

Acquisition Opportunities Are Plentiful

Business owners and executives often look to corporate acquisitions as a key component of their company's growth strategy. But where can attractive opportunities be found? There are numerous types of acquisition opportunities that may not be readily apparent. These include:

- Actively searching for proprietary deals;
- Equity positions in turnaround situations;
- Debt acquisitions;
- Small cap public companies; and
- Private equity portfolios.

Actively Searching for Proprietary Deals

If corporate acquisitions are an important component of a company's growth strategy, then an active approach to finding deals must be undertaken. It is not sufficient for the buyer to alert its auditors, lawyers and bankers that the company is on the acquisition trail, and hope that the phone will ring with an opportunity. Rather, the buyer must actively search for opportunities, either by committing internal resources or by engaging external resources to undertake that task.

An active search for deals offers several benefits to the buyer. First, it forces the buyer to pre-establish its set of acquisition criteria. This helps the buyer to avoid spending time and resources exploring acquisition opportunities simply because they become available, as opposed to being a strategic fit.

Second, an active search helps the buyer to find proprietary deals. In many cases, business owners have not given much thought to selling their company. There are numerous reasons for this phenomenon, including the fact

that business owners tend to defer succession planning discussions, and because they might believe no buyer would be interested in their company.

By uncovering proprietary opportunities the buyer can avoid an auction process, which often compels the seller to seek the highest price. This is not to suggest that an active search will allow a buyer to take advantage of a seller by undervaluing the target company. Rather it allows the buyer and seller to work together on a more confidential and expedited basis in order to structure a deal which is believed to be fair to both parties.

Buyers that venture on an active search process should not expect that it will yield immediate results. In many cases it can take several months, or even years, to entice a business owner to engage in discussions about selling their company. However, a prolonged process can allow for a trusting relationship to develop between the buyer and the seller, which can help the buyer to identify things that are important to the seller beyond maximizing price (e.g. ensuring that the target company's employees are taken care of).

An active search can also be used for public company acquisitions, particularly small cap public companies that may be below the radar of large corporate acquirers. The opportunities for acquiring small cap public companies are further addressed below.

Equity Positions in Turnaround Situations

As the economy begins to show signs of life following the recent downturn, companies are anticipating better times ahead. However, many businesses have found themselves in a weakened financial position and thus inadequately capitalized to take advantage of the recovery. In some cases

the owners of these businesses will look for an equity partner rather than having to sell their company at fire-sale prices.

An equity investment can be an attractive alternative to an outright acquisition for many reasons, including:

- it reduces the amount of capital deployed, and hence the level of risk to the buyer;
- the existing owners still have a meaningful equity position in the business, which makes them motivated to succeed; and
- the ability to structure the investment in creative ways to reduce risk, such as using convertible debt (which provides the buyer with a preferred return on capital as well as upside potential) and “ratchet” clauses, which allow the buyer to receive an increased equity position if certain performance criteria are not met.

However, a minority equity position in a privately held company carries additional risks as well. This includes risks arising from the inability to control the affairs of the target company and the diminished level of liquidity normally attached to minority interest positions that are not freely tradable. These risks can be mitigated to a large extent through a well-documented shareholders agreement that provides the investor with the ability to veto major corporate decisions and minimal (if any) restrictions on transferability.

Ideally, the shareholders agreement would provide the buyer with a call option to acquire the balance of the shares at some time in the future. In any event, the buyer should be afforded a right of first refusal on the sale of the remaining interest in the target company.

Debt Acquisitions

Beyond turnaround situations, as a result of the recent economic downturn many companies have found themselves in dire straights with their bank or other creditors, and at a point where those lenders may seek to realize on their security. This can be a challenging and emotional situation for business owners. A strategic buyer may be viewed as a “white knight” that can help the target company to continue as a going concern (usually in some downsized form) as opposed to being liquidated.

**“An equity investment
can be an attractive
alternative...”**

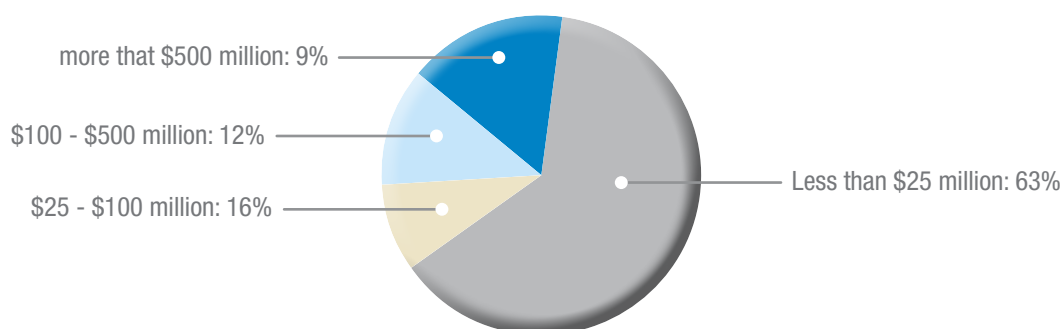
Buyers that are interested in debt acquisitions should approach the special loans division of major financial institutions. In many cases, the buyer has an opportunity to acquire the debt against the target company at

less than its face value where the lenders believe that such an offer would yield greater returns than those available by realizing on their security.

