



Providing comprehensive investment banking services to privately held companies

## FAST FACTS

### Corporate CFO's Turning Sour On the Future U.S. Economy?

According to the quarterly CFO survey 09/10/2006 conducted by Duke University and CFO Magazine, "CFOs are more "sour" in their attitudes about the economy than at anytime in the five-year history of the survey."

- 50% are more pessimistic about the future economy, and 19.8% are more optimistic than last quarter;
- Capital spending increases have been cut from 7.5% to 5.1% for the next 12 months;
- Earnings are expected to increase less than predicted down 1.0% from last quarter's predicted increase; and
- Weak consumer demand, rising labor costs, and high fuel costs could lead to additional capital spending cuts.

Put in context, the increases are slowing. Few of us believe that the economy will 'tank' next year. We do suggest that you implement any exit planning or recapitalization strategies that you have been considering.

VOLUME II, ISSUE 1

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# Timing of the Sale

In addition to the personal issues we discussed in our last Newsletter (*Volume 1, Issue 2*), there are significant timing issues directly relating to your business, industry, and general economy that should be considered. We call those issues personal, internal and external discount factors and they are shown graphically on page 3.

All products – and single product line companies – have a life cycle that varies subject to their industry, technology, and competitive environment, the availability of substitutes, and whims of customers. There are endless consumer product examples such as camera film, film cameras, iterations of razor blades, hula-hoops, and so on. Although consumer trends are more obvious, greater pain is generally felt from regional and global trends in both manufacturing and services such as off-shoring and out-sourcing respectively.

The life cycle we are referring to has stages: 1) Start-Up when profits are minimal, cash is tight, and the business has little market value; 2) Growth when profits and sales are climbing, cash is still tight, and the value of the business is increasing quickly; and 3) Cash Flow when profits are good, albeit flat, but extra cash is finally available and the value of the business is flat or slightly dropping (the insidious silent slide).

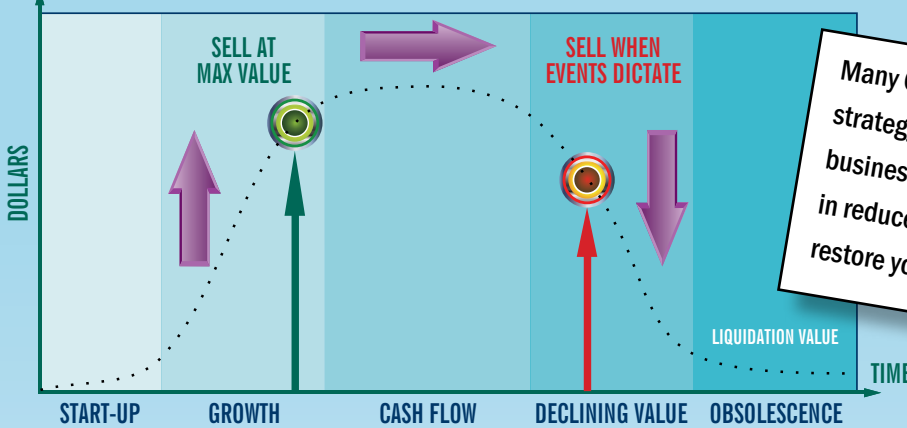
This is the point where many business owners get into deep trouble thinking that their company can continue indefinitely without reinvention or investment in the future; and they find themselves declining into the last two life cycle stages: 4) Declining Value when sales, profits and value are dropping and cash is again becoming tight, and 5) Obsolescence when it's too late and the only choice is liquidation.

Some of the problems that can affect your timing by causing lack of competitiveness and declining value include:

- **Marketing Problems:** dropping sales, poor marketing, high customer concentrations, and obsolete products;
- **Organizational Problems:** escalating health care cost, aging workforce, excessive overhead, and limited organizational depth;
- **Operations Problems:** failure to modernize, quality problems, obsolete systems & procedures, or poor leadership;
- **The Most Common Problem:** no business strategy – at sea without a compass – because failure to plan is planning to fail.
- **Conditions in Your Industry:** every industry is different. Health care is booming, construction and

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## COMPANY (OR PRODUCT LINE) LIFE CYCLE STAGES



Many Company Owners fail to plan an exit strategy or allow the performance of their businesses to deteriorate over time resulting in reduced selling value. We can help you restore your business to its maximum value.

home building were strong but may be collapsing, many types of manufacturing have moved off-shore to China and Southeast Asia, labor intensive services such as medical transcription, computer programming, engineering design and many others are being outsourced to India, and the domestic automotive industry is suffering from foreign competition and a high overhead structure. Sometimes it's best to wait out a storm, while in other cases the prudent solution is to sell while you can. The question that must be answered is "where are you on the Company (Product) Life Cycle curve"; (see chart above) and if you are declining "is it realistic to think that you can turn the tide or change course?" We are experienced in these matters and we can help you make the correct choice.

