



Acquisition MarketPlace™ Review

Competitive pressures, globalization, industry consolidation and other strategic rationale will likely continue to drive deals for the foreseeable future.

M&A Market Outlook

The M&A market soared to record levels in 1998 and is off to an incredibly hot start in 1999! According to Mergerstat, a division of Houlihan Lokey Zukin and Howard, there were more than 7,700 announced transactions in 1998 with an aggregate value of approximately \$1.2 trillion. This shattered the previous all-time record of \$650.7 billion set in 1997. Interestingly, while the value of transactions skyrocketed to an average of \$393.7 million (up 88%), the actual number of transactions remained fairly level. The increase in aggregate value is attributable to the number of Billion Dollar Mega Deals. In 1998, there were 1,768 transactions valued under \$50 million, just slightly down from the 1,887 reported for 1997. The average P/E multiple in 1998 was 25 compared to 26.8 a year earlier.

With the help of an incredibly active March, the first quarter of 1999 got off to a red-hot start. Dealmakers reported 1,974 transactions valued at \$357.9 billion. Communications and Computer Software and Services lead the way representing 35.8% of the aggregate deal value. Mega Deals continue to push the average transaction value, which was \$530.2 million for the first quarter. Deals under \$50 million showed signs of softening. The average P/E for middle-market deals was down slightly at 24. Payment methods were 50% cash, 36% stock, and 15% combination of the two.

With a relatively low cost of capital and a positive outlook for corporate earnings, it's hard to predict a slow down of M&A dollar volume. Competitive pressures, globalization, industry consolidation and other strategic rationale will likely continue to drive deals for the foreseeable future. This observation is reinforced by a survey recently taken by the Association For Corporate Growth, a premier international association of M&A and corporate development professionals. The results of the survey indicated that 69% of the respondents stated that their industry is consolidating aggressively. The same number of respondents indicated that they expect their company to grow by acquisition in 1999.

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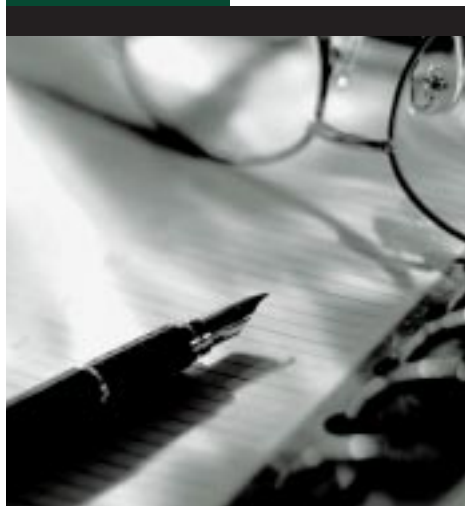
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Fixed Assets and M&A:

Watch Your Fixed Asset Levels When Preparing a Forecast

A common problem found in acquisition forecasts is the failure to pay adequate attention to the target company's future fixed asset requirements and related costs. Every acquisition forecast should address the following critical questions: What level of fixed assets does the company need to maintain to meet revenue projections? How much should be budgeted toward fixed asset purchases? How will asset purchases be financed? What is the estimated net impact of asset purchases, financing, and disposals on the company's net after tax income and cash flows?

The above questions can be thoughtfully addressed when using Buy-Out Plan to prepare a detailed, fully linked set of projected financial statements. The program guides you through a 6-step process that allows you to measure the impact of fixed asset disposals, future fixed asset requirements, and budget fixed asset purchases for each year of the projection. The program gives you the option to finance all or part of the required assets and then incorporates all of the fixed asset assumptions into detailed projections. The following is an overview of how Buy-Out Plan helps an analyst include fixed asset information in its projections.

1. Enter Historic Data: The database for each target company includes cost, accumulated depreciation and book value for each asset group.



By following this 6-step approach to evaluating a company's fixed asset requirements, a buyer may avoid the disappointment of finding out that anticipated projected earnings have evaporated and working capital has been absorbed by unexpected fixed asset purchases.

2. Estimate Future Depreciation: In the projection model, assumptions for calculating future depreciation are entered. In the case of an acquisition, an analyst is working from financial statements and is rarely privy to target's detailed fixed asset accounting data and future projections. However, if actual data is available for future years, the program offers the option to use it.

