

WEST RIDGE ASSOCIATES, LLC SPRING 2009 NEWSLETTER

Inside this issue:

Surviving and Growing Your Business during an Economic Downturn: 1

Middle Market M&A: 4

Middle Market Private Equity: 5

WEST RIDGE ASSOCIATES, LLC provides merger and acquisition, corporate finance and related investment banking services to established middle market businesses, earlier stage companies with high growth potential, and commercialization stage companies in all industries.

Kahlil Reid

Managing Director
kreid@west-ridge.com
310.461.1424

Chuck Troe

Sr. Managing Director
ctroe@west-ridge.com
310.461.1422

SURVIVING AND GROWING YOUR BUSINESS DURING AN ECONOMIC DOWNTURN

While many companies tend to focus on risks during economic downturns, a downturn presents a unique opportunity for companies to make more substantial gains in sales growth and market share than during normal times. According to an eight-year study by Bain & Company that analyzed the net profit margins and sales growth of more than 2,500 companies, approximately 24 percent more firms moved from the bottom of their respective markets to the top during the 2001 recession compared with the subsequent period of economic growth.

What did winning companies do?

- **Focused on costs early** – they managed costs quickly with a clear plan.
- **Focused on their core business** - disposed of non-core assets if they needed cash.
- **Over-delivered** - on customer needs to create loyalty.
- **Made strategic acquisitions** - that strengthened them in their core business.

What did losing companies do?

- **Failed to act quickly** - when they did cut costs they did so in a haphazard fashion.
- **Continued with expansion plans** - and took focus off of their core business.
 - Once these companies began to experience slowing growth they sought new areas for growth away from their core (e.g., new products or moved in to new geographies). This drained cash and lessened the effectiveness of the core business.
- **Ignored the threat of new or smaller competitors** - These companies assumed the status quo of competitors and customers thinking they would behave the same during a downturn as in more stable times.
- **Overreacted** – cut costs essential to run the core business and dumped valuable core assets.

SURVIVING AND GROWING YOUR BUSINESS DURING AN ECONOMIC DOWNTURN (cont.)

What Are Steps that a Company Should Take to Position Itself to Win During this Challenging Economic Environment?

STEP ONE – KNOW YOUR INDUSTRY

Before taking a specific action step, you must understand how your industry tends to be affected by economic downturns. This can be done by compiling empirical data on how your industry has been affected by past downturns. Do you know what the key economic indicators for your industry are (e.g., GDP, new housing starts, low business inventory levels)? Is your industry more or less sensitive to economic downturns? Does your industry tend to lead or lag recessions? Are the changes brought about in your industry due to the recession permanent, structural or temporary (i.e., will demand return to prior levels)? What is the gap between your industry's ten-year average growth rate and its growth rate during a recession?

STEP TWO – ASSESS YOUR FINANCIAL AND STRATEGIC POSITION

Are you a market leader, laggard or in the middle of the pack? What plan does your company have in place to keep its competitive position (e.g., pricing, quality, service)? What is the major differentiating aspect of your company versus your competition (e.g., best solution, low cost leader, customer service, financial strength)? Does your company achieve returns in line with the competition given its scale? Is your company's customer base loyal and healthy? Do you have the right talent to succeed during these times?

STEP THREE – ACT QUICKLY!!

- **Reduce costs and investments**
 - Streamline back-office and other G&A functions.
 - Optimize supply chain.
 - Assess financial strength of vendors and your importance to their business – negotiate pricing discounts or more favorable payment terms.

- **Increase revenue, but not at the expense of margins**
 - Analyze sales force productivity. Are your sales people focused on managing existing accounts or aggressively obtaining new accounts? Where should they be focused to optimize revenue?
 - Price products and services for margin and/or share gains.
 - Conduct a customer by customer analysis and determine how much each of your top customers contributes to your bottom line. Some customers consume so much of a company's other resources (e.g., consuming a disproportionate amount of the customer service function, disrupting operations with late orders, product returns, or last minute changes to product specifications) that upon a closer look these customers contribute very little or nothing to the bottom line. These customers may be expendable. Your bottom line may be better if these customers become your competitors' problem, not yours.

- **Cash is King – Focus on cash flow management**
 - Model downside financial forecasting scenarios that look ahead two to three years to be prepared given the likely length and depth of this downturn.

SURVIVING AND GROWING YOUR BUSINESS DURING AN ECONOMIC DOWNTURN (cont.)

- Try to reduce accounts receivable and day sales outstanding – know where you stand in this regard *vis a vis* your competitors.
- Optimize inventory management.

- **Direct resources to core business activities**
 - Invest to gain share in your core business.
 - Strengthen relationships with core customers to build loyalty and increase their contribution to revenues.
 - Divest non-core assets if needed for cash. Note that it may not make sense to sell certain assets under distressed pricing conditions if there is no short or medium term cash need.

In summary, while economic downturns present many risks, they also create unique opportunities for well positioned companies to gain market share and leave competitors in the dust. Below is a chart prepared by Bain & Company that provides advice on which levers a companies should focus on during this downturn depending on their respective strategic and financial positions.