- **M&A Volume:** as we discussed in Volume 1, Issue 2 of this Newsletter, we are currently enjoying a Seller's market. We believe the M&A market will remain strong in 2007.
- **Economic Conditions:** unless you are operating a counter cyclical business, the best time to sell is always when earnings are up. The CPI is climbing slowly as are interest rates. We're currently enjoying a seasonal energy price

hiatus. A Presidential election is looming in the shadows. There is only one prediction that is guaranteed correct: nothing will stay the same. We hope that there will be no significant change in 2007. Beyond 2007 is anyone's guess to make. Don't wait too long to make a decision on your future.

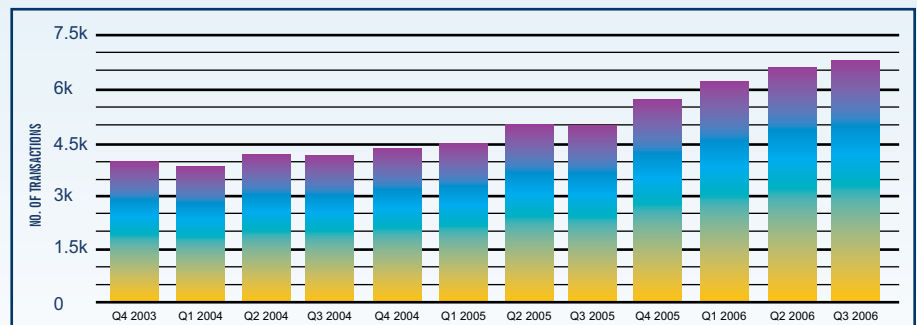
- **Lending Environment & Interest Rates:** lenders are more aggressive during periods of strong economic performance. Remember, buyers pay more when they can borrow more.
- **Tax Rate Issues:** what really matters is how much money you take home. The Federal Capital Gains tax rate is currently 15% and is scheduled to increase to 35% in 2010! What will the Democrats do?
- **Type of Buyer:** There are three types of buyers: Private which includes management buy-outs and family, Private Equity Groups (PEGs), and Strategic Buyers

which are corporations whether domestic or foreign, private or public that are either in direct or indirect competition in your existing markets. Due to consolidation synergies, Strategic Buyers are generally able to pay the highest prices followed by PEGs with Private Buyers trailing in a distant 3rd place. Relative to timing issues, we always advise our clients to be suspicious of unsolicited offers: "one buyer is no buyer!"

If you are considering selling your business in the near future and don't want to wait around for subsequent newsletters to learn more about planning your exit at maximum value, then please don't hesitate to contact one of our partners. We will be more than happy to discuss your situation over the phone or meet with you face-to-face to discuss each of the topics mentioned above in great detail.

**As always, we are here for you from Beginning to End.**

## M&A VOLUME



# Who is Alpha Omega Capital Partners?

As one of the largest investment banking and business brokerage firms in the Mid- Atlantic region, Alpha Omega is dedicated to growth in its core market: exclusively providing privately held, mid-market companies, with sales less \$100 million annually, with a full range of investment banking capabilities including sell-side, buy-side, capital raise, and valuation services. Because of the regional success that Alpha Omega has enjoyed, they are planning for further expansion in 2007.

The Partners are seasoned practitioners bringing a unique blend of public and private company general management, engineering, banking and financial management experience to its clients. Every Partner has personal business management experience. The Partners are assisted by a very well educated and accomplished professional staff.

Having sold 13 companies in 2006 and over 100 companies total, few competitors can claim the continued success that Alpha Omega has enjoyed. The Company is currently representing over 30 sell-side, buy-side, capital raise, valuation and consulting clients and is eager to fill the pipe line for 2007.

## ASSOCIATE PROFILE

### Rob Mitchell — Partner

Rob has spent the last 19 years working with CEOs and business owners as an investment banker, venture capital investor and commercial banker. He invested in 21 companies and 12 venture firms and made numerous loans to companies. At Alpha Omega, he has helped numerous business owners sell their companies, acquire other ones, obtain capital, and investigate strategic options. He also spent 23 years in the U.S. Navy retiring in 2003 as a captain.

