

Market Directions

2012 Financial Year

M &A

Experts in conducting
business sales

Buyers for businesses are back! Prices are firming...



There's good news to report for business owners who may be interested in selling their business in the near future: prices have firmed – not quite back to pre GFC pricing, but close.

This firming of the market is the result of private equity firms, large private companies and publicly listed companies revitalising their growth strategies through strategic acquisitions.

However, it is not all good news as there are some challenges.

Many things have changed in the market for small to medium enterprises ('SMEs') since the global financial crisis ('GFC') including:

- » Finance is more expensive and sometimes difficult to obtain
- » Private Equity loan gearing has changed
- » Some superannuation funds have withdrawn their support for PE investments.
- » Listed companies are more cautious with their capital, and realise that with 20/20

hindsight in some instances they paid too much for past acquisitions.

Overseas purchasers are actively pursuing Australian businesses

Prospective buyers are not just locally based businesses. Overseas-based purchasers are starting to show interest too. They're finding Australia an attractive investment alternative to the many struggling economies around the globe.

While most interest tends to be on businesses associated in some way with servicing the mining and oil & gas industries there's also interest in businesses with a national exposure and / or those that simply have a good competitive edge in their market niche.

As always price earning multiples are primarily dependant on the quality of the business, suitability of fit, and post acquisition synergies.

The good news is that strategically selected buyers are willing to pay premium prices for outstanding businesses.

Several of our recent sales illustrate this point:

- » We negotiated the sale of an infrastructure solutions provider to a Singapore based company and if profit projections are met, the sale price would be in the vicinity of \$50 million.
- » We handled the sale of a proprietary parts manufacturing business to a Private Equity firm with a synergistic interest for \$5 million.

See page 3 for details and more examples of recent sales

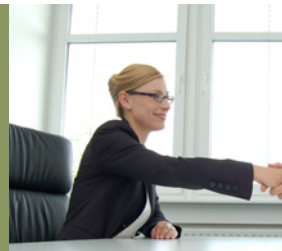


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There's an art to finding the right buyer: Much more than the simple placement of an advertisement



For business sellers, the question is usually: how do I find the right buyer willing to pay me a fair price for my business with conditions suitable to my personal requirements, while maintaining confidentiality?

For business buyers, the question is usually: how do I find a business suitable to my specific requirements, at a fair price?

The answer to both those questions is: "with difficulty".

Just as there are no two businesses the same, there are no two business buyers the same.

Matching the right buyer, to the right business, at the right price, is as much an art as it is a technical or accounting process.

In order to achieve this 'magical match', Mergers & Acquisitions has full time staff dedicated to monitoring and maintaining a vast database. This database profiles a huge number of Australian and International private businesses, listed public companies and Private Equity firms.

Having this information gives us an extensive reach into the market which in turn enables us to take a proactive approach.

This process is quite different to simply relying upon advertising a business for sale in the national newspapers and hoping that the right buyer will somehow notice the advertisement and be motivated to buy that business.



The reality of marketing a quality business in today's market is that this approach is often ineffective.

Advertising may be part of a marketing program, but only one element of a total campaign.

Selling a business demands the services of a specialist

It's a fact that every business owner needs to be aware of: Few business sales of significance are achieved these days through traditional means.

Most business sales of significance are achieved through detailed research to identify the buyers with the most synergies to the business being offered, combined with sales and negotiation strategies.

That's why the job of selling businesses has become one for specialists.

Most business owners will agree that while their own business has an accounting function as an element of their operations, it is not the main driver for the business's success.

The success usually comes down to other factors such as sales and marketing and entrepreneurship.

Similarly, in the sale of businesses success depends on numerous inter-related elements.

While an accounting function is relevant to the sale, it is important for sellers to be

aware that the main drivers to a successful transaction are research, sales, marketing and negotiation strategies - supported by the accounting role.

Selling a business requires a mixture of many ingredients:

- an accounting knowledge,
- the ability to professionally prepare a selling memorandum that highlights the key benefits offered by the business to potential purchasers.

- the difficult process of searching for and locating the right purchaser,
- the negotiation and of course assisting with the technicalities of steering the sale to a satisfactory conclusion.





The importance of a good intermediary

Many businesses will at some time receive a call direct from a prospective buyer.

