THE ANATOMY OF A DEAL

The following might be a subtitle for this true account of how one deal was put together: ***"In spite of everything, you need only one buyer– the right one!"*** (Although the details are factual, names and financial data are fictional.)

The company ("ElectroCo") has carved a niche in a billion-dollar industry. It manufactures proprietary electronic products and is owned by a private equity firm interested in selling for liquidity reasons. At the beginning, the private equity group retained an intermediary firm ("United Associates") to take the company to market. The goal was to have it sold by the end of the year.

ElectroCo had annual sales of about $12 million, gross margins of 50 percent, an EBITDA of $1.8 million (15 percent) and a reconstructed EBITDA of $ 2 million. It had been growing over the previous 10 years at a 10 percent rate and had always been profitable. It had a diverse customer base split about equally between end-users and OEM accounts. However, the seller wanted to set a very aggressive full price, with all-cash in a not-so-vibrant M&A market.

On the plus side, the seller was cooperative and provided any information United needed. It also had audited statements, conservative accounting, and instant monthly statements. ElectroCo was also, in addition to these factors, on the verge of getting a substantial amount of new business.

In preparing to take the business to market, United came up with a basic game plan. Direct competitors were eliminated from the buyer search for confidentiality reasons. Synergistic buyers were targeted—either because they served similar markets or utilized similar manufacturing methods. United also contacted selected private equity groups and other intermediary firms.

More specifically, United planned on creating a list of 100 potential buyers. A buyer was defined as an entity that had signed a Confidentiality Agreement, had been pre-approved by the seller, and therefore, had been sent an Offering Memorandum. United anticipated 15 written Term Sheets leading to five Letters of Intent which, hopefully, would lead to the best deal. United was not sure that they could sell the business at the multiples asked by the seller. However, they succeeded, and that success was to be based on the following:

1. Preparing a thorough and compelling Offering Memorandum and pointing out the positive future prospects. This required the complete cooperation of ElectroCo's management team.

2. Developing a complete list of the possible buyers both in the U.S. and abroad.

3. Contacting the buyers to see if they would be interested in the company, but still maintaining confidentiality.

4. Administering all of the potential buyer activity and sending the Offering Memorandum to the appropriate parties.
5. Following up with all prospects who received the Offering Memorandum to arrange facility tours with the serious prospects.

6. Setting time frames for expressions of interest, term sheets, and fielding questions from the serious prospects.

7. Making sure that complete confidentiality was maintained and that any future confidentiality leaks did not occur.

8. Constantly reminding ElectroCo's management to stay focused on maintaining sales and profit goals.

9. Maintaining communications with both the buyers and ElectroCo's lawyers and other outside advisors.

United was able to develop a list of 85 possible acquirers; however, five would not sign the Confidentiality Agreement.

Buyer Type	Number of Buyers
Strategic	45
Some Synergy	20
Private Equity Groups	20

Of the 85 possible buyers, 15 were companies or divisions of firms with annual revenues of $1 billion or more. 12 of these 15 were foreign or owned by foreign companies. ElectroCo chose not to deal with four of the buyer firms due to negative industry knowledge. Two of the buyers were individuals that had financial backers. Four buyers were just "bottom fishing." Three of the 85 decided not to move forward due to the events of September 11. One buyer only wanted to acquire assets, not the stock, of ElectroCo. Interestingly, eight of the 85 firms had previously talked to ElectroCo about a possible merger or acquisition. Of the buyers who elected not to proceed or move forward, the majority felt that acquiring ElectroCo was just not a good fit. Some of the other reasons why other buyers decided not to continue were:

- Management was too thin.
- Since ElectroCo was a good company, the price would most likely be too high.
- The buyer purchased another firm.
- One potential acquirer was acquired itself.
- The buying company was having its own internal problems.
- The buyer wanted to move the company; this was unacceptable to the seller.

Alamo Corporate Group Inc.

Independent Services for Business Buyers & Sellers

After all of this, United Associates arranged five visits for acceptable buyers – the target number. Overall, United received:

Term Sheets	4
Verbal Offers	2
Letters of Intent	4

Of the five buyers who visited the business and met with ElectroCo's management, two wanted to acquire the company. These were the best prospects. There were also two other firms, held in abeyance, in case one of the other two didn't work out. One of the original two and ElectroCo's preferred acquirer offered the desired price and terms.

The buyer was:

- A public company that wanted to grow through acquisition.
- One with a synergistic product line.
- Unlike some of the private equity groups, not totally focused on the financial aspects.
- One with an appreciation of ElectroCo's product lines, its technology and the company's potential.

United Associates started with 85 possible buyers. The final list came down to just a few. ElectroCo was not a company for just anyone. Despite all of this, United got the deal done – proving once again, that you need only one buyer – the right one
Buyer Types

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Alamo Corporate Group and its advisors have specialized in ownership transfers of closely held companies since the late 1980's. We offer a range of intermediary services including mergers, acquisitions, divestitures, buyer identification, management buyouts, debt restructuring and in very limited instances, acquisition searches for high net worth individuals and private equity groups.

Alamo's primary purpose is to provide an extremely confidential national service that brings buyers and sellers together through our extensive contacts in the financial and intermediary communities.

Our process is very structured, as experience has shown us that while each buyer and seller is somewhat unique, there are enough similarities that specific steps must be followed in order for transactions to close. Confidentiality is guarded throughout each step of the process.

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