

Coventry League

SUGGESTED ACQUISITION CRITERIA

Performance History	<ul style="list-style-type: none">• Through one economic cycle
Revenues	<ul style="list-style-type: none">• Greater than \$5 million
Operating Earnings	<ul style="list-style-type: none">• Greater than \$1 million for past three years (CPA compiled and unadjusted)
Margins	<ul style="list-style-type: none">• Stable and fair return on capital required to operate business (minimum 10%)
Segments	<ul style="list-style-type: none">• Niche segments with definable growth opportunities (with minimal capital outlay for staff or hard assets)
Capital Structure	<ul style="list-style-type: none">• Little or no use of debt
Industry Sectors	<ul style="list-style-type: none">• Flexible (see attractive sectors)
Geography	<ul style="list-style-type: none">• U.S./Canada. However, the Midwest (close to NE Ohio), Texas/Dallas, and Pacific Northwest areas are attractive, as well as regions that are easy to access.
Approaches	<ul style="list-style-type: none">• Typically control; otherwise, meaningful voting rights• Ideally 60–80% of shares with balance invested by management and/or rolling-over of some equity by sellers¹
Management	<ul style="list-style-type: none">• Prefer in place (meaning a departing owner is not currently operating or is intending to remain for transition)• If owner is operator, then competent general manager and other key managers in place; market rate replacement costs will be included for owner
Structures	<ul style="list-style-type: none">• Favor sellers willing to roll-over some equity and accept a subordinated note. Doing so demonstrates belief in sector, company, and growth opportunities²
Valuations	<ul style="list-style-type: none">• Provided valuations are realistic, then it's more about a mutual fit. Unattractive to both sides are lowball offers and expectations that exceed higher profile transactions in the marketplace that probably included CPA audited statements, deep management, steady growth, and sector leadership.

¹ Berkshire Hathaway's acquisition of the Marmon Group is a good example.
www.marmon.com/news/31808_newsrelease.asp

² Ben Franklin sold his business for 18 annual payments (100% seller note; no down payment).
www.tinyurl.com/benfranklindeal