

White Paper: The Beginning, The Middle & The End

"Should I stay or should I go now?" relevant lyrics if you are a middle market business owner considering the sale of your business. Will your business exit plan include retaining the senior management team and will you keep an equity position in the company? Or, will you ride off into the sunset and leave the new owners to run the day to day operations of your former company? How you answer this question may make a difference in just how much your business is worth.

GF Data, a research firm specializing in middle market data, has been reporting on the impact of retained senior management on valuations for nearly two years. Charts show that not only have valuations in general been on the rise, but when management stays on there is a distinct value advantage, especially if the seller is a strategic seller or a family business.

Valuation Drilldown

2013

TEV	ALL	Buyouts Only	Buyouts Only						
			Platforms	Add-Ons	Indiv/Family Seller	PEG/Corp Seller	Above Average	Post-Closing Mgt.	Above Avg and mgt
10-25	5.9	5.7	5.5	6.3	5.8	5.5	5.9	6.0	6.1
25-50	6.9	6.8	6.7	7.4	6.7	7.3	7.4	6.9	7.6
50-100	6.7	6.7	6.7	7.2	6.8	6.7	7.2	6.7	7.2
100-250	7.1	7.6	7.6	NA	5.9	8.3	8.2	7.4	8.0
Total	6.5	6.4	6.4	6.6	6.3	6.6	6.9	6.6	7.1
N =	135	109	87	22	65	39	63	80	49

Source: G.F. Data Resources, LLC

Why would one ever consider a partial sale? In all likelihood, the business is the largest asset in a business owner's investment portfolio. Diversifying a portion of that portfolio into other, less risky investments may be an important first step toward retirement.

Taking chips off the table, while retaining an equity stake in the company and looking



toward a second liquidity event years down the road can make sense for all parties. The new owners know you still have a stake in the success of the business. They believe that with the existing management team in place, the trends that led to the acquisition are not likely to unravel post close. With the right new partner in place, you have time to ready yourself for that final business exit and ease into your golden years.

Number one deal killer is selling at the wrong time. Historically, or 92% of the time, sellers leave anywhere from 30-70% of their deal value on the closing table, due to poor timing. Why? Understanding you're a business owner, not an experienced deal maker, just like the niche you have created, knowing how and when to sell a business is as well.

Kratos Capital LLC is a privately held, transaction-oriented, M&A advisory firm. Our principals have experience in a variety of strategic liquidity solutions including sales, divestitures, and mergers. We also work extensively with companies committed to expansion through acquisition.

We are an experienced, highly effective firm specializing in managing transactions with capitalized values of \$5 million to \$200 million. The firm provides industry tailored investment banking expertise, in order to help owners maximize the value of their investment of time, money and hard work. Each of our clients are represented by seasoned bankers, who bring a wealth of knowledge and experience. Our bankers comprise an aggregate of well over one billion dollars in completed transactions on behalf of the private middle market.