Debt acquisitions often present numerous challenges for the buyer, such as those associated with post-transaction layoffs (e.g. wrongful termination), disenchanted suppliers (e.g. tighter credit terms) and concerned customers (e.g. reputational risk). Furthermore, debt acquisitions often are met with some remorse by the seller, who may believe that the buyer has taken advantage of their situation. The buyer should plan for increased transition risk in its valuation and pricing analysis, as well as its integration plans. Sound legal advice will also be essential.

Exhibit 1

Canadian Public Companies - Market Capitalization March 2010



Small Cap Public Companies

The public equity markets are filled with companies that, in many cases, should not be public. This is particularly the case in Canada, where approximately 63% of the 3,000 public companies traded on the TSX, TSX Venture, and Over-the-Counter markets have a market capitalization of less than \$25 million [see Exhibit above].

Many small cap public companies are closely held and thinly traded which has resulted in their major investors becoming “stuckholders” – individuals who are effectively unable to divest of their interest in the public markets.

Public companies have been faced with increasing challenges and costs in recent years. The growing demands of corporate governance, financial reporting, and now the required implementation of International Financial Reporting Standards (“IFRS”) have eroded public company earnings. Furthermore, many small cap public companies are undercapitalized, and it may be difficult for them to raise capital through the public equity markets on a cost-effective basis.

There are several benefits to looking at small cap public companies as a source of acquisition opportunities. First, it is easier to pre-qualify public companies. This is because

the public information available in the form of financial statements, annual reports, management discussion and analysis, the management information circular, annual information form and other documents, allows the buyer to gauge whether the potential target company meets its acquisition criteria (such as size, markets served, etc.) prior to initiating contact.

Market price provides the buyer with a significant advantage.

Second, and perhaps more important, is that the market price of the shares is already established. This provides the buyer with a significant advantage in terms of negotiations. While the shareholders and directors of the public company can argue

that the market price understates the true value of their company because of thin trading, restrictions on disclosure, and a variety of other reasons, the fact remains that the market price exists. The buyer may be in a position to offer a meaningful premium to the market price (say in the range of 30% to 50%), and still receive good value for money.

However, the takeover of a public company can pose other challenges, such as compliance with prevailing securities laws and the requirement for the board of directors of the target company to discharge their fiduciary responsibilities to the shareholders and other parties by ensuring a fair process. The buyer will need to retain legal counsel who is familiar with the relevant securities legislation.

Private Equity Portfolios

Many private equity firms have found themselves in a challenging situation over the past couple of years. This is because the ability to raise new capital is significantly more difficult today than it was during the 2005 to 2008 era. Furthermore, the market for divestitures and initial public offerings has been depressed in recent years, which has meant fewer liquidity events. Consequently, many private equity firms have found themselves unable to meet their obligations either to their investors (in terms of a return on capital) or to provide follow-on financing to their portfolio companies. In order to do so, they need to divest of some of their holdings.

Many private equity firms operate on the so-called “2-6-2 rule”. That is, for every 10 investments, 2 will be a total write-off, 6 will essentially move sideways, and 2 will be home runs. Private equity firms need to finance the companies that they believe have home run potential as those successes generate the returns for the entire portfolio. Therefore, private equity firms may have a need to divest of portfolio investments with modest upside potential in favour of supporting those investments with great potential.

Private equity firms may be keenly interested in divesting of portfolio investments that they have held past the desired holding period (e.g. 5 years) of the fund.

Private equity firms often post their portfolio companies on their web-sites, along with their investment criteria (such as industries of interest). This facilitates the buyer’s efforts in identifying the right private equity firms to approach.

Buyers of private equity portfolio companies should be wary of the unique challenges that they may present. For example,

private equity firms often provide senior management of their portfolio companies with significant incentives such as stock options and other forms of equity participation. The buyer may find it impractical or undesirable to offer similar

incentives following the transaction. This may increase transition risk with respect to the potential loss of key employees, and possibly key customers as a result.

Many PE firms need to divest some of their holdings.

Conclusions

The current economic environment has created tremendous opportunities for companies to create shareholder value through acquisitions. Companies that have identified corporate acquisitions as a key component of their business strategy should take an active approach in order to identify proprietary deals. In addition, buyers should look for opportunities such as turnaround situations, debt acquisitions, small cap public companies and private equity portfolios. While these avenues can offer attractive upside potential, they are not without risk, and appropriate financial and legal advice should be sought.



