CRALLÉ & COMPANY
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Crallé & Company assists companies: Established, middle-market, emergent and growing

Corporate development is the execution of strategy, the result of financial, structural and operational planning. Middle-market companies tend to have grown beyond their founder's vision and so are ready to be sold; and larger companies tend to be buyers, the result of their own strategy to grow via acquisition rather than internally. Private equity sponsors know that equity-incentivized managers generally implement the fastest, most profitable growth of all.

Even large firms sometimes need an outside viewpoint, especially when senior employees themselves are the subject of discussion, or when a project they have championed is the focus of evaluation. We provide objective, tempered judgment based on experience in a variety of structured and entrepreneurial endeavors.

Financings; Marketing and Sale of Operating Businesses

We will find the financing source or buyer of an operating business. The tasks are very similar.

Private-equity investment funds, and their credit counterparts, are a major source of expansion and buyout capital for middle-market companies. We maintain active and personal contact with an extensive and diverse group of equity and credit sources, from institutional private-equity investment funds to individual investors, commercial banks and non-bank creditors.

We will draft the proposal and market the opportunity among a limited group of select institutional and other investors; negotiate business terms; supervise legal counsel in preparation of documentation; and mange the process through funding or closing.

The Essence of Strategy is Differentiation

Differentiated strategy, a seeming oxymoron, is the result of finding sustainable competitive advantage which, of itself, is difficult to perceive and achieve, and even harder to maintain.
For many companies, competitive response is the result merely of intuition or conditioned reflex. Innovation is quickly recognized by competitors and emulated; novelty is soon outdated. The development of strategy, by contrast, is deliberate and the result of an iterative process of analysis, proposition, testing and refinement. Developing strategy is hard work.

Few middle-market companies tend to dominate their industries precisely because the industries themselves are highly fragmented; all are so small that none are able to outgrow the competition, to achieve market leadership and dominance. An intent to manage prudently often leads to actions that are merely the same as the competition. The development of a *breakout* strategy calls for examining and understanding the characteristics of industry structure and the relative position of competitors therein, and recognizing inherent and fundamental differences between competitors. Simply trying to work harder is not a strategy.

To create sustainable advantage middle-market companies must:

- *Preempt* competitors by doing things sooner and more effectively.
- *Contest* every apparent change by competitors.
- *Implement* every possible incremental improvement, and do so continuously.
- *Magnify* differentiation; *leverage* cost advantage; *exploit* even minor opportunities.

Even minor changes, when taken together, are worthwhile—when the aggregate becomes greater than the sum of the individual parts.

Crallé & Company brings wide-ranging and extensive experience to corporate development, including:

- Development of growth strategies: organic, by joint-venture or acquisition.
- Operations, especially for troubled companies.• Capital structure and financing (debt and/or equity, restructuring or recapitalization).

Marketing and sale of operating businesses is similar to a private placement in that the first step is preparation of an information memorandum, including a target valuation. Private companies often require extensive restatement of reported financial results.

We will solicit interest among financial or industry buyers; negotiate business terms and draft the letter of intent; supervise legal counsel in preparation of documentation; and manage the project until closing. We will undertake such contingent success engagements typically based on a retainer and at-risk success fee to be funded by proceeds of the transaction.

Business Plans, Valuations, and Financial Analysis

Business plan creation depends on financial analysis and valuation, business writing skills, and deal structuring skills.

Business plans (often called Information Memos or Transaction Memos, or Prospectuses) sometimes fail to establish a compelling reason for an investor to go beyond a cursory review. Some are bulked up with extraneous detail; others are so superficial that they fail to attract a reader's interest.

Professional investors see so many proposals that they tend to be skeptical of hyperbole, in essence always looking for a reason to say “no.” For them, there is always another promising opportunity just around the corner.

We have drafted hundreds of plans and presentations dealing with a wide variety of industries, usually in conjunction with a fund-raising or sale of a business, and so have been tested against real-world criteria.

Valuation of middle-market operating companies is integral to everything else we do. Whether a stockholder is effectively in control or in a minority, we will render an opinion tempered by real-world experience, based on rigorous fundamental analysis of finances and operations.

We approach valuations differently from appraisers and CPAs. Appraisers, for example, rarely also have the acumen to value an operating business; their skills tend to be limited to comparing commodities (real estate, machinery & equipment), or rare static assets (artwork, for example). CPAs may have the technical knowledge to comply with regulatory rules (SEC and FASB) for reporting past results, not evaluating future prospects.

By contrast, our valuation approach is tempered by the insights that come from knowledge of the intricacies and nuances of actual transactions, whilst mindful of the theoretical and academic underpinnings (such as real option theory, capitalization of excess value with discounting based on the capital asset pricing model, and relative value analyses, of course).

Due diligence reviews are an extension both of financial analysis, picking up where CPA financial reports end, and the operational insights that come from having performed the function many times before. Often a first step is to restate CPA external reporting to reveal policies designed to minimize taxes, particularly in privately held companies.

