


RAPTOR
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> ART OF THE DEAL

IS THE CIRCUS IN TOWN?

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William Shakespeare in *Julius Caesar* captured the importance of timing most eloquently when it was said:

*"There is a tide in the affairs of men
Which, taken at the flood, leads on to fortune;
Omitted, all the voyage of their life
Is bound in shallows and in miseries."*

Over the years, countless less eloquent expressions indicate the importance of market timing, including: "buy on the sound of cannons; sell on the sound of trumpets," "don't stand in front of a freight train," and "timing is everything." As boards of directors consider the best timing for the sale of an enterprise or a division, it is critical to understand the current business environment and make an honest assessment of a company's prospects.

In timing the most artful and financially rewarding exit, boards need to maintain a close watch on industry consolidation, earnings momentum and capital markets. The best windows for the sale of a company oftentimes arrive when there is a confluence of these factors.

INDUSTRY CONSOLIDATION

One of the many examples of industry consolidation is in telecommunication equipment. After a frenzy of activity between 2000 and 2001, the telecommunications industry fell on difficult times. Since then, tele-

communications equipment customers have been consolidating rapidly. Already 800-lb. gorillas individually, SBC Communications acquired AT&T in 2005 and subsequently agreed to merge with archival BellSouth in March of 2006. Additionally, in 2005, Verizon acquired MCI and Sprint acquired Nextel. Responding to the increased leverage of their customers, two of the largest telecommunications equipment manufacturers, Lucent and Paris-based Alcatel agreed to merge. With fewer customers to serve and increased costs of developing new telecom technologies, equipment manufacturers need to restructure to compete in the new environment. Undoubtedly, the Alcatel/Lucent merger is a harbinger of further consolidation. Well-capitalized participants with cash reserves can use the consolidating environment to make acquisitions that bolster their competitive position. On the other hand, less risk-tolerant companies may exit for cash or participate in the consolidation by taking the stock of a larger market participant.

EARNINGS MOMENTUM

Companies are sold for a variety of reasons, including retirement, diversification of shareholders' net worth and generational issues. However, nearly without exception, the rationale for acquisitions is that the target's technology, customer base or infrastructure will provide earnings momentum to the acquirer. Consequently, it is essential that a company exit when there is evidence of positive momentum in the business for 12 months

beyond a sale process. An acquirer needs to have continuing confidence that the target will deliver incremental earnings to its shareholders. Avoid waiting until reaching the business' peak to sell; make sure there is ongoing momentum to close the deal and keep the acquirer enthused.

CAPITAL MARKETS

With the demands of managing your business, it is oftentimes difficult to keep current on the market sentiment of other industry players. However, keeping a gauge on the valuations of comparable publicly traded companies, multiples paid in comparable mergers and acquisitions, and the receptivity of the debt and equity capital markets for new capital provide important indicators on the potential value of your business. Make it a priority to understand the market dynamics and sentiment so that such factors can help you assess the environment for a sale. Although no business should be sold solely to take advantage of market sentiment, being cognizant of these factors can be a powerful tool in timing the most advantageous exit. Moral of the story: "Sell peanuts when the circus is in town." ●

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