3. Dispose of Unwanted Assets: If any assets are to be disposed of, the program will automatically adjust the balance sheet by the appropriate amount, include any proceeds, and estimate the amount of any depreciation recapture. Depreciation for each year of the projections will then be calculated for each asset group.

4. Budget Future Asset Requirements: For each year of the projection, fixed asset levels are compared to revenues based upon either historic, industry or manually input net assets to sales ratio. The program allows you to budget annual purchases for each asset group.

5. Asset Purchases: Once asset purchases are budgeted, the next question to address is funding of the purchases. For each projected period, Buy-Out Plan lets the analyst consider the amount of financing required, interest rate, and term for each asset group.

6. Estimate Future Income/Cash Flow: Buy-Out Plan then takes this information along with other assumptions and incorporates them into a set of detailed financial statements. If all of the preceding steps were followed, the projection will include the book value of assets, estimated depreciation net of disposals, and the impact of fixed asset financing on earnings (before and after estimated taxes) and working capital.

It's important to keep in mind that projections are based upon estimates made by an "outsider looking in" without the benefit of detailed accounting and planning information from the target company's management. However, by following this 6-step approach to evaluating a company's fixed asset requirements, a buyer may avoid the disappointment of finding out that anticipated projected earnings have evaporated and working capital has been absorbed by unexpected fixed asset purchases.



Fixed Assets and M&A:

How to Avoid Fixed Asset Shenanigans

When acquiring a company, take a good look at the company's fixed asset accounting policies and practices. Poor management controls, cash shortages, or a desire to increase stated profits and corporate value might result in some nasty post-closing surprises; especially in a stock deal.

Here is a short list of questions to keep in mind when reviewing a target's fixed assets:

- **Have fixed asset purchases been deferred?**

Deferred purchases might improve short-term profits, cash flow, and balance sheet position, but eventually these expenditures will have to be made. One way to check for deferred purchases is to compare the historic changes in the company's net-sales to net-fixed-assets ratio and the common-size percentage of net fixed assets to total assets. Industry data can be compared to the target's historic data as an additional check. The Statement of Cash Flows should also be reviewed for purchases and disposals of fixed assets. (The analysis in Buy-Out Plan includes all of these benchmarks!) Any trend that indicates that the company is producing increasing revenues with a level or declining fixed asset base should be questioned. Keep in mind that deferred purchases are likely to become the buyer's problem!

- **Have existing assets been adequately maintained and kept in good order?**

Deferred maintenance is another way to increase stated-earnings and conserve cash, especially for the borderline or troubled company. Evaluate the relationship between sales and maintenance/repairs. When sales are trending upward and maintenance expenses are down or level, there may be reason to look further into the company's maintenance procedures. As due-diligence proceeds, you should have an opportunity to visit the site and inspect the equipment, and if possible, review maintenance records. One word of caution, many brokers and intermediaries advise their clients to "spruce up" the facility and paint the equipment as part of getting the company ready for sale. There's nothing wrong with putting one's best foot forward, but as a buyer you need to literally look beyond the surface!

- **Are the depreciation methods used appropriate?**

Depreciation is a method of cost allocation and not valuation. It is calculated for financial reporting and income tax purposes. When calculating depreciation for financial reporting purposes, Generally Accepted Accounting Procedures (GAAP) apply. Under GAAP, the amount of depreciation that should be expensed is determined by the (a) depreciable base of the asset (original cost less salvage value), (b) service life of the asset, and (c) method of depreciation used. The Internal Revenue Code applies to depreciation methods to be used for Federal Income Tax purposes. The Tax Reform Act of 1986 established, among

other things, a Modified Accelerated Cost Recovery System (MACRS) and it applies to assets placed in service in 1987 and beyond.

Unlike GAAP, MACRS mandates a tax life based upon established property classes (usually shorter than the economic life of the asset), costs are recovered on an

accelerated basis (higher depreciation is charged in the early years), and salvage value is set at zero.

