



How to Facilitate an Executive Buyout in a Pandemic Environment

October 28, 2020

Background

- **Founded in 1992**
- **Middle Market Buyout Investments**
- **\$10 to \$50 Million Transaction Size**
- **Investment Philosophy**
 - **Support Strong Management Teams**
 - **Value-added Investment Opportunities**
 - **Create Flexible Capital Structures**
 - **Incentivize Management**
 - **Mutually Beneficial Partnership**



Representative Transactions

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EXHIBITS design.build.manage



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Performance Textiles, Inc.



StoneCreek
Capital Partners in Growth

Activity

- **Every executed SCC LOI taken to market has been fully financed**
 - **32 Acquisitions**
 - *Platforms and Add-ons*
 - **About \$800 million Transaction Value**
- **Last 5 Years, Eight Acquisitions**
 - **Six Platforms - \$10 to \$40 million**
 - **Two Add-ons < \$10 million each**



Independent Private Equity Sponsor

- **Raise Capital from Supportive 3rd Parties**
 - Private Equity Funds
 - Family Offices/Wealthy Individuals
- **Rationale**
 - Capital Availability > Quality Investments
- **Flexibility Positively Positions SCC**
 - Management Buyouts
 - *We're your partner, not your boss*
 - JCP StoneCreek – Aerospace/Defense

Challenges

- **Questionable Credibility as a Buyer**
 - Access to Financing
 - Unfamiliar with acquisition process
- **Steep Learning Curve**
- **Time is of the Essence**
- **Personal Financial Stability**
- **Finding the Right Partner**
- **Broken Deal Costs**
- **Pandemic**



Fundamental Approach (pre-Pandemic)



Partnering with StoneCreek

- **Complementary Partners**

- You've Got What we Need
 - *Proprietary Deal, Value-added Leadership*
- We've Got What you Need
 - *Access to Capital/Transaction Experience*

- **Benefits**

- Credibility – Owners & Financing Sources
- Significantly Heighten Closing Probability
- Best Economics
- Best Fit

Investment Criteria

- **Qualitative**

- Experienced and Backable Leader
- Team with Vision, Ability and Commitment
- Niche Market Focus
- Defensible Market Position
- Compelling Value-added Investment Thesis
- Credible Growth Prospects
- Strong Brand/Corporate Identity



Investment Criteria

- **Quantitative**

- Minimum Adjusted EBITDA ~ \$2 million
- Historical Growth & Profitability
- Sustainable Cash Flow
- Reasonable Purchase Price Multiple
- Performance/Industry Support Leverage
- Opportunities for Improvement

Backability

- **Prior C-Level Managerial Success**
- **Domain expertise in the industry you are targeting.**
- **‘Insider’ Familiarity with Target**
 - **Current/Past Employer, Consultant**
- **Passion**
- **Compelling Value-added Strategic Vision**
- **Identified Team**
- **Willingness to make Personal Investment**

Acquisition Process

- **Finding the Opportunity**
 - Company you work for (or used to work for)
 - Consultant: Insider/Outsider
 - Target Identified, but couldn't pursue
 - *No support from your employer*
 - *Owner won't sell*
 - *Negotiations broke down*
 - Pre-existing relationship with owner/senior mgmt. of targeted company
 - *'What If...?'*

Acquisition Process

- **Securing the Capital**

- Executed LOI: Exclusivity/Negotiated Terms
- Prepare 'Approval Memo'
 - *Summarize Target's Business*
 - *Describe Leadership Team*
 - *Explain Investment Opportunity*
 - Include Risks and Weaknesses
 - *Prepare Thoughtful Projections/Assumptions*
 - Management & Base Cases
- Warm Introductions

Acquisition Process

- **Your Package**

- **Equity Upside Incentives**
- **Meaningful Personal Investment**
- **Compensation**
 - *Salary*
 - *Cash Performance Bonuses*
- **Caution: Employee vs. Partner**



Now What (post-Pandemic)?



Same Basic Approach

- **Fundamentals are the same**
 - Quantitative/Qualitative Criteria Relevant
 - *Deals are doable if you can check the boxes*
- **Criteria Challenges**
 - Sustainable Cash Flow
 - Reasonable Purchase Price Multiple
 - *Risk/Reward Balance*
 - Performance/Industry Support Leverage

Good News/Bad News

- **Opportunistic Acquisition Environment**
 - Large number of struggling businesses
 - Purchase price multiples likely to decline
- **Fewer Appealing Industry Segments**
 - Necessary Fundamentals
 - *Cyclical and pandemic resiliency*
 - *Defense, supermarkets, medical supplies*

How to Maximize Success

- **Open Door as a Consultant**
 - Start as part of the solution
- **Find Supportive Capital**
 - Research Groups Actively Deploying Capital
 - *Review Portfolio for Relevant Companies*
 - SBICS
 - PE Groups with new funds (<18 months)
 - PE Groups w/expiring funds (<18 months)
- **Pursue segments where demand > supply**

Case Study

- **Divisional Spinoff from PE Portfolio Company**
- **Busted Auction: Offers below Seller's Minimum**
- **SCC/Divisional Executive Teamed Up**
 - **Backable Executive**
 - *Direct Familiarity with Business*
 - *Leading Industry Expert*
 - *Compelling Strategy to Create Value*
- **Equity Partner Reserved Capital for Add-on Acquisitions**

Case Study

StoneCreek's Criteria	Attractive Investment Characteristics
Experienced Passionate Leadership	<ul style="list-style-type: none"> • Strong proven leader • Experienced team, well established culture
Revenue of \$10 to \$100 Million	\$12 million revenues
Sustainable Cash Flow	Stable revenues, exceptional profitability / 50%+ EBITDA margins
Niche Market Focus	Leading manufacturer of disposable medical diagnostic testing supplies.
Credible Growth Prospects	<ul style="list-style-type: none"> • Expanded agreement with major distributor • Implement Marketing Initiatives – New ERP System
Limited Capital Intensity	<ul style="list-style-type: none"> • Relatively low % of annual EBITDA • Initially, mid-six figures; ongoing, low six figures
Strong Corporate Identity	<ul style="list-style-type: none"> • Leading brand for decades • Exceptional customer loyalty
Defensible Market Position	<ul style