<u>Preparation and Growth are Keys in New Corporate Finance Transactions</u>

As billionaire Warren Buffet once noted, *"Price is what you pay. Value is what you get."* Interested buyers, investors and bankers looking at new companies often share similar objectives in 'kicking the tires' to be sure a target company has properly documented its past business activities. On the other side, the subject company's Founder, Board of Directors, CEO, financial officer, chief operating officer, accounting, and other departments alike are occasionally surprised by the detail that third parties often request before committing to a transaction.

Usually the outside party and target company will communicate well in advance of a transaction to establish agreed ground rules for both confidentiality and venue regarding the exchange of background information. It is usually easier to ask for information than to provide it, and so the playing field is not always even. Target companies which are already busily managing their businesses can face the added schedule burdens of re-explaining past activities, as well as documenting them in detail or in new custom format.

A prudent target company therefore should make preparations long before the data is even requested to assemble its core financial data and relevant operating histories and projections in readily available form, and as error-free as possible. Communication is the key for both sides, and quality communication is essential.

Corporate Finance and Projections Are at the Heart of the Give-and-Take

While broad-based historical data from the departments builds the necessary foundation, the ultimate success of the transaction is often based on the adequacy of future financial projections. Outside parties are typically skeptical of a company's internal projections. This is because small changes in growth rates produce wide swings in present value. Very often, agreed growth rates will end up determining the final price. For the target company, fully defensible and detailed written assumptions about its growth prospects can help it survive withering questions and doubts from outside parties. Accordingly, the target company's management, corporate finance, and operations teams should speak carefully and with one voice on growth and related issues. In the end, a good foundation plus agreed growth should lead to a successful close. There can be many elements of both science and persuasion in the process, because the future is the domain of both parties.

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