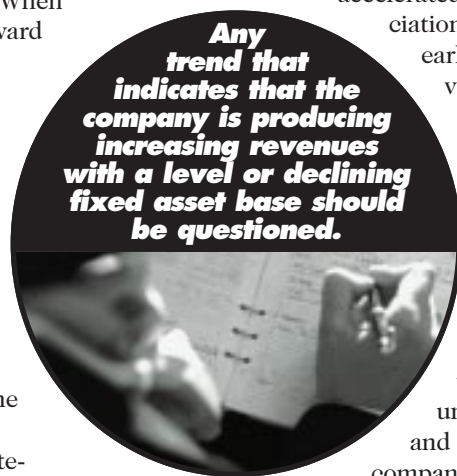
Some companies use Tax Basis depreciation for financial reporting purposes.

A target company can manipulate the variables used to determine depreciation to overstate or understand earnings and book values. If a

company is depreciating its assets too slowly, book value and net worth will be overstated and earnings will be higher because less depreciation expense is being accrued. One possible way to detect if a company is depreciating its assets too slowly is to compare the company's depreciation practices to the industry. Be wary of long asset lives in industries with rapidly changing technologies. Such rapid change reduces asset lives and decreases salvage values.

- **Are maintenance costs being expensed or capitalized?**

For the most part, ordinary maintenance and repairs are a cost and should be expensed. However, a buyer may encounter a company that capitalizes ordinary repairs. This has the effect of turning an expense into an asset and then writing it off over a long period of time. The result is overstated asset values and earnings. It's not unusual to





RMA is the only source of comparative historical financial data derived directly from statements of business borrowers and applicants from commercial banks.

Completed Transactions provides hard-to-find details on actual merger and acquisition transactions for private and public mid-market companies.

The Mergerstat Database provides valuation statistics crucial for analysis and decision making.



New Database Products For More Insightful Financial Analysis and Valuation Benchmarking

Three new database products are available as “add ins” for the Professional Advisor version of Buy-Out Plan and Corporate Valuation. These new data products put industry performance and valuation benchmarking data at your fingertips. The three databases are RMA Annual Statement Studies, Completed M&A Transaction Details, and Mergerstat Industry Control Premiums and P/E’s.

These three databases download automatically into Buy-Out Plan Professional Advisor and Corporate Valuation, saving valuable time spent researching and entering information. The RMA Annual Statement Studies Database, Completed Transactions Database and Mergerstat Database are premier sources of comparable data.



RMA Annual Statement Studies

is the leading, most current source of reliable performance statistics for small and medium-size businesses. The data is compiled and published annually by Robert Morris Associates, a respected trade group of lending and credit risk professionals. RMA is the only source of comparative historical financial data derived directly from statements of business borrowers and applicants from commercial banks. The financial statements are contributed to RMA from member institutions who get their data directly from loan customers.

- Statistics are derived from financial statements of over 140,000 privately held small to medium-size businesses.
- Common size financial statements and 16 clearly defined ratios are presented for more than 500 specific industries.
- Data is organized by SIC code and size category.
- Data is sorted by both sales and asset size to ensure a good match to your deal.
- Contains current year data plus historical data for the past 5 years for each industry.
- Only companies with less than \$250 million in total assets are used in the calculations.
- Includes manufacturing, wholesaling, retailing, service, construction and agricultural lines of business.



Completed Transactions

(also known as "Done Deals") is the most comprehensive database of completed mid-market merger and acquisition transactions. The database provides hard-to-find details on actual merger and acquisition transactions for private and public mid-market companies. World M&A Network annually reviews an estimated 250,000 pages of SEC filings and financial reports on completed mid-market sized deals (\$1 million - \$100 million) for this quarterly publication. The information has been distilled into a format useful for corporate valuation and M&A purposes by providing details about actual M&A transactions from comparably sized companies in the same industry as the target company. The Completed Transactions database focuses on the smallest acquisitions reported to the SEC (50% are under \$10 million), providing key information on each transaction.