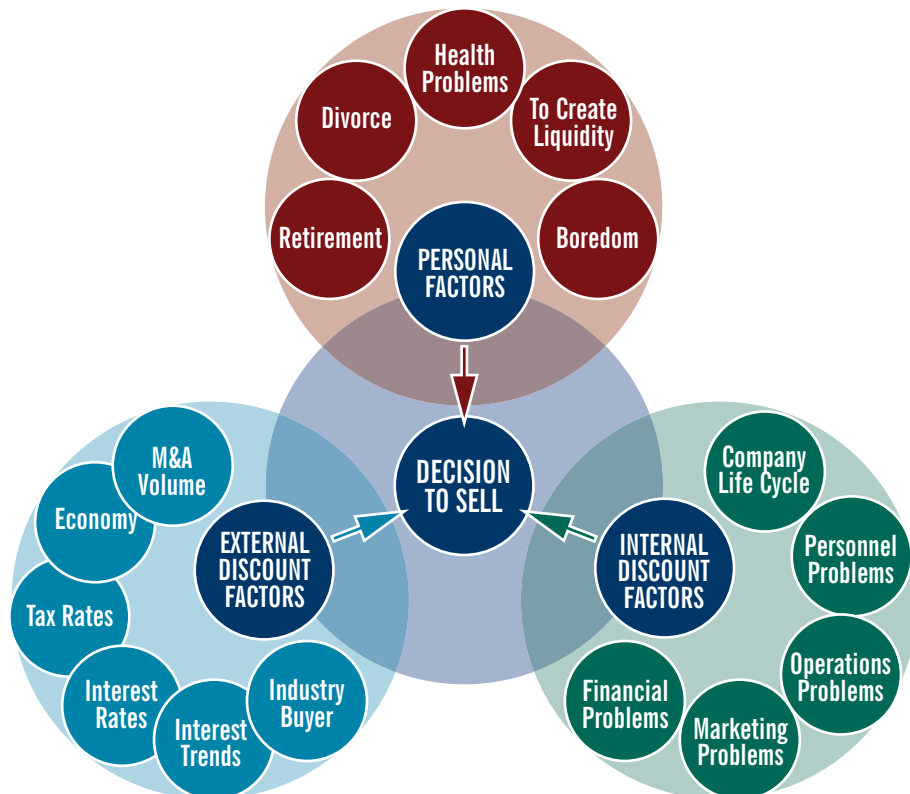
He earned a BA from Kenyon College and an MBA from the Darden School at the University of Virginia. Rob is a NASD registered representative with series 7, 63, and 24 licenses.



Learn more about Alpha Omega Capital Partners at [www.aocp.com](http://www.aocp.com)

## Weighing The Facts — Timing of The Sale

### No Simple Answer



Finding an acceptable compromise between personal, internal, and external factors that yields an acceptable exit strategy price and schedule is a daunting task that is not for the faint of heart or inexperienced.

Timing (in our example) is defined as the sequential relations that any event (factor) has to any other. As an example, what will be the impact of Retirement on the value of your company considering the Operational Problems that you know exist and your current Industry Trends?

Our Weighing The Facts graphic demonstrates a few of the many circumstantial combinations that you may face. Let us help you sort out your particular set of circumstances and provide you with a logical exit strategy plan.

# Select **2006** Transactions

- \$ Professional Child Care  
*Learning Centers*  
Acquired by – Strategic Buyer
- \$ Bettertype Ribbons  
*National Distributor*  
Acquired by – the Supply Room Companies
- \$ Eastern Shore Ambulance  
*Service Provider Eastern Virginia*  
Acquired by – First Med, Inc. (Private Equity Group)
- \$ C Arthur Weaver  
*Industrial Equipment & Systems Distributor*  
Acquired by – Industrial Supply Corporation
- \$ Broadway Motors  
*Ford Automobile Dealership*  
Acquired by – Logsdon Holdings, LLC
- \$ Neptune  
*Petroleum Products Distribution*  
Acquired by – 1st Octane, LLC
- \$ Employee Benefits Management  
*Third Party Administrator*  
Acquired by – Total Administrative Services Corp.
- \$ Newclients, Inc.  
*Promotional Marketing Distribution*  
Company Acquired – Perk International
- \$ Target Sales Inc.  
*National Wholesale Distributor*  
*Telephony Products*  
Acquired by – GenCap America (Private Equity Group)
- \$ Ram Development  
*Commercial Contractor*  
Capital Raise – Popular Small Business Capital
- \$ USA Baby  
*Furniture Retail*  
Acquired by – Private Individual

## Case Study in Creativity, Perseverance and Determination: The Sale of Broadway Motor, a Ford Dealership in the Shenandoah Valley

The owners of this 4<sup>th</sup> oldest Ford dealership in Virginia had reached retirement age and needed the proceeds of the sale to supplement savings and Social Security benefits to maintain a steady income stream during their retirement years. Both were in good health, tired of the day-to-day responsibilities of running the business, and looked forward to having the time for travel and other leisure time activities. The dealership had suffered from benign neglect for a number of years; although sales revenue was steady, the company had shown no growth in a decade and was marginally profitable.

Alpha Omega recognized the “Blue Sky” value in a “brand name” automotive dealership (“it is hard to come by”). The owners were known for their integrity and strong relationships within the community. It was also apparent that the company needed “reinvigoration” that could only come from the inherent drive of a younger owner/operator that had experience working for large, multi-brand dealerships and was yearning to turn his entrepreneurial spirits loose and guide his own destiny.

The search for this individual buyer went to the northern Virginia MSA and quickly located “that special person” as described. Although “champing at the bit” to get started, a creative structure needed to be devised to satisfy both the requirements of Ford and the senior lender as well as take care of the monetary needs of the client seller. Such a structure was devised by AOCPP with the understanding and cooperation of the involved parties and included such provisions as needed to make the deal cash flow and meet balance sheet ratios and debt service covenants. The transaction closed in September of 2006.

Learn more about Alpha Omega Capital Partners at [www.aocp.com](http://www.aocp.com)



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