

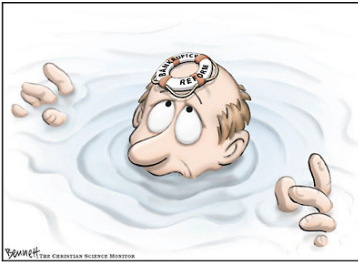
Look Deep for Answers and Strategy

It's no secret that times are tough for the electronic and semiconductor market. We are getting blasted almost daily with tough economic news and its impact on electronics and semiconductor companies. Sales for 2008 were way down and the forecast for 2009 is negative as well. The credit markets continue in a deep freeze making selling off assets difficult at best.



So should we all throw up our hands, throw in the towel and declare bankruptcy? The simple answer is not so fast. "There are many options available to electronic and semiconductor companies

that can help keep a business out of bankruptcy court. And, if it can't be avoided, a prepared business has a much better chance of emerging from bankruptcy," according to JoAnn Schmitz a Colorado Springs-based business attorney.



The time to be looking at your business very carefully is when everyone else is saying that times are uncertain and there is no clear path. When times are uncertain, there is great opportunity as well as risk for your business. The question is how to position your company to capitalize on opportunity and mitigate the risk.

Pay attention to history

Throughout history, the semiconductor industry has regularly cycled through recessions. Many economists will remind us that economic down times are necessary to allow for the next expansion cycle.

History has taught us that companies who take decisive action in troubling times recover much stronger, and are better positioned for the post-recession growth cycle.

Keep moving forward

To avoid decision paralysis, a company large or small needs to get out of its own way. Sacred cows (we've always done it that way) and other bureaucratic road blocks preclude any real change from taking place. Sometimes this means setting up an entirely new division or company in order to have the freedom to innovate. You may need to look at outsourcing not as a threat, but as a way to better use scarce resources. Additionally, an acquisition or divestiture may be

(See page 2, col. 1)

Heard on the International Streets

Loren Lancaster, Managing Director with Core Capital Group, recently traveled extensively. M&A Review sat down and asked Mr. Lancaster what he was hearing overseas about the credit crisis and M&A deal activity.

M&A Review: I understand you have done quite a bit of travel recently. Where did you go? What was the purpose of your travel?

Lancaster: Many of our clients come to us because of our international resources. We have offices in over 40 countries around the world. Recently, I have been traveling in Europe, Japan and India on ESG business. The purpose of the travel was to build new strategic business relationships for our clients.



M&A Review: What was top of mind with the people you met?

Lancaster: Regardless of where we travel these days, the most commonly discussed topic is the credit crisis. No doubt, the lack of liquidity in capital markets is global. While in Tokyo the headlines were about Japan's reentry into a recessive economy, in India, private communications in even the strongest companies indicated a need to take quick and dramatic action to drain existing credit lines and reduce spending. Much of my discussion in Europe sounded like the conversations we have here in the US—mostly about the chokehold of bank lending. We are seeing, however, some stronger companies with cash reserves or conservatively leveraged balance sheets that are actively restructuring their markets in their favor. They are positioning for growth as the global economy recovers, and in one case, growing now because of the bankruptcy of one of their competitors.

(See page 2, col. 2)



INTERNATIONAL NETWORK OF M&A PARTNERS

Core Capital Group focuses on providing a full range of M&A services to middle market companies within the technology sector. We are a member company of the International Network of M&A Partners (IMAP), a global partnership of leading merger & acquisition advisory firms with over 79 offices located in 40 countries worldwide. We encourage you to visit our web site at www.esqibank.com to learn more about us and how we might be of service to you now or in the future. If you wish to subscribe to, or unsubscribe from, this newsletter please send an email to info@esqibank.com stating your name and your request.

Looking Deep *(From page 1, col. 1)*

required to obtain needed technology or provide funding for new ventures.

