



Bringing Efficiency to Inefficient Markets

Overview of the Divestiture Alternative

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Laying the Groundwork for Sale

Build value before the M&A transaction process

Seller Preparation

- Position the business as early as possible, benchmark against best practices
- Ensure market conditions are favorable to sellers
- Establish professional approach to all aspects of business
 - Install strong accounting policies, information systems and financial controls
 - Build a strong Management team with depth

Financial Preparation

- Avoid the potential for purchase price adjustments, i.e. obsolete inventory, returns, vacation pay, severance
- Cleanse customer base and resolve any outstanding A/R issues
- Maximize inventory turns without sacrificing on-time delivery
- Carefully review discretionary capital expenditures
- Prepare financial statements in accordance with GAAP
- Develop tax strategy – structure company for sale via corporate entity
- Identify contingent liabilities – resolve, remediate or settle

Operational Preparation

- Take steps to maximize both margins and EBITDA without sacrificing long-term performance
- Identify future growth opportunities, strengths, weaknesses and threats
- Develop plan to mitigate weaknesses and eliminate threats
- Contain and document environmental risks

Establish a Strong Deal Team

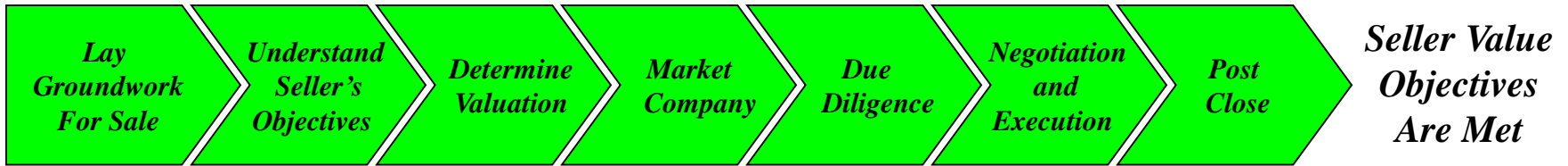
- Evaluate Accountant, Attorney & Investment Banker for strength and M&A experience

Goals of a Well Planned Divestiture Process

- **Establish and achieve client's goals & objectives**
- **Identify most appropriate list of potential buyers**
- **Maintain an orderly and efficient process**
- **Create a compelling Confidential Memorandum**
- **Minimize disruption to business & key managers**
- **Maximize confidentiality**
- **Facilitate smooth closing & ownership transfer**
- **Appropriately announce transaction to all stakeholders**

Importance of Planning

Level of Planning High



Value Erosion

Level of Planning Low

Failed Transaction

Understand & Prioritize Seller Objectives

What are the Shareholders' Objectives?

Personal

- Maximize sale price
- Retain control
- Desire to remain autonomous
- Diversify wealth
- Provide liquidity
- Protect employees
- Reward management
- Pass to next generation

Business

- Access to growth capital
- Expand product line
- Broaden geographic scope
- Consolidate industry
- Increase market leverage
- Solve legacy issues
- Mitigate threats

Understand & Prioritize Seller Objectives

➤ Before initiating the sale process, shareholders' objectives must be understood and prioritized

- Value (hurdle rate)
- Proceeds (cash, stock, seller note, earn-out)
- Structure (stock vs. asset sale)
- Shareholder commitment
- Timing
- Confidentiality
- Employees (management contracts)
- Exit alternatives
 - Strategic buyer
 - Financial buyer
 - Management
 - Recapitalization (partial sale with ownership interest retained)

Determine Value

Factors Impacting Value

- Defensibility of Earnings
- Growth Prospects
- Nature & Condition of Assets
- Contingent Liabilities
- Pension & Retirement Funding
- Quality & Continuation of Management
- Industry Trends & Competition
- Anti-Trust Concerns
- Environmental Issues
- Workforce

Valuation Methodologies

- Discounted Cash Flow (DCF)
- Market Comparisons
 - Comparable Transactions
 - Comparable Companies
- Leverage Testing
 - Price a financial buyer will pay given current constraints of capital markets and achieve a 25% IRR

