An exclusive event for business leaders

BUILDING VALUE SYMPOSIUM

NEXT EVENT: February 15, 2007 | Vancouver Convention & Exhibition Centre

WWW.BUILDINGVALUESYMPOSIUM.COM

Financing Tools to Reduce Seller Risk

Time:	12:00-12:15
Presenter:	Axel Christiansen, CFA Investment Manager

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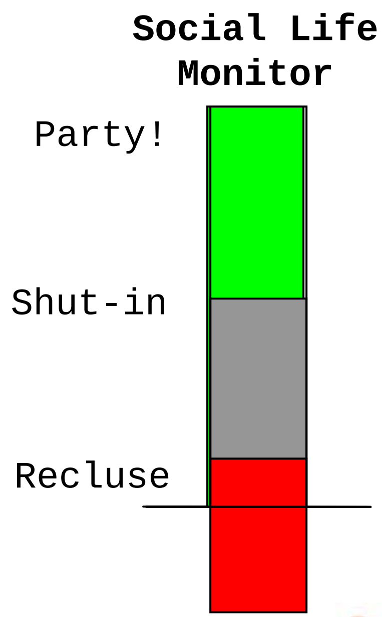
Summary

- Why Should Vendors Be Concerned With Financing?
- Vendor Notes Are Bad For You
- Case Study
- The Perfect Deal
- Gratuitous Self Promotion

Axel Christiansen

- BA Econ
- UBC MBA
- CFA
- Investment Manager, Vancity Capital
- 12+ years sub-debt finance
- Tall



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Why Bother With Financing?

- More leverage = lower equity hurdle = more qualified buyers = potential for a higher price

- Don’t leave it to the purchaser to set the financing structure!
  - Their best interest is <u>not</u> your best interest
  - Vendor notes are bad for you


You Are Here


You Are Here


You Are
Here


You Are Here
I should have called Vancity Capital!

Vendor Notes Are Bad For You

- Doesn't fit requirements of the ideal retirement portfolio
  - i.e. Low risk, high liquidity, diversification
- Way out of whack from a risk/return perspective
  - Equity risk
  - Money Market return
- Why would you do this??
  - Can't see the risk
  - Can't price the risk
  - Don't know that other options exit

Case Study

Buy Me Inc.

Buy Me Inc. – Adjusted EBITDA of $700,000

A/R	500,000	LOC (75% of A/R)	375,000
Equipment	2,000,000	Term Loan (50%)	1,000,000
Goodwill	750,000	Vendor (negotiated)	625,000
Payables	<250,000>	Equity (purchasers)	500,000
Purchase Price	$3,000,000	Financing	$2,500,000

$3,000,000 - $2,500,000 = **$500,000 shortfall!**

NO DEAL

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Case Study

Buy Me Inc.

		Debt Service	
LOC (75% of A/R)	375,000	22,500	(LOC interest at 6%)
Term Loan (50%)	1,000,000	290,000	(blended, 4 yr. amort, 7%)
Vendor (negotiated)	625,000	50,000	(interest only at 8%)
Equity (purchasers)	500,000	0	
Purchase Price	$2,500,000	$362,500	

- EBITDA is $700k so plenty of free cash flow left
- But asset base fully encumbered

Financing Tools

SUBORDINATED DEBT

- Cash flow based financing
- No asset coverage required
- Term debt - monthly payments, 3-7 year amortization
- May include equity kickers
- Limited personal guarantees
- Varied levels of investor involvement
- Target return of 12% to 20%
- ‘The glue’ in buy-out transactions

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Case Study

Buy Me Inc.

Buy Me Inc. – Adjusted EBITDA of $700,000

A/R	500,000	LOC (75% of A/R)	375,000
Equipment	2,000,000	Term Loan (50%)	1,000,000
Goodwill	750,000	Vendor (negotiated)	625,000
Payables	<250,000>	Equity (purchasers)	500,000
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$3,000,000 - $2,500,000 = **$500,000 shortfall!**

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Equipment	2,000,000	Term Loan (50%)	1,000,000
Goodwill	750,000	Vendor (negotiated)	625,000
Payables	<250,000>	Sub-Debt	500,000
Purchase Price	$3,000,000	Equity (purchasers)	500,000
		Financing	$3,000,000

No shortfall!

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Term Loan (50%)	1,000,000	290,000	(blended, 4 yr. amort, 7%)
Sub-Debt	500,000	167,000	(blended, 4 yr. amort, 15%)
Vendor (negotiated)	625,000	50,000	(interest only at 8%)
Equity (purchasers)	500,000	0	
Purchase Price	$3,000,000	$529,500	

- Sufficient cash flow to service additional sub-debt
- 4 year return on shareholder equity of ~ 56%!

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The Perfect Deal

- Reasonable valuation
- Vendor essentially non-active and drawing significant remuneration
- Purchasers entrenched in business and investing amount that is significant relative to net worth
- Vendor willing to carry meaningful vendor note (and subordinate/postpone to institutional lenders)
- Senior lender willing to increase support
- Immediate opportunities for growth (previously suppressed by vendor)

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- Specialize in subordinated debt financing
- Deal sizes $100,000 to $5,000,000
- All industries
- Management buy-outs (MBO), leveraged buy-outs (LBO), strategic acquisitions, growth working capital
- Work with all senior and sub lenders
- Fast, flexible, uncomplicated, local and active!

THANK YOU!

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