

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 5

June/July 2006

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Capital Markets Commentary

The U.S. accounting services industry includes 90,000 firms and is now a \$65B market. Most firms are small with less than \$1 million in revenue. For mid-sized firms the revenue per employee is approaching \$175,000. CPAs have been in high demand since Sarbanes-Oxley and salaries of most employees are on the rise.

Corporate cash flows in non-financial companies have been used to reduce debt in the past several years. Debt to equity ratios among publicly traded companies is now at 42.5%, a level not seen since 1985. The ratio does not include pension debt which is approximately \$150B. With cash piling up, we can expect stock repurchases, acquisitions and special dividends to be prevalent.

Is it any wonder that mutual funds are getting into the financial planning business? Over 8,000 baby boomers are turning age 60 every day! Advice and investment options seem to go hand in hand. □

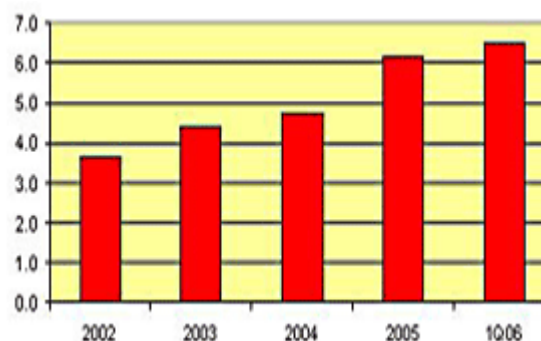
Deal Flow

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

1Q2006 Multiples - Market Peak?

The transaction multiples for lower middle market and small operating companies appear to be leveling off at an average of 6.5 X EBITDA through the end of the first quarter. No doubt the serial increases in interest rates have begun to impact pricing.

EBITDA Multiples < \$10 Million



Nevertheless, the market for companies is brisk and the banks appear willing to finance acquisitions at about 3.5 EBITDA. At this level, seller participation in acquisition financing becomes problematic as the equity component of purchase offers has remained the same at about 35-40%. Sellers are being asked to provide anywhere from 1.0 to 1.5 multiples of financing.

We have not seen much seller financing in the "earn out" category, but would expect to see more if these price levels are to remain. Our view of the current market, for privately-held companies valued at \$10 million or less, is that prices are beginning to peak. These smaller companies are more difficult to finance, frequently acquired by larger non-public companies and are engaged in non-technical business sectors. For technology oriented companies, we would add one to three multiples of EBITDA to the average multiple. Our view of the longer

Capital Raise: \$4-5MM equity for manufacturer of laboratory and analytical instruments. International sales. High growth and next-gen products.

Business Sale: Retailer of pre-owned and refurbished video games, DVDs and CDs. Eight stores in two states. Profitable. Corporate divestiture.

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. □

Announcing

Brooke Tucker has been elected President of the Maryland Chapter of the American Society of Appraisers for the 2006-2007 term. □



Brooke Tucker, AM and Anne R. Meltzer, CPA/ABV are pleased to announce the formation of a new business valuation consultancy practice in recognition of the success we have enjoyed over the last several years. www.tuckerandmeltzer.com. Please call Brooke Tucker for further details. □

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](http://www.tuckerandmeltzer.com). □

term market is that there appears to be a flattening in pricing, indicative of reaching a high, which causes us to believe that the year ahead pricing will be similar, as long as interest rates stabilize. □

Acquiring the Key Person

In every acquisition there is the key man issue, whether it is the CEO, CTO or the entire sales department. The acquired company personnel are naturally going to be on edge. For the most part, what we have learned about retaining key people are negative stories of mass resignations or how acquisitions caused disgruntlement in the employees.

Whole books are written on the issue and the solutions. In short, the key employees need to feel that they are indeed key employees, will be rewarded accordingly, and that the future is brighter than before.

Strategies to retain key people include no layoff policies, employment agreements, retention bonuses and possibly equity in the company. An acquisition involving key personnel is a face to face business and prospective owners need to personally be involved in key persons prior to acquisition. □



Shift Happens!



The US Auto Industry is undergoing a massive and agonizing reorganization, just as US steel and US airlines are beginning to see some light. Over 60,000 jobs and 26 plants are being eliminated in an effort to staunch the bleeding of plunging profits and legacy health care benefits. There will be a lot of gloom before the next boom in domestic manufacturing. Herewith, are some thoughts about the next two years.

1. Many more plants will need to be closed to reduce over-capacity.
2. Auto parts will be outsourced in Asia.
3. Big 3 will build auto assembly plants in China.
4. The UAW will fight for its life.

American cars are made in Asia and Asian cars are made in America. Shift happens!. □

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

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companies. We provide our clients with transaction advisory services in buying, selling, valuing, financing and expanding their businesses. ☐

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Tucker Capital Advisors LLC
S.G. Brooke Tucker, Managing Director

211 Hunters Ridge Road
Timonium, MD 21093

Phone: 410.561.0699 / Fax: 410.561.3948 / Mobile: 410.790.6940

email: brooke@tuckercapitaladvisors.com

website: www.tuckercapitaladvisors.com

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