Explore Divestiture Options

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<i>Option</i>	<i>Control Retention</i>	<i>Sale Proceeds</i>	<i>Considerations</i>
Recapitalization (Partial Sale)	Yes	Low	<ul style="list-style-type: none"> ▪ Usually maintains control ▪ Provides liquidity ▪ Interim step to future sale
ESOP	Yes	Moderate	<ul style="list-style-type: none"> ▪ Avoids taxation on proceeds ▪ Business remains intact ▪ Financing payments are deductible
MBO	No	Moderate	<ul style="list-style-type: none"> ▪ Reward to management ▪ Business remains intact ▪ Possibility to stay involved

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Private Equity Group - Add On	No	Moderate	<ul style="list-style-type: none"> ▪ May need to accept stock ▪ May participate in synergies ▪ Readily available capital
Private Equity Group - Platform	Potential mgt. No ownership	High	<ul style="list-style-type: none"> ▪ Buyer may pay premium ▪ Potential to be involved ▪ Business acts as foothold
Strategic Buyer	No	High	<ul style="list-style-type: none"> ▪ Most likely highest price ▪ Most likely greatest liquidity ▪ Future involvement minimal

Structuring Considerations

☛ Tax and Legal Considerations

	Liability Issues		Tax Issues		
	Seller	Buyer	Seller	Buyer	
Stock Sale	Retains no liabilities	Assumes all liabilities	C Corp S Corp, LLC, LLP	Capital Gain Capital Gain and/or Ordinary Income at individual level	No tax deduction for Goodwill
Asset Sale	Retains liabilities	Assumes no liabilities	C Corp S Corp, LLC, LLP	Double taxation (asset sale followed by Corp. liquidation) Capital Gain and/or Ordinary Income at individual level	Goodwill is tax deductible
338 (h) (10) Election	Retains no liabilities	Assumes liabilities	For tax purposes, treated as an asset sale Must be S-Corp. or part of a consolidated group		Goodwill is tax deductible
338 h (10) election must be agreed upon by both seller and buyer					

☛ Non Tax Considerations

- Use of earn-outs and seller notes to bridge valuation gap
- Additional payments contingent upon post-sale operating results
- Comfort can be gained with seller leaving “skin” in the game

Create a compelling Confidential Information Memorandum

- The M&A market has grown more demanding
- For every seller, there are significantly more potential buyers
- Buyers need to conserve resources and are selective when competing for transactions
- Consequently, high-quality information memorandums are essential
 - Buyers need quality industry research, well-defined competitive strategies, business plans and sufficient, competent historical data
 - Sellers need a document that separates them from the crowd and properly positions them
- Stress the intangibles that make this a unique opportunity
- Develop a strategy for future growth
 - Internal
 - Acquisitions

Marketing Strategies

Involve Management in the M&A process

- Sellers and Managers must have their interests aligned
- Value of Management to buyers
- Post-transaction commitment
- Employment agreements
 - Management incentives
 - Severance (stay bonus)
 - Non-compete