Winning in This DownTurn: Pull the Right Levers for Your Situation

	Industry Sensitivity	Less				More				
		Strategic position	Strong	Strong	Weak	Weak	Strong	Strong	Weak	Weak
		Financial position	Strong	Weak	Strong	Weak	Strong	Weak	Strong	Weak
Recommendation	Full speed ahead	Lighten the load	Overtake the timid	Refocus and retool	Extend the lead	Refill the tank	Pass with caution	Mayday		
Reduce Costs and investments										
1. Drive performance improvement		●	●	●	●	●	●	●	●	
2. Tightly manage cash and liquidity			●		●		●		●	
Increase revenues and margins										
3. Turbocharge sales		●	●	●	●	●				
4. Price for margin or share gains		●	●	●		●				
Shift resources to core business activities										
5. Clarify strategy: choose where and how to win		●	●	●	●	●		●		
6. Improve loyalty of core customers		●	●	●		●		●		
7. Strengthen the organization		●	●	●		●		●		
8. Divest non-core assets			●		●		●		●	
Prepare for bold moves										
9. Pursue game-changing M&A and partnerships		●		●	●	●			●	

Source: Bain & Company, Inc.

U.S. Lower Mid-Market M&A⁽¹⁾ Announced Transactions

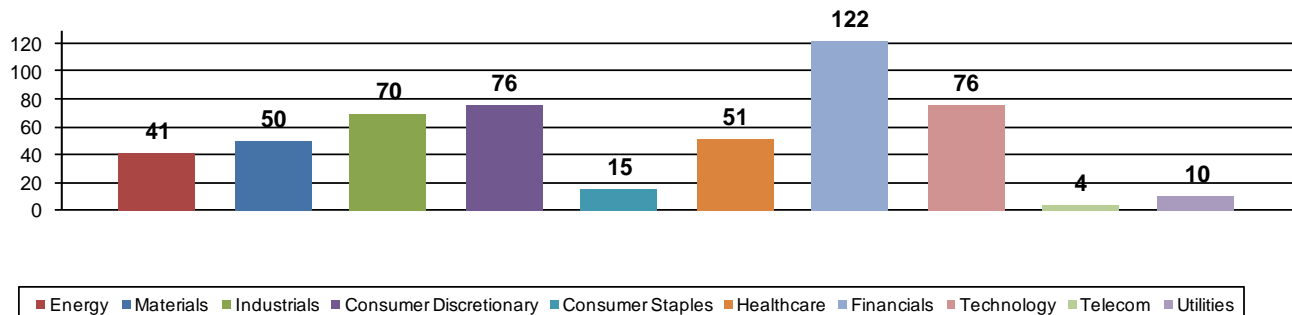
Deal Size (\$ in MM)	Number of Deals			Aggregate Value (\$ in MM)		
	Q1 2008	Q1 2009	Q/Q % Change	Q1 2008	Q1 2009	Q/Q % Change
\$200-\$250	31	9	-71.0%	\$6,913.8	\$1,943.5	-71.9%
\$150-\$200	41	14	-65.9%	7,081.0	2,286.6	-67.7%
\$100-\$150	42	25	-40.5%	5,172.3	3,060.3	-40.8%
\$50-\$100	128	40	-68.8%	9,114.2	2,792.6	-69.4%
Under \$50	840	510	-39.3%	9,818.3	4,638.3	-52.8%
Total	1,082	598	-44.7%	\$38,099.4	\$14,721.2	-61.4%

(1) Lower middle-market defined as transaction value < \$250mm

Source: Capital IQ

- The pace of lower middle-market M&A is continuing its precipitous decline with Q1 2009 levels far down from Q1 2008 levels.
- The number of announced M&A transactions with disclosed transaction values of less than \$250 million decreased approximately 45 percent Q1 2009 vs. Q1 2008 and aggregate transaction value decreased approximately 61 percent Q1 2009 vs. Q1 2008.
- We have not included valuation data in this report. Ordinarily, we would include revenue and EBITDA multiples by sector for M&A transactions for the quarter. In Q1 2009, activity levels were so low, special circumstances so prevalent, and data points so dispersed, that the median multiples by sector are not very reliable, if meaningful at all. About all we can conclude is that valuations generally are down significantly from a year ago.

Q1 2009 Number of Lower-Middle Market M&A Transactions by Industry Sector



Source: Capital IQ

Lower-middle market defined as transaction value < \$250 mm

Q1 2008/Q1 2009 PE & VC US-Based Investments Below \$25MM Transaction Value

Deal Size (\$ in MM)	Number of Deals			Aggregate Value(\$ in MM)		
	Q1 2008	Q1 2009	Q/Q % Change	Q1 2008	Q1 2009	Q/Q % Change
\$20.0 - \$25.0	80	45	-43.8%	\$1,758.0	\$984.7	-44.0%
\$15.0 - \$19.9	98	34	-65.3%	1,640.8	546.4	-66.7%
\$10.0 - \$14.9	136	94	-30.9%	1,589.5	1,042.7	-34.4%
\$5.0 - \$9.9	272	168	-38.2%	1,813.5	1,121.7	-38.1%
Under \$5.0	950	714	-24.8%	1,541.7	853.7	-44.6%
Total	1,536	1,055	-31.3%	\$8,343.5	\$4,549.3	-45.5%

Source: Capital IQ
Based on announced transactions

- The credit crunch and economic slowdown continues to have a chilling effect on lower middle-market financings. The number of private placements with transaction values of less than \$25 million decreased approximately 31 percent Q1 2009 vs. Q1 2008 and aggregate transaction value declined approximately 45 percent Q1 2009 vs. Q1 2008.

Most Active PE & VC Investors in Transactions < \$25 MM for Q1 2009

Firm	# of Deals
Draper Fisher Jurvetson	9
Kleiner, Perkins, Caufield & Byers	8
New Enterprise Associates	8
Accel Partners	7
InterWest Partners	7

- Draper Fisher Jurvetson led all institutional investors in completing nine private placements with transaction value of less than \$25 million.

Source: Capital IQ