

LIFE CYCLE OF A DEAL

Taking Charge of Change

The future is not some place we are going to, but one we are creating. The paths are not to be found, but made, and the activity of making them, changes both the maker and the destination.

John Schaar

Author and former professor, University of California

We've all read about successful and failed transactions. What separates success from failure – planning, execution, personalities or luck? Sometimes it's tough to know.

Our newsletter series looks at alternative ways of approaching your next deal to enhance your chances for success. We'll demystify the business, legal and organizational issues involved in doing a deal and create an overall model to assist you in leading your next transaction to its successful completion.

In this issue of *Life Cycle of a Deal* we look at the stimulus for change, how change leads to a deal and deal assessment and analysis. You'll learn what to do, what steps to take, who to rely on for help, and who can help give you an advantage in the deal process. We'll also explore the six deal phases, the parts of each phase, and introduce a useful deal making model.

Houston, we have a problem.

Accepting the need for change is the first step in taking charge of change. Have you experienced any of the following situations?

- ▶ forced to sell a product, division or company due to lagging profits,
- ▶ failed to obtain Board approval to proceed to closing,
- ▶ sold your business too soon or too late, and didn't get true market value,
- ▶ paid too much for a business, or
- ▶ couldn't arrange satisfactory financing to successfully complete the transaction.

These situations can have a serious impact on your business, the future of your organization and your credibility. Here's why:

- ▶ **Lagging profits** imply a division or product is consuming valuable corporate assets without the requisite return, and can't continue in the long run,
- ▶ **Board refusal** may signal credibility concerns about leadership,
- ▶ **Realizing less than fair market value** impacts your retirement or future investment plans,
- ▶ **Paying too much** means that you have too little cash flow left over to do what is required in the new business, and
- ▶ **Failing to close or get financing** for your deal wastes resources in your organization, and may create credibility issues in the market.

As you're taking the pulse of your business, remember, a completed deal is the conduit for change. Successful transactions require an organization to implement change to facilitate revised routines and to integrate a new business or product. Look at completed transactions and ask how much change occurred. If you answer "some change", then what changed, and is it still in effect? If the answer is "no change", then why not and how are you mitigating potential exposure?

The Business of Leading Change

Change can't always be controlled, but it can be successfully managed with good leadership, depth of organization and robust internal processes. Successful organizations have learned to manage the transition process, and by accepting organizational change, you can manage rather than react to change.

To manage change determine your desired outcome and work backwards. Successful change implementation combines process, communication, action, teamwork and deliverables. Finding the right balance as it relates to buying, selling, restructuring and protecting is critical from an organizational perspective.

CHANGE AGENTS

A change agent is an event, object, or person who causes or facilitates change in a business. Change agents signal the beginning of the deal process and are a call to action in your organization.

Is your business confronting any of the following change agents? Ignoring these signs may place your organization at risk:

1 PROFITS ARE DOWN. The Board, shareholders, your lender and other stakeholders are concerned. It's time to explore opportunities. Consider restructuring or streamlining your operations, dealing with an unprofitable division, or looking for a strategic partner.

2 SALES HAVE SKYROCKETED. You have a war chest to buy new production equipment or a competitor. It's time to complete the analysis, assemble the team and make the pitch. Strike before someone else beats you to it or the opportunity passes.

3 A COMPETITOR HAS APPROACHED YOU TO BUY ONE OF YOUR DIVISIONS. Before you sell, consider the alternatives. Can you use the division's resources elsewhere in the business? Will sale proceeds help repay debts and improve your covenant tests, to invest in growing a more profitable division, or repay shareholder loans?



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Welcome to the first issue of *Life Cycle of a Deal*, a newsletter series for business owners and senior management that explores how to close deals successfully. It is jointly published by Pallett Valo, LLP and Spara Capital Partners Inc.

In our next issue, we'll look at negotiations and due diligence.

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6 Six Phases of a Deal

A typical deal is broken down into six phases:

initial deal assessment and analysis; negotiations; due diligence; financing; documentation and closing.

Each phase has four distinct parts:

Team, To Do's, Deliverables and Next Steps.

Masters of Change

The point man is the most important member of the deal team. He or she co-ordinates internal and external resources needed to complete the transaction successfully. Responsible for the day-to-day management of the activities, resources and anticipated outcome, the point man assembles the team members required through the deal phases.