Get Competition

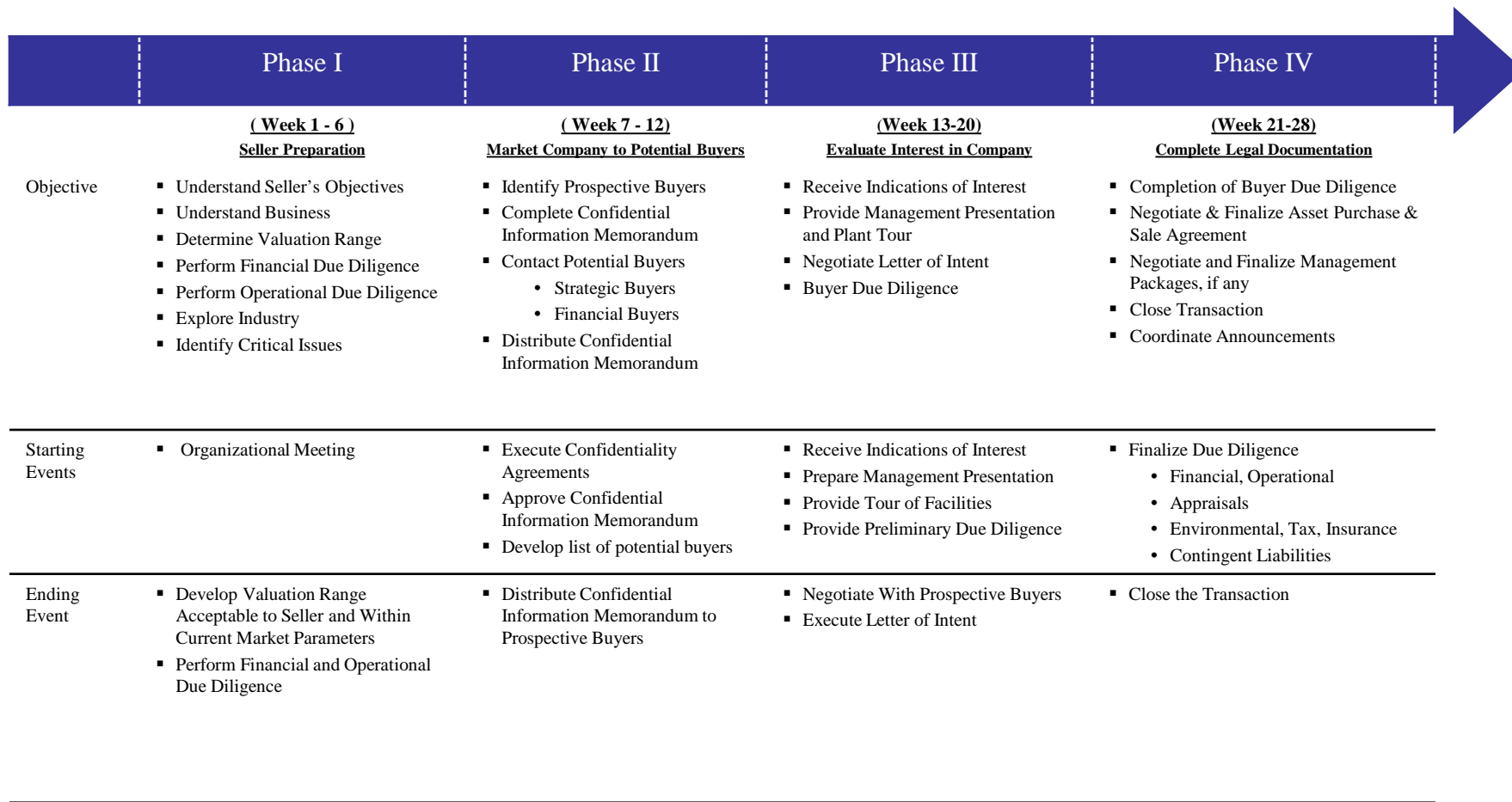
- Don't limit the playing field
- Don't exclude competitors, customers or suppliers
- The perception of competition is key
- The market responds to competitive tension, resulting in:
 - Greater urgency
 - Increased purchase price bids

Marketing Strategies

Negotiated Sale	Targeted Sale with Preempt Option	Controlled Auction	Full Auction
<ul style="list-style-type: none"> • Appropriate when one acquirer is clearly best fit • Identified buyer has a demonstrated interest • Seller has limited leverage and time • High risk of failure • No competition, lowest price 	<ul style="list-style-type: none"> • Appropriate when a few acquirers (5-10) clearly best fit • Identified buyer has a demonstrated interest • Seller has excellent negotiating position • Accelerated formal time frame can expedite process • Medium chance of success 	<ul style="list-style-type: none"> • Appropriate when a number of parties (10 -50) represent logical buyers • Seller in an excellent negotiating position • Formal timeframe expedites process, confidentiality intact • Good chance of success • High Price 	<ul style="list-style-type: none"> • Appropriate when many parties could be buyers and seller wants broad market coverage • Seller in a good negotiating position although some shy away from an auction process • Formal timeframe expedites process, confidentiality difficult • Excellent chance of success • Maximizes price

Phases and Timeline

Total Process 5 to 8 months



Sample Sell-Side Advisory Transactions

Company *Interface Solutions*

Status Closed

Description The low-cost global market leader in the manufacture of fiber-reinforced gasket material and parts sealing solutions for the heavy-duty diesel, automobile, small engine, transmission and compressor markets.