- Contains details on more than 3,100 completed M&A transactions. Up to 250 new transactions are added each quarter.
- Search engine locates deals by industry, price range, closing date, private and/or public seller, asset and/or stock transactions, seller's total asset and total equity size, seller's total revenue, net income and cash flow volume.
- Key data for each transaction includes closing date, SIC Code, price, buyer (address, telephone and executive handling the transaction), seller, seller description, transaction terms and seller financials.
- Pricing ratios include price/earnings, price/cash flow from operations, price/revenue, price/assets and price/stockholders' equity.
- The majority of transactions identify the seller as private, public or a subsidiary and identify the transaction as an asset or stock sale.
- The data is primarily derived from financial reports filed with the SEC, which requires adherence to generally accepted accounting principles.

The Mergerstat Database

provides valuation statistics crucial for analysis and decision making. Transactions are divided into 50 industry classifications allowing quick valuation of a company based on industry average P/E ratios, control premiums, industry composites and thumbnails. Published annually by Mergerstat, a division of Houlihan Lokey Howard & Zukin, the data provides insight into trends in prices, premiums and methods of payment. Mergerstat compiles transaction information from publicly announced mergers, acquisitions and divestitures of publicly traded, privately owned and foreign companies. Mergerstat also tracks formal transfers of ownership of at least 10% of a company's equity when the purchase price is at least \$1 million and at least one of the entities is an U.S. entity.

Mergerstat provides four tables indispensable for professionals buying, selling or valuing an operating company:

1. Industry Summary: the P/E Current Year Detail, P/E 5-Year History and Premium 5-Year History for the selected industry.
2. P/E Current Year Detail: the current-year P/E details for all industries.
3. P/E 5-Year History: the 5-Year P/E history for all industries.
4. Premium 5-Year History: the 5-Year control premium history for all industries.



The databases are available individually or can be purchased as a set.

*RMA Annual
Statement Studies \$395*

*Completed Transactions
(includes 3 updates) \$395*

Mergerstat \$195

*All Three Bundled Together
(Save \$200)* \$785*
* The special bundle price is for a limited time only.





Without accurate and timely records, businesses can miss out on important depreciation deductions and overpay their taxes (federal, state, and personal property).



Fixed Asset Pro is for the business that wants better control of fixed assets but has been put off by the high price tag of other fixed asset systems.

MoneySoft Releases Windows Version of Fixed Asset Pro™ — an Affordable Fixed Asset Depreciation and Tracking System

During June MoneySoft released a new Windows version of its popular Fixed Asset Pro™ depreciation and fixed asset organization system. Fixed Asset Pro is targeted for small and mid-sized businesses that want to keep up-to-date fixed asset records and calculate depreciation for tax and financial reporting.

All businesses must include depreciation expense as part of their tax return, and complete asset inventories are required for businesses subject to state personal property tax.

Without accurate and timely records, businesses can miss out on important depreciation deductions and overpay their taxes (federal, state, and personal property).

Fixed Asset Pro is an automated system that allows a business to track its assets, organize important asset-related information and maintain accurate depreciation for tax, GAAP, and other reporting purposes.

An accurate asset inventory is also essential to make sure that a firm's insurance coverage is adequate and appropriate. Without an accurate inventory, a company might be wasting money by paying to insure assets that have been disposed of or scrapped, or the

company can find itself unknowingly running the risk of underinsuring its assets.

Current fixed asset records are also required to successfully finance, value, or sell a company. In our M&A consulting work with small and mid-sized businesses, we are surprised by the number of companies that do not have an accurate handle on their fixed asset inventory and valuation. This time-consuming task is all too often relegated to a "year end" event.



Fixed Asset Pro is for the business that wants better control of fixed assets but has been put off by the high price tag of other fixed asset systems.

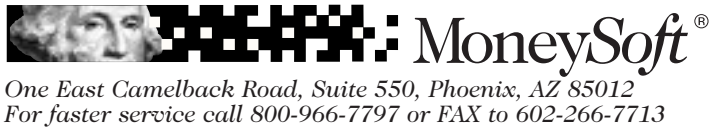
Priced at \$449, Fixed Asset Pro sells for a fraction of the price of comparable systems. Registered users of the DOS-version can step up to the new Windows versions for just

\$295. Free technical support is included. There are no expensive annual support agreements, 900 numbers, or other hidden costs. Fixed Asset Pro is available directly from MoneySoft and is backed by our 30-day money-back guarantee. For additional information or to order your copy, call MoneySoft's sales desk at 800-966-7797.

