

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 3

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March/April 2006

Capital Markets Commentary

Purchase prices of lower middle-market businesses seem to have begun leveling off somewhere around a 6X multiple. Banks have pretty much extended credit as far as they want to go at this point with a loan to EBITDA ratio around 3.0-3.2X. This is not to say some further increases will not appear; only that companies are now receiving close to their full economic values.

The FDIC is moving toward guidelines that may restrict bank's real estate lending, particularly construction loans in some areas of the country. Bankers are concerned that the regulators may require them to curtail their activities – not credit quality, but volumes, for fear that market values may turn downward. Two edged sword - if the regulators curtail lending, then values will fall.

Compliance costs in the securities industry for the new SEC rules, Sarbanes-Oxley and the Patriot Act have doubled to \$25.5B in the last three years. Scandals involving fraud, stock research, IPO favoritism and mutual-fund trading have been the predominant cause. □

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.

The Executive as Business Buyer

Transitioning Executives are those well educated individuals who, for one reason or another, find themselves at the cross roads in their career paths. Whether they are working with an out-placement firm or on their own, the “own my own business” career path is sure to be on their minds. Herewith, some pointers on how this transition process might work or some simple thoughts that might speed them on their path to independence and outrageous fortune.

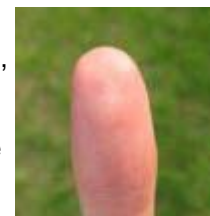


1. Start from the bottom up with your salary requirements.
2. You will probably have to bet the ranch to buy a business.
3. Not every business is scalable - most are lifestyle companies.
4. It will be more expensive than you think.
5. The management transition period is measured in months.
6. Educate yourself on the process, or be prepared for expensive lessons.
7. Small businesses are (by definition) dysfunctional. Fix it.
8. You must work well with others or "forged about it."
9. The SBA 7A program is the cheapest, longest money in town.
10. Failure is not an option.

Your biggest challenge will be moving from an organization to entrepreneurship. Go for it! □

The Rules of Thumb

Rules of Thumb (ROT) have a place in M&A valuation. Generally, rules of thumb are expressed as a multiple of something like EBITDA, Sales, or Gross Profit Margin. In the beer distribution business, a



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

Announcing



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. Please call Brooke Tucker for further details.



Business Opportunity Network Golf Invitational to benefit Baltimore Community Foundation. June 28th at the Woodlands. Call me for the 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](#). □

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Budweiser distributor might sell for \$8.00 per case sold and an Old Milwaukee for \$6.00. ROTs are good valuation methods to see the target, but almost never good to hit the bulls eye. Industry conferences are great places to hear about ROTs, but as in the retelling of any story, the values may get magnified i.e., "we heard that so and so sold for 19X whatever." ROTs have ruined many buy-side efforts by misleading buyers into thinking that a particular multiple is the accepted norm or maximum. Buyers should determine an economic value first, then add a strategic premium (if any) and subtract any particular deal aspects that present unusual risk. ROTs are considered to be the general consensus of a particular industry sector, but thumbs comes in many sizes and shapes and no two companies are quite the same. □

Shift Happens!

There was a very large shift in labor in Paris over the past few weeks. The Paris government gave in to the demands of labor. What else is new, you might ask?



France has a generous social system and "progressive" labor laws. Youth unemployment is 22%. At issue was a proposed law that would allow employers to fire workers under 26 years old within the first two years on the job. Employers face a daunting and very expensive task in firing an employee. At least three month's notice must be given and up to three (yes 3) years of severance. Most employers, therefore, keep payrolls to an absolute minimum, thus exacerbating the unemployment problem.

With the globalization of the world's economy, the right to secure employment does not exist in nature, despite what France's trade unions have legislated. Unfortunately, France is not alone – look at Ford, GM, U.S. Steel, Delta, U.S. Air et al. - *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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