Before you decide who should act as your point-man, here are some things to consider. The point-man must be someone who has the knowledge, skill, familiarity and time to nurture the process from start to finish. He or she must command the respect of other team members and the deal partner. Internal candidates are often the first choice for the point-man role, but be careful. Your management team already has full time commitments to the business. Adding the responsibilities of point man to an existing role could become a full-time distraction and have a negative impact on your core business.

Often, outsourcing to third party specialists with particular knowledge or work force can help complete your deal. Skilled third party professionals add value to the deal making process by expertly assessing your needs, goals and time sensitivities without compromising your day-to-day operations.

Navigating Change

To Do's map the process; define steps to be completed; assign responsibilities; establish time lines; identify resources; and detail review and approval processes. In the initial deal assessment and analysis phase, To Do's include:

1. establishing urgency and setting the tone,
2. assembling the team and evaluating the use of internal and external resources,
3. compiling feasibility studies to help identify potential outcomes,
4. initiating financial modeling and other detailed analysis to support the feasibility studies, and
5. assessing alternatives, including the consideration of all options.

Setting the tone and establishing the urgency of a transaction is crucial. Urgency governs resource allocation, need to respond, timing and allocation of management resources in the organization. Shareholders, the Board of Directors and your management team need to know the tone for each task. Moreover, human resources are finite and your management team will assign priorities based on urgency.

Communication about individual and group responsibilities and available resources must be clear and timely. Involve your management team in the planning process. Soliciting their input will increase momentum and support for your initiative.

Shareholders and the Board of Directors need details about the probable outcome to measure the risks against the anticipated rewards. Be ready to answer their questions, ensure your operations personnel work with your analysts to complete the required feasibility studies.

Detail all the alternatives – good, bad and indifferent. Feasibility studies must be comprehensive and supported by a balance of qualitative and quantitative analysis. Qualitative analysis include market assessments, resource allocations and customer perception. Quantitative analysis quantify the financial impact of the proposed transaction for the stakeholders and include financial projections and cash flows prepared by the finance group.

CHANGE MODEL:

Initial deal assessment and analysis

TEAM

Organization nominates point-man,
Point-man evaluates internal/external resources required,
Seek authority to proceed.

TO DO'S

Establish urgency, set the tone,
Assemble the team, both internal and external,
Scope initial feasibility studies,
Initiate modeling and
Assess alternatives, consider all possible options

DELIVERABLES

Proposed resource requirements,
Detailed analysis
Discussion paper on analysis and outcomes
Recommendations, timelines and budgets.

NEXT STEPS

Receive authority to proceed,
Plot next steps, establish milestones,
Communicate with team,
Mentor, coach and facilitate.
Go For It!

Delivering the Goods

The point-man must identify the deliverables for each phase of the deal. Producing the deliverables in the initial deal assessment phase allows the point man to gain support from the Board of Directors, continue the initiative and complete the transaction.

Deliverables, the tangible outputs from each To Do, are the complementary building blocks that create the foundation of a successful transaction. In the initial deal assessment and analysis phase, potential deliverables include: *determining proposed team members; producing detailed financial analysis; producing discussion paper on alternatives, including sensitivity analysis, and producing recommendations, timelines and budgets.*

Communicate deliverables in writing to team members. A formal written presentation adds clarity and forms part of a well-documented trail. The communication must include due dates, milestones for measuring completion, key issues to be addressed and either answer the question posed or produce business valuations, marketing studies, financial forecasts, economic forecasts and sales estimates are key inputs in this process. Communication of deliverables, due dates, content and utilization are critical elements in keeping your deal on the right track. A point man will find well-defined deliverables useful in keeping the team members focused on the task ahead and accountable for their actions.

A Blueprint for Action

Before moving to the next stage in the deal process, the point man must determine and plot the next steps, ensure the authority exists for taking these steps, make sure the team is aware of the decision. Next steps should include specific and measurable milestones against which performance will be measured. Milestones also provide bite-sized targets for the team, and a frame-work against which it can measure its own progress.

Again, communication is critical. The point man must be a project leader, mentor, coach, facilitator and especially a communicator. He or she must ensure free flowing communication among the team members, the other party to the deal and the professional advisors.

Plan and communicate the process. You'll improve chances for the deal's success. Plus, team members will have more time to prepare for the next stage and provide you with advance warning of pending dangers or pitfalls.

ABOUT THE AUTHORS...

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