While it is perfectly reasonable to assume a direct approach will lead to a sale, the reality is that very often this is not the case.

Dealing directly with only one party who has considerable experience in purchasing businesses and negotiating transactions (to suit their own objectives) often leads to wasted time, effort and huge frustration, as well as misdirected energies.

The strategy that gets the best result is to present a business to strategically motivated and financially capable buyers. This creates a competitive bidding process that weeds out the bargain hunters or time wasters and creates a buying tension that encourages genuine purchasers to act decidedly.

A specialist business sales adviser, acting as an intermediary, assists both the buyer and the seller

to overcome obstructions along the way and manages the process through to a satisfactory conclusion.

The choice for business sellers may be either simple or complex - a trade sale, a partial sale arrangement with a Private Equity firm which could also incorporate a management buy out ('MBO') or a management buy in ('MBI') or perhaps an initial public offering ('IPO').

In each of these alternative divestment strategies there lies a complex number of sub alternatives and choices, such as: who will pay the best price, how to structure the best deal possible, what are the earn-out conditions, what is the potential final exit value of my shares, etc. The intermediary facilitates the objectives of the seller through negotiations with the buyers and when reaching hurdles is often able to think laterally to create a proposition suitable to all parties.

Transactions during the 2010/2011 financial year once again confirms Mergers & Acquisitions as a leading specialist in the sale of privately owned, medium-to-large businesses

Our involvement in the following transactions demonstrates this:

SECTOR	OUR MANDATE...	THE PROCESS...	PRICE...
Infrastructure solutions provider to the resource industry.	M&A was mandated by the seller to locate a national or international purchaser with the capabilities and funding capacity to purchase and grow the business.	An international search resulted in parties from the USA, Australia and Singapore vying for the business. The ultimate purchaser was a multinational company based in Singapore.	Initial purchase consisted of cash and shares. If certain profit projections are met the maximum purchase price would be in the vicinity of \$50 million.
Australian and overseas project and facilities specialist dealing with major oil and gas companies.	M&A was mandated to locate a company with a strong balance sheet in order to tender on considerably larger projects than the seller shareholders had the capacity or desire to fund.	Immediately following the GFC many companies were cautious about budgeted profit forecasts. After a nationwide search for the right buyer, the business was sold to a listed public company.	An upfront cash and share consideration with a further deferred payment upon achieving certain profit targets could result in a total consideration of up to \$30 million.
Proprietary parts manufacturer and distributor with specialised proprietary products.	M&A was mandated to sell the business as the owner was retiring.	After presenting the business to a number of parties, a Private Equity firm concluded the transaction.	The business sold for an upfront payment and vendor terms for \$5 million.
Building construction and maintenance services business. This business is located in the booming Pilbara region of Western Australia.	M&A was mandated by the seller to locate a buyer with expertise and funds to grow the business that could facilitate an exit for the family owners.	An Australia-wide search of suitable companies resulted in a large privately owned company acquiring the business.	Not for disclosure.
Fire Services company established in 1973 as a manufacturer and supplier of Fire products and solutions.	M&A was mandated by the seller to seek a suitable purchaser for the business.	The business was presented to a number of potential candidates and was ultimately sold to an international company with business interests in Australia.	Not for disclosure.



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Are you thinking of selling your business?



If you're thinking of selling your business, either now or in the near future, we invite you to contact us for a confidential discussion.

Prospective buyers include:

- overseas buyers attracted by Australia's strong economy,
- selected private equity funds that raised cash before the GFC and are yet to find a suitable investment
- many listed and unlisted Australian companies with cash and/or low gearing that see recovery of the economy as an opportunity to aggressively build their market share.

Buyers are prepared to pay premium prices for outstanding businesses with:

- Future maintainable profits between \$1 million and \$30 million p.a. or higher
- Strong market position with a sustainable competitive advantage
- Leading products and/or services
- Good track record and sound financial history
- Capable management and/or key employees
- Excellent growth prospects

Businesses of special interest are those operating in the following sectors:

- Suppliers of goods and/or services including equipment repair to oil & gas, particularly LNG and CSM industry, and the mining industry
- Wholesalers of consumable goods, equipment or spares to industry
- Manufacturers of quality goods

For more information about Mergers & Acquisitions, and to view details of our past successful transactions, please visit our website www.mergers.com.au

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