2011. With the exception of economic growth, all other major factors (interest rates, credit availability, stock market growth and PEG activity) are very positive for continued high pricing. So, where are we in the cycle? We conclude that we are at the top of pricing multiples for this cycle and that the cycle will plateau for some time longer, probably well into 2008. - Editor □

Deal Flow

Acquisition Search: Executive seeks wholesale distribution and manufacturing companies in the Baltimore-Washington area with revenues of \$5-20MM. Any condition with upside.

Business Sale – Home Health Agency in the Mid-South with \$8 million in revenue and \$2 million EBIT. 90% Medicare.

Business Sale – Motor-Generator manufacturer with \$3 million in revenue. Excellent product lines. Good add-on acquisition.

Unadvertised Deal Flow: TCA has a number of transactions that are not ready for market. Please call Brooke Tucker to discuss. □

On Our Website

Visit our web site to see the last six CFA newsletters and articles on mezzanine financing, MBO financing, ESOP Financing and business valuation. [TCA Website](#). □

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Overstatement of Value

As corporate financial advisors, we frequently encounter situations in which owners, operators and entrepreneurs have overvalued a company's prospects or market value. It is easy to get caught up in the enthusiasm of building a company. Most often we review a set of financial projections that look like a hockey stick. That's fine, if it is supported by market research and well thought out assumptions. Many entrepreneurs will then compound their unrealistic and unsupported projections by equating publicly traded share values with the venture. So, then we have unrealistic values supported by unrealistic assumptions - but let's face it, your company is not the next Google. Or, maybe, just maybe, this thing will work. □



Shift Happens!

In several editions of the CFA in years past, we have lamented the decline of the domestic automobile industry. No matter who or what is to blame (unions and management get our vote) the industry will be undergoing a rather brutal restructuring with over 25 manufacturers already in bankruptcy. Companies with long term supply contracts suddenly find that their customers are gone. Strong companies are now weak and even more production is headed overseas. Into this industry decline, will step the reorganizers, turnaround experts, and troubled company funds. One needs only to look at Chrysler – are the parts worth more than the whole? - Editor. □



Tucker Capital Advisors LLC

Tucker Capital Advisors LLC (TCA) is an investment banking and financial services advisory firm specializing in privately-held small and middle market companies. We provide our clients with transaction advisory services in buying, selling, valuing, financing and expanding their businesses. □

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