MoneySoft's Acquisition MarketPlace™ Order Form

A complete line of software solutions to make more profitable acquisitions!

	Quantity	Price
Lightning Deal Reviewer® Define your acquisition goals and quickly screen deal opportunities.	\$245 x	
Buy-Out Plan™ The professional system to analyze, value, price, structure, and finance successful acquisitions. (List Price \$795)	\$595 x	
Buy-Out Plan Professional Advisor All the power of Buy-Out Plan plus enhanced analysis, valuation and forecasting capabilities. (List Price \$985) Current Users: Call for special upgrade pricing.	\$790 x	
Financial Report Builder™ Makes it easy to create compelling and credible presentations based upon your Buy-Out Plan analysis! (requires Buy-Out Plan)	\$195 x	
Corporate Valuation™ Quickly analyze and value closely held corporations. (List Price \$695)	\$495 x	
RMA Annual Statement Studies DataBase Financial Ratios and Common Size statements for over 500 industries organized by SIC and size. Annual Subscription. <i>Requires Buy-Out Plan Professional Advisor or Corporate Valuation.</i>	\$395 x	
Completed M&A Transaction DataBase Details on over 2,800 completed transactions including price ratios, seller's financials, terms and more. Annual Subscription, Includes 3 FREE Updates. <i>Requires Buy-Out Plan Professional Advisor or Corporate Valuation.</i>	\$395 x	
Mergerstat Industry Control Premiums & P/E's DataBase P/E Ratios and control premiums on over 50 industry groups for 5 years. Annual Subscription. <i>Requires Buy-Out Plan Professional Advisor or Corporate Valuation.</i>	\$195 x	
DataBase Bundle (RMA, M&A Transaction & Mergerstat) Special bundle price is for a limited time only. Save \$200.	\$785 x	
Fixed Asset Pro™ for Windows Fixed asset depreciation and tracking. (Windows Upgrade \$295)	\$449 x	
Subtotal		
Tax		CA: 7.25% AZ: 6.8%
Shipping		\$10.00 Standard \$20.00 Overnight
TOTAL		



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Continued from Page 3: Shenanigans...

capitalize major repairs (improvements and replacements) when the expenditure creates a benefit for more than one accounting cycle.

• ***Is the company carrying impaired assets?***

Keeping assets on the books when they should be written off inflates book values. The only way to verify the working order of fixed assets is to take the asset list and inspect each asset and verify its condition during due diligence. A review of maintenance records might also shed light on the condition of a given asset. Just because an asset is stored in the warehouse, appears to have been cannibalized for spare parts, or has not been installed does not necessarily mean it's impaired. However, it should raise a red flag and be investigated.

Many people, financial professionals included, find depreciation and fixed assets to be rather uninspiring topics. While this article is by no means a complete discussion on the subject, we do hope that we have alerted you to some of the shenanigans that can be played. And finally, when doing deals, thorough due diligence is an absolute necessity as is advice from competent tax, accounting, and legal professionals.

MoneySoft News

Coming Soon: Training Seminars in Beautiful San Diego!

MoneySoft is in the process of developing training seminars on M&A and valuation issues. The seminars will initially be for customers who want to learn how to make optimal use of their MoneySoft software and sharpen their deal-making skills. In addition to hands-on training, we plan to have presentations from respected experts in the M&A and valuation industries. Please let us know if you are interested by calling 800-966-7797 or Emailing us at sales@moneysoft.com.

New Area Code For MoneySoft Support

Pacific Bell has changed the area code for MoneySoft's San Diego office. The new area code is 858. The phone number for technical support is now 858-689-8181. The number for our sales and information desk remains 800-966-7797.



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Free CD For Registered Users

Buy-Out Plan and the Professional Advisor edition along with Corporate Valuation are now available on CD. If you are a registered user of one of these programs and would like have the program on CD, please call our sales

desk at 800-966-7797 or Email us at sales@moneysoft.com. There is no cost to registered users.

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Established in 1991, MoneySoft publishes and distributes financial software and information products that help organizations create value through mergers,

acquisitions, ESOPs, corporate finance and strategic planning.

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