

Corporate Finance ADVISOR

A Newsletter for Professionals and CEOs Involved in Mergers, Acquisitions, Divestitures, Expansions, Leveraged Buyouts and Corporate Financings



Tucker Capital Advisors LLC

Volume 3, Issue 2

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February 2006

Capital Markets Commentary

Two recent trends in mezzanine lending are emerging. Many market players are accepting lower terms in the face of aggressive bank lending, hedge fund plays and a surplus of mezzanine lending companies. Pricing has been driven lower and there appears to be a further bifurcation of those companies that are debt vs. equity oriented.

Women make up 56% of all new hires in CPA firms and have earned at least 55% of the bachelor's and accounting degrees since 1999. Many CPA firms have embraced more flexible work schedules and alternative career tracks to retain the talent. Larger firms have gone the extra mile with leadership development and career management programs. Change is good.

The convergence of banks, brokerages and insurance agencies in the financial services industry continues apace in 2006. Many more banks are entering the asset management markets. Smaller banks are forced to be in the "wealth management" business to meet the competition. Economics, demographics, tax laws and more sophisticated consumers are driving this need to be in the asset management business.

SBA Lending for 2005 set another record with a 21% growth in loans to \$19.8B. The CAGR since 2002 has been 15%. This is phenomenal growth capital for small businesses. □

Another Solid Year of Buying & Selling

2005 was another solid year for the M&A business with activity increasing to \$981 Billion, up 15% over 2004. There were 7,300 reported transactions greater than \$10 million (up 4%). The average transaction value also increased to \$134 million, up 10.4% over 2004. Average LBO purchase price multiples climbed to 8.5X EBITDA from 7.2X or almost 18%. For smaller, privately held companies, with values under \$10 million, there was a significant increase in value – we estimate about 15% or 1X EBIT. Great news for CEO's thinking about a capital transaction.



Even better, the increase in M&A activity was in all industries vs. concentrations in telecom, software, and financial services. The outlook for 2006 is even better with many announced, but uncompleted transactions at the end of 2005. Market drivers continue to be moderate interest rates, full corporate war chests, \$800B in private equity at work, more liberal bank credit policies, good economics and low capital gains tax rates. □

Deal Flow

Acquisition Search: Wholesale distribution companies in the novelty products market with revenues of \$5-25MM. Any condition. North America.

Business Sale – Commercial equipment leasing company with \$30 million annual volume. Well managed, profitable and scalable.

Business Sale – Specialty construction contractor in Baltimore-Washington region. \$3 million revenue and very profitable. Exclusive dealer for 60% of revenue.

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

We are currently arranging mezzanine financing for an LBO, a partner buy-out and an ESOP recapitalization. One down and one to go in the business sale department. We continue to grow the business valuation practice and are specializing in the estate/gift/trust market, ESOPs and other employee stock incentive/ownerships plans. □

Announcing

S. G. Brooke Tucker recently received his designation as an Accredited Member of the American Society of Appraisers in Business Valuation.

Mr. Tucker has been appraising businesses since 1995. □



On Our Website

New Article -- ***Growth Through Acquisitions*** – February 2006.

New Article – ***Management Buy-Outs – Financing the Sale*** – January 2006.

New Article -

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](#). □

PIOs

Private Initial Offerings (aka private placements) have replaced much of the small and early stage IPO markets. It takes about \$100 million of value to even consider a Wall Street IPO these days. And companies that once considered reverse IPO's (backing into a public shell) have a ready market for their equity in the private equity markets. Private Equity Groups took in \$175 Billion in new money last year and are estimated to have \$800B under management. Add some leverage and this class of investor has several trillion dollars to invest in privately-held companies.



The advantages of a PIO clearly outweigh the IPO when the liquidity and flexibility of private equity capital is considered. Management retains significant ownership and the growth prospects may be considerably higher with the PEG than the Public. Valuations may be slightly lower initially, but there is always another round and possibly the IPO later. On the very low side, companies with \$2 million in EBIT can access this market, but the sweet spot appears to be in the \$5-15 million range. The PIO is a far easier and potentially more lucrative method to access capital than an IPO. □

Shift Happens!

Governor Mitch Daniels (R) of Indiana got the OK this month to lease the Indiana Toll Road to a Spanish-Australian consortium for \$3.85 billion in cash for a 75 year lease. If the Indiana House approves, this will be the largest highway privatization in the U.S.

The Indiana Toll Road runs east-west for 157 miles across the northern section of the state. The Toll Road had about 55 million paying customers last year. Tolls will be immediately increased by 76%. The State will use the money to fund other infrastructure projects. Last year, Chicago sold the 7.8 mile Chicago Skyway to the same group for \$1.83B. In 1626, the Indians sold Manhattan Island to the Dutch Governor for \$24 worth of beads and trinkets. □



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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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