We are thoroughly experienced and skilled in analyzing the complexities that guide real-world transactions, and are available to consult in situations and formats as diverse as fairness opinions, expert testimony, acquisition or divestiture positioning or negotiations, marital dissolution, buy-sell agreements, and litigation support.

About Us

Joseph B. Crallé is a Certified Public Accountant and holds an MBA from the University of Vermont. He has been independently consulting to middle-market and other businesses since 1990. Direct and relevant experience encompasses investment banking (fund raising, and acquisitions and divestitures), interim financial management, and pure analytical assignments.

Mr. Crallé spent the first 15 years of his financial management career in the corporate headquarters of four of the largest corporations in the United States:

- Warner Communications (predecessor of Time Warner).
- Union Carbide, (ranked ninth in Fortune 500 at the time; sold to Dow Chemical in 2001).
- Pitney Bowes.
- Carter-Wallace (sold to affiliates of private equity firms soon after year 2000).

Mr. Crallé's C.P.A. audit experience was with Davies and Davies (now O'Connor, Davies, Munns & Dobbins, among the top-15 firms in New York and top 100 in the U.S.). He holds a B.S. in accountancy from Susquehanna University.

How much will this cost?

Our fees are structured according to the nature of an engagement, based on an explicit deliverable and within a defined timeframe.

Most clients, we have found, prefer to know their total maximum cost in advance, and so prefer fixed-rate project fees or a flat-rate monthly retainer, which is appropriate where an engagement's scope and duration can be discerned in advance.

We also are open to discuss hourly or per-diem engagements for situations of shorter duration or immediacy, generally at rates lower than legal counsel.

Where a success fee is appropriate, in a contingent success situation, a fund-raising or counterparty search, for example, we will structure a retainer and at-risk success fee to be funded by proceeds of the transaction.

An initial conference and assessment are without cost or obligation.

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Representative Consulting Assignments, Transactions, Valuations

- CFO of a privately held importer of industrial intermediate materials, with revenues of approximately $100 million. Operational tasks included re-staffing the accounting department, installing procedures for managing exposure risk with overseas suppliers, and negotiations with bank line creditors to relieve borrowing base formula constraints. Earlier, in a consulting role, developed a covenant compliance model to reflect the contractual terms and cash flow variables of the dozen product lines.

- Advised owners in the marketing and sale of a high-end retail business at a 40% premium to the fair market value of tangible assets.

- Represented a Connecticut specialty paper manufacturer in the owner/operating executive's exit strategy. Prepared an information memorandum drafted to emphasize investment considerations. Qualified and introduced four buyers screened by their ability to close at the specified purchase price ($18 million) without coordinated third party financing.

- Assisted a New York distributor of specialty office equipment in negotiations and sale to NASDAQ company in a transaction valued at $80 million. Prepared transaction memorandum with restructured financials to reconcile the fundamental differences between private company operations and financial reporting of a publicly held firm.

- Arranged the recapitalization of a former NYSE holding company's subsidiary, the parent company of which had financed its "going-private" transaction five years earlier with credit cross-guaranteed by five operating subsidiaries, replacing and extending an $11 million revolving line of credit with a $31 million line unconventionally collateralized by recognizing the minimal net exposure of the subsidiary's back-to-back letters of credit, and which funded a $10 million upstream dividend from subsidiary to parent without recourse or guaranty.

- Arranged purchase financing for the buyer of a New Jersey industrial equipment manufacturer, the strategic disposition of a Fortune-200 firm. Prepared the transaction memorandum including financial projections, ultimately introducing a financial partner contributing cash equity, a secured bank lender and an equity-linked mezzanine creditor.

- Arranged for the equity recapitalization of a Connecticut manufacturer of traditional men's clothing. The transaction evolved into a pre-packaged bankruptcy and the sale of assets of a going concern in order to deal with a recalcitrant minority stockholder.

- Developed a mix-shift differentiation strategy, coupled with constraints analysis, for a $100 million Delaware industrial plastic resin processor.

- Supervised financial management of a $45 million Maryland industrial equipment manufacturer, a portfolio company of a well-known buyout group, during its turnaround transition.

- Created a product-pricing model for competitive assessment of a $100 million Philadelphia pharmaceutical ingredient manufacturer, the unit of a Fortune-200 parent.

- Arranged $80 million sale proceeds and leaseback of 14 industrial properties in nine states on behalf of the U.S. subsidiary of a U.K. public company. Prepared the information memorandum and credit analysis; negotiated lease terms, buy-back provisions and financial covenants.

- Reviewed business processes and staffing of a $400 million Ohio-based manufacturer suffering from recessionary cutback in commercial construction (revenues down 40%), identifying functional areas to restructure and the specific individuals to be released to achieve targeted overhead reduction.

- Interviewed the employee-principals of a Philadelphia-area industrial-materials supplier and tolling service suffering from a low-value-adding business model exacerbated by recession. With more than 25 locations nationwide, the firm sought to rationalize financial management (e.g., receivables and inventory management) and simplify financial reporting for control.