Veracap Announces Western Canada Expansion

Toronto, March 17, 2010:

Veracap Corporate Finance, a leading Canadian investment banking firm specializing in acquisitions, divestitures, financing and related services, is pleased to announce the opening of its new office in Calgary, Alberta. The Calgary office will be lead by Kurt Schurer, a seasoned professional familiar with the challenges facing business owners and with strong ties in Western Canada. Kurt is an advocate and has been actively involved in the Calgary chapter of the Canadian Association of Family Enterprise (CAFE) for many years.

Howard Johnson and Chris Nobes, Veracap's co-founders and Managing Directors in Toronto said *"While our firm has been active across Canada for a long time, the opening of our Calgary office will help to solidify our position in Western Canada. It provides us with an important local presence to help business owners and executives in their acquisition and divestiture initiatives."*

Kurt Schurer, Managing Director of the Calgary office added *"I am excited about the prospects that working with Veracap will offer. We can now provide our clients with the resources that a national firm like Veracap brings to the table."*

The Principals of Veracap have noted a tremendous resurgence in the market for business sales and acquisitions in recent months. There is particular interest in Canada on the part of foreign buyers, which Veracap accesses through its membership in **M&A International**. Veracap's Calgary office will be a platform for the firm's full service expansion into Western Canada, including valuation, damage quantification and related services through its affiliated company, **Campbell Valuation Partners Limited**.

About Veracap

Veracap Corporate Finance helps business owners and executives to maximize shareholder value through acquisitions, divestitures, financing and related corporate finance services. Veracap is a member of **M&A International**, the world's largest affiliation of M&A advisors, with over 600 professionals in 41 countries. Veracap is a subsidiary of **Campbell Valuation Partners Limited**, Canada's longest established business valuation and damages quantification firm.

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Thierry Di Nallo, *Vice-President and Portfolio Manager*

George Crowder, *Vice-President and Portfolio Manager*
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Guardian Group Advisors LP is the Private Wealth Management arm of *Guardian Capital Group (TSE:GCG)* established in 1962. A progressive, dynamic and established private wealth management firm, *Guardian Capital Advisors* has earned an envied reputation for our client-focused service and our active, disciplined, and analytical investment philosophy.

Veracap Corporate Finance will address recent trends in corporate valuations in Canada, the US and around the world. They will also address strategies for business owners and executives seeking to maximize shareholder value through acquisitions and divestitures in the current economic environment.

Howard Johnson, *Managing Director*
Veracap Corporate Finance

Veracap Corporate Finance Limited helps business owners and executives to maximize shareholder value through acquisitions, divestitures, private equity financing and related services. Veracap is a member of *M&A International*, the world's leading alliance with over 600 professionals in 43 M & A and investment advisory firms in 41 countries.

WHEN & WHERE:

Wednesday, April 7, 2010:

Hamilton Crowne Plaza Hotel Hamilton Hotel
and Conf. Center

Thursday, April 8, 2010:

Richmond Hill Sheraton Parkway Toronto North Hotel

Monday, April 12, 2010:

Kitchener/Waterloo Holiday Inn, Kitchener-Waterloo
Conf. Centre

Tuesday, April 13, 2010:

Mississauga Four Points by Sheraton
Mississauga Meadowvale

7:30am – Registration & Continental Breakfast

8:00am – Presentation begins

10:00am – Adjournment

**COST: COMPLIMENTARY
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If you own a private corporation with annual sales ranging from \$2 to \$75 million, this **COMPLIMENTARY** breakfast seminar is designed with you in mind.

Hosted by **Chris Nobes**, Managing Director of [Veracap Corporate Finance](#), and **Mitch Silverstein**, Partner of [SBLR Chartered Accountants](#), topics of discussion will include:

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All attendees will receive detailed seminar notes and a no obligation complimentary consultation with both Chris Nobes and Mitch Silverstein, to discuss their specific corporate and family circumstances.

WHEN

Tuesday, April 27, 2010

7:45am – Breakfast

8:00 – 10:00am – Seminar

WHERE

[SBLR Boardroom](#)

2345 Yonge Street, Suite 300

RSVP

Contact Jodi Solish at

416.488.2345 x229

or seminars@sblr.ca

Seating preference will be given to business owners. Centres of influence are kindly asked to bring a business owner client in order to attend.



VALUE STRATEGIES

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Veracap Corporate Finance Limited

Veracap helps business owners & executives to maximize shareholder value through acquisitions, divestitures, private equity financing and related services. Veracap is an affiliate of Campbell Valuation Partners Limited, Canada's longest established independent valuation firm. Veracap is a member of M&A International, the world's leading alliance with over 600 professionals in 43 M&A and investment advisory firms in 41 countries.

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