Financials

Sales	> \$150.0 MM
EBITDA	> \$25.0 MM

- Situation**
- > Portfolio company of middle-market private equity firm
 - > Company emerged from recession and reached record sales and profits
 - > Leveraged strong performance to acquire chief competitor in Europe
 - > Increased geographical diversification with nearly 50% of sales outside U.S. (21% of sales outside U.S. when acquired by client)
 - > Private equity firm desired to exit their investment after holding for 5 years
- Solution**
- > Company engaged Strategic Advisors to advise on valuation and run a targeted auction process to sell the Company
 - > Marketed company to only a select group of financial buyers as Management did not want to become part of a larger company
 - > Generated significant interest, with nearly all buyers submitting Letters of Intent
- Outcome**
- > Company was sold to Wind Point Partners
 - > New owners plan to invest additional capital to pursue add-on acquisitions, upgrade and consolidate existing facilities and further grow the company
 - > Interface sale EBITDA multiple exceeded comparable market transaction multiples

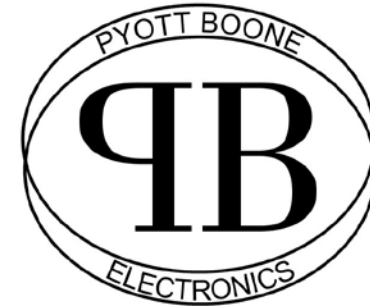


Sample Sell-Side Advisory Transactions

Company *Pyott-Boone Electronics, Inc.*

Status Closed

Description A leading developer, manufacturer and marketer of the most extensive and technologically advanced communication, tracking and monitoring products for underground mining and tunneling.



Financials

Sales	\$42.5 MM
EBITDA	\$11.0 MM

Situation

- > Pyott-Boone was 99.8% owned by Fetterolf Group, Inc.
- > During 33 years of ownership, Fetterolf Group achieved its business goals and was seeking to monetize its investment in the Company
- > Pyott-Boone had been growing rapidly after capitalizing on increased regulation to create safer and more productive underground mining environments
- > The Company was looking for strategic investors to build on its past success by expanding the Company's product offering and service solutions for existing customers, as well as new customers in international markets and in other industries

Solution

- > Fetterolf Group engaged Strategic Advisors to advise on valuation and run a controlled auction process to sell the Company
- > Ran controlled auction process, targeting over 150 buyers comprised of private equity and strategic buyers
- > Generated significant interest, receiving 10 indications of interest ("IOI") and turning away additional offers that couldn't meet valuation expectations

Outcome

- > Company was sold to Vierville Capital (Australian Strategic Buyer) and Prairie Capital
- > This combination of equity partners brought a strong and experienced investment team with significant international relationships
- > Company sold for \$68.0MM, and the Fetterolf Group also received an additional \$10MM+ of balance sheet cash on a tax-free basis
- > Management and Fetterolf Group rolled over \$2.0MM+ into the transaction in order to participate in the company's future growth

Sample Sell-Side Advisory Transactions

Company *OmniTech Partners, Inc.*

Status Closed

Description A leading designer, manufacturer, marketer and distributor of electro-optic night vision equipment to the government, military and law enforcement markets

Financials

Sales	\$21.8MM
EBITDA	\$5.7MM

Situation

- > Company owned and managed by two shareholders
- > Owners had agreement to sell company at beginning of year for \$31.5MM
- > Deal fell apart as economy and markets deteriorated
- > Owners were still looking to diversify wealth
- > Selling to a larger company in defense industry would allow company to compete for larger government contracts

Solution

- > Company engaged Strategic Advisors to run controlled auction
- > Strategic Advisors believed right buyer would pay premium above previous offer
- > Ran controlled auction process, targeting solely companies that competed in the defense market

Outcome

- > Company was sold to FLIR Systems Inc., a public strategic buyer
- > Key managers received employment contracts and options in acquiring company
- > Company was sold for \$42.0MM, a 33% premium beyond offer received earlier in the year
- > Owners had potential to receive additional \$2.0MM if sales targets were met over following year



Sample Divestiture Transactions



has been acquired by



The undersigned acted as financial advisor to the shareholders of Interface Solutions.



Securities and investment advisory services are offered through BPU Investment Management, Inc., member FINRA, SIPC, and a registered investment advisor

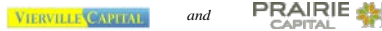


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FETTEROLF GROUP, INC.

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FLIR SYSTEMS INC. (NASDAQ: FLIR)

The undersigned acted as financial advisor to the shareholders of OmniTech Partners, Inc.



An affiliate with BPU Investment Management, Inc. Member FINRA, SIPC



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The undersigned served as financial advisor to Asset Auctions.



An affiliate with BPU Investment Management, Inc. Member FINRA, SIPC



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The undersigned served as financial advisor to the owners of North Penn Pipe & Supply, Inc.



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The undersigned acted as financial advisor to the owners of Camalloy, Inc.



An affiliate with BPU Investment Management, Inc. Member FINRA, SIPC



has been acquired by



The undersigned acted as financial advisor to the owners of Lion Brewery.



An affiliate with BPU Investment Management, Inc. Member FINRA, SIPC



a portfolio Company of



has been acquired by



The undersigned acted as financial advisor to Main Street Capital Holdings LLC.



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Firm Overview – Professionals

Andrew R. Hays - Managing Director

Prior to founding Strategic Advisors, Mr. Hays led Mellon's Strategic Advisors Group (MSA) which provided M&A and private placement advisory services. Under his leadership, MSA serviced the needs of Mellon's Middle Market client base. Prior experience includes three years as a Principal with Main Street Capital Holdings, Inc., a middle market private equity firm, and fifteen years at Westinghouse Financial Services as Vice President (Group Head) Asset Sales and Syndications, for the Corporate Capital Group where he was responsible for marketing its \$3.5 billion debt and equity portfolios. Other positions at Westinghouse Financial included Vice President, Corporate Finance and Vice President, Marketing, for the Asset Based Lending Group. Mr. Hays currently serves on the Board of Directors of St. Clair Hospital, Bridgeway Capital, Inc, Elk Lake I, LLC, LTS Scale Company, LLC, and Sajar Plastics, LLC. Mr. Hays has been a frequent speaker at numerous conferences including the NASBIC, ACG, CFA and has been a guest lecturer at Pittsburgh-based universities. In addition, Mr. Hays was a past judge for the Ernst and Young Entrepreneur of the Year Award. He is a past president of the Pittsburgh Chapter of Association for Corporate Growth (ACG) and has also served on the Board of Directors for Mellon Financial Markets, LLC. Certified in Mergers and Acquisitions by the AMAA. FINRA Series 24, 7 and 63 licensed. B.A. Economics, Indiana University of Pennsylvania. M.B.A. University of Pittsburgh, Katz Graduate School of Business.

Andrew J. Bianco, CM&AA - Managing Director

Prior to forming Strategic Advisors, Mr. Bianco was a Managing Director within the Mellon Strategic Advisors Group which provided merger & acquisition and private placement advisory services to its clients. At Mellon, he headed the Acquisition and Private Placement Group and grew fee income significantly. Mr. Bianco was responsible for originating and completing various acquisition, divestiture and corporate finance engagements. In addition to his technical expertise, Mr. Bianco has developed an extensive national network of lenders and investors. Other experience includes three years as a Principal with Main Street Capital Holdings, Inc., a middle market private equity firm, nine years at Westinghouse Financial Services and three years at Corporate Development Partners, Inc., a regional investment banking firm focused on merger & acquisition and private placement services to middle market companies. At Westinghouse Financial Services' Corporate Capital Group, he was intimately involved in establishing and providing private placement capabilities to the group and liquidity to its \$3.5 billion debt and equity portfolios and was directly involved in the sale of numerous investments including senior, mezzanine, equity and limited partnership interests. As a Managing Director and Principal at Corporate Development Partners, Mr. Bianco was responsible for originating and completing corporate finance engagements with middle market clients. Mr. Bianco currently serves on the Board of Directors for NABCO Incorporated LTS Scale Company LLC, and Sajar Plastics, LLC. M.S., Corporate Taxation, Robert Morris College. B.S., Accounting, Duquesne University. Certified in Mergers & Acquisitions by the AM&AA. FINRA Series 7 and 63 licensed.

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