

Links Capital Partners is an independent corporate finance firm focused on providing advice on acquisitions, divestitures and financings to middle-market businesses



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**ACQUISITIONS  
DIVESTITURES  
FINANCINGS**

## Links Capital's M&A Perspectives

As the economic slowdown continues globally, more and more businesses are starting to experience decreasing liquidity, strains on working capital and tighter banking covenants. It has not been unusual to see banks restructuring operating lines and term facilities by increasing interest rates and reducing the borrowing amount.

Healthy companies that once had operating lines at prime are now seeing them being priced higher than prime plus 1.5%. Some companies that have not been active in using their operating lines are seeing banks implementing standby fees or decreasing the amount. Still there are companies out there that are looking for capital to grow, do a management buyout or restructure their balance sheet and the question remains who is going to finance the transaction and how are they going to do it?

**This newsletter highlights:**

**"Private Equity Groups and trying to attract capital"**

### **Are Private Equity Groups investing and what kind of deals are they looking at?**

Private Equity Groups ("PEG") are still deploying capital but they are not doing so in the same manner that they did in 2007. Things have changed and so have the PEGs. Attracting debt to complete a transaction has become more difficult, therefore PEGs can't get the leverage they once could. However, public market valuations in some cases are 40%-50% lower than where they were a year ago (which likely impacts private company valuations) and may be a compelling investment opportunity, if a PEG believes the market is near bottom. If the PEGs can't attract the same level of debt, that means that the cost of capital is higher, which means the valuation must be lower. Lower valuations mean the proceeds in any transaction are going to be lower if you are thinking of selling. If the proceeds are lower and management team wants to cash out, in many cases the PEGs are asking why they would want to get involved in this kind of transaction right now, is there something wrong with the business? Why wouldn't the principals continue to run the business and ride the expected uptick? With the current environment, many PEGs are not entertaining transactions where the principal is planning to take capital out of the transaction.

Given the volatile environment and lack of visibility in forecasting on every deal, no one is quite sure where things are going to end up. The PEGs still want to invest but in very well managed companies and want those management teams to continue to run the business. Of course there are situations where health issues exist and other circumstances that precipitate that a transaction be done, but those looking to divest at this time should expect that the current market forces have decreased the value of the business even if EBITDA has remained unchanged over the last couple of years.

**Experience in the areas of Private Equity, Investment Banking, Valuations and Corporate Lending enhances value to our clients.**

The diversified financial background combines various ideologies in positioning our clients to maximize value in their business, whether it is the sale of a business, bringing on a financial partner, or attracting additional capital, Links Capital can help.

**Links Capital's philosophy is to preserve value throughout the entire transaction process. Only senior executives will handle all aspects of the transaction from inception to close, avoiding potential value loss by not having less experienced junior analysts involved in the transaction.**

Typical transactions range in size up to \$250 million which are ideally suited to middle-market businesses. Links Capital's management has been successful managing capital on behalf of government, provincial pension funds, insurance companies and high net worth investors in completing mergers, acquisitions, divestitures and financings for both private and public companies.



**Links Capital**

Divestitures • Acquisitions • Financings

At Links Capital Partners, we focus exclusively on assisting our clients sell, buy and finance businesses.



## Buyouts

The Buyout funds that have been closing transactions have been going about concluding some of these deals in a different manner than they have historically. Knowing the debt is not as available as it once was and multiples of debt have eroded, the times of the leveraged buyout is in the rear view mirror. However, given the contraction on the multiples PEGs have still been getting involved in the buyout game as some transactions may be compelling, but are being done in a different manner than before. Recently we have seen private equity firms doing all equity buyouts with the hope that the debt market will turn in the near future which will allow them to refinance the equity with debt at a later time. This type of investing has resulted in PEGs having to go down market in total transaction size, investing the same amounts but not having the debt to leverage off of.

## What is going to help attract capital?

No matter how bad the economic climate gets PEGs will still be entertaining investments. With the uncertainty looking into the future, potential investments will have to be proven businesses with good sound management teams but this alone may not be enough.

PEGs will have to get comfortable that the management team is in for the long haul and the PEG's capital injection is not short term fix but something that is going to generate at least their minimum required internal rate of return over some finite period. If the principals are able to put together some meaningful capital to invest alongside the PEG under similar terms and conditions this would go a long way in demonstrating commitment to the PEG.

There is some truth that in certain cases a leveraged balance sheet may not be a big issue for many PEGs, in fact it might be welcomed as they are currently having trouble attracting debt. By only making an equity investment into a business and without worrying about raising debt may further attract PEGs in this environment to good companies that happen to be over leveraged.

If the reason for raising capital is to purchase competitors because multiples are lower you must have a sound strategy on how you are going to execute in this environment. Many business owners are looking at valuations and contemplating staying on longer than anticipated as the value of their business has declined substantially. Business owners feel if they sell now they are selling their business at a discount. The fact is, the value of many businesses are not at their historical high but reflect the current market value not a discount. Overcoming this obstacle will likely be imperative in concluding any transaction in the current marketplace.

So what price are you going to pay and are you actually going to be able to conclude some accretive deals? What are the terms and conditions? Is the acquired management team staying on and how are they being compensated? If management is leaving, how are potential holes mitigated? Expect to have a solid acquisition plan that answers all these and many more questions if you are going to be successful in attracting acquisition capital.

## What does this all mean?

Private Equity Groups are still interested in putting capital into companies but some key investing criteria may have changed recently. For those companies that have continuity in management, management investment, and/or a sound growth/acquisition strategy the capital may still be available.

This newsletter as an example only brings out some of the current issues with private equity and raising capital. Your decision to undertake a business transaction is a major business decision, that's why we've committed ourselves to overcoming the obstacles you would typically face - **creating incremental value and making the process less disruptive to your business.**

Links Capital Partners is a professional firm focused exclusively on **Selling Businesses, Raising Capital** and assisting our clients **Acquire Businesses.**