Opportunistic companies are successful because they adopt the critical entrepreneurial characteristics required to transform the company and position the business for future growth. These include providing the authority to access resources and people from across the company that can be brought together to solve the problem as they define it.

“Assemble a team of entrepreneurial-minded people with the vision required to bootstrap and grow a new venture. Look at your technology portfolio. You may have some new or old technology idea that with market changes or a new approach could be a big success and transform the overall business,” commented Chris Baumann, strategic business advisor with Core Capital Group’s Electronic and Semiconductor Group.

Get perspective

External tools and resources are often critical to successful transformations. It can be very difficult to shift thinking from inward to outward when your team is comprised of insiders. Bringing in a



consultant or hiring talent from a competitor can introduce a new level of objectivity to the team when evaluating potential new products. Consultants or established industry experts provide deep knowledge and expertise and help the team understand the industry market trends look-

ing out over the next 10-15 years. They can help management look beyond existing products and help identify potential new products or market segments to take advantage of current and future trends. They can make sure you are shooting “ahead of the duck” rather than missing the opportunity after making a large investment.

A consultant or hired expert can also be invaluable when determining the best structure of the company as it transforms – for example, whether to build, buy or outsource key components of the vision and strategy.

Have a plan

Often, an acquisition strategy can help a company enter new markets or buy needed technology much faster than building it from the ground up. Companies may elect to sell off underperforming or non-strategic assets to raise the necessary capital to fund the business transformation.

You can set a clear vision, assemble the best possible team and time the market perfectly and still run into trouble. “The ‘fire and forget’ business mentality can doom even the best ideas to ultimate failure,” Baumann added. When something moves the market or changes the landscape, even the most successful business can fall flat on its face. Market forces change constantly and it’s important to continuously monitor, make course corrections and transform again if necessary to stay on top of things. It becomes a continuous cycle.

Heard *(From page 1, col. 2)*

It is worth noting that our colleagues in India believe that companies and banks in India are healthier than in Europe or the US. They state that there is still enough isolation from the Western credit crisis to keep their economy afloat and growing. I also personally noticed that in many of the places we went, such as Mumbai, Pune, Bangalore, and Hyderabad, there was abundant and diverse evidence of robust commerce activities. Nevertheless, since much of the electronics and semiconductor markets in India rely on outsourcing from Western cultures, this sector is probably being affected more acutely than others in India.



Mc&A Review: How are they dealing with the credit conditions?

Lancaster: It is amazing to see the range in ways people are coping. Those that are intimately connected to cash flow management or directly connected to lending sources are deeply concerned and taking significant actions. With many of our clients, we have been witnessing and re-engineering how cash flow is managed and restructuring resources and business lines—even cutting to the core in infrastructure resources in some cases and redefining what business they are in.

Mc&A Review: Are people still looking to buy and if so what are they looking for?

Lancaster: Unbelievably, yes. You can see this in the headlines covering the larger corporations. In the middle-market where we work, there are few attention grabbing headlines but companies are still generally healthy and in some cases actively taking advantage of the liquidity crisis to capitalize on their strong positions in cash or market share. However, this is not typical now. We expect middle-market transaction numbers to be near half their highs of 2006 for the next two years or so. There is far more interest around the world, and in our email, in assessing the inner workings of companies and restructuring for the global freeze and the future upturn. We are also seeing greater interest in divestitures and mergers. We have to be very careful in recommending a divestiture to our clients now, but mergers are proving to be a highly effective strategy at this time. It is difficult to get healthy valuations for cash transactions due to the low supply of cash, but company stock is largely on an equal footing at this point in time so mergers are more attractive and often create efficiencies that make it easier to weather the storm and create a stronger position to take advantage of the recovery.

www.esgibank.com

Our website contains additional information about Core Capital Group’s Electronic and Semiconductor Group and the investment banking services we provide. Please take a moment to visit us on the web! You can also sign up to receive this newsletter by writing to info@esgibank.com.