Example – Acquisition Criteria for Companies #1

<u>Acquisition Criteria for (Name of Company)</u>

Target Acquisition Profile

- Unique product with low to medium technology processes
- Proprietary products
- Leadership position with market niches
- Gross margins in excess of 25%
- Closely-held private companies entering ownership transition
- Corporate divestitures of non-core business units

Industry Characteristics

- Manufacturing (service and/or distribution elements only as support for primary manufacturing process)
- Non-cyclical
- Significant barriers to entry
- Highly fragmented with potential for consolidation or growth

Industries of Interest

Automobile Related	Commercial Construction Products
Food & Beverage	Health & Medical
Home & Office Furniture	Metal Products
Transportation	Utilities

Areas of No Interest

High technology	Start-up business
Service	Retail

Parameters

Sales Volume: Businesses with annual revenues of $2 million to $20 million
Geography: Chicago metropolitan area
Investment Size: $2 million to $12 million total enterprise value
Structure: Controlling ownership
Involvement: Day-to-day managerial control

The company intends to be directly involved in the day-to day operations and management of the acquired company. The Management philosophy is, where appropriate, to extend equity ownership to key employees so they can participate in their Company's success.

The long term objectives will focus on the following for the acquired company:

- More efficient production through optimum operating efficiencies
- Consistent sales growth through cost-effective marketing strategies
- Bottom-line profitability to ultimately increase shareholder value

Example – Acquisition Criteria for Companies #2

<u>Acquisition Criteria for (Name of Company)</u>

A. Key strengths that can be leveraged

1. Channels of distribution: current or new?
2. Manufacturing capabilities: metal forming, importing?
3. Products: differentiated or new in what way?
4. Customer base: reinforce long-standing relationships with current customers or develop new ones?
5. Sales: leverage current sales team or develop new sales effort?
6. Gain brand recognition

<u>1. Channels of distribution</u> - (highly desirable)

Company XYZ currently has a strong presence in the office products channel in both retail and contract. For example, Staples, Office Max, Boise, Corporate Express, United Stationers, SP Richards and Office Depot.

Company XYZ is targeting alternative channels, such as mass market (Target, Wal-Mart, others); specialty retail (Crate and Barrel, Bed Bath and Beyond, others) and retail pharmaceuticals (Walgreen's, CVS).

There is a preference to acquire a company that has a strong presence in one or more alternate channels. This would accelerate Company XYZ's primary strategy to move into alternate channels as a means to increase its revenue and profit.

<u>2. Manufacturing capabilities (moderate interest)</u>

A target that does "metal bending," particularly if it were a similar or compatible product offering would enhance the acquisition because consolidation could accelerate savings and utilize existing assets. However, manufacturing is not a major driver in the decision factor. Strong global sourcing capabilities or current manufacturing capabilities in China would also be considered a plus.

<u>3. Products: differentiated or new in what way?</u> - (highly desirable)

Desirable product offerings can be separated into two categories. The first are direct competing products from an existing competitor. The second are companies that are not competitors; however, they offer products related to money handling, security, or related to banking use or applications. These companies may be suppliers to Company XYZ for example.

<u>4. Customer base, existing or new? (Highly desirable)</u>

Acquisitions that bring new customers to Company XYZ have significant value. This would include to customers in traditional channels, or alternate channels.

<u>5. New or existing sales force (low to moderate interest as a factor)</u>
Company XYZ currently sells primarily through independent sales representatives. An acquisition that also uses independent representatives would therefore be a relatively simple transition, and preferable. However, a company that has a direct sales force could also provide an alternate, or new primary way to market if that sales group is managed reasonably well and, therefore, would also be considered.

<u>6. Brand recognition   (Interested, but not for significant premium).</u>
Brand recognition would be a strong plus. However unless the brand drives clear market leverage across our existing line, we do not have a strong desire to pay the premium goodwill often associated with a recognized consumer brand.

B. Financial Criteria of Importance

<u>1. Target Revenue</u>
The ideal company target has a revenue size between $10 million and $40 million. Companies under $10 million would certainly be considered. We would like to be made aware of available companies over $40 million, but they would be less likely candidates in the near term.

<u>2. Multiples</u>
<u>The target multiple we would be willing to pay for the "right" acquisition is between 5 and 7 times earnings.</u>

C. General Profile
We would consider the following profiles: 1) manufacturers, 2) importers, 3) suppliers, 4) competitors. These companies should have their headquarters in North America, (at this time) with preference in the United States. However if the US company also has distribution outside of the U.S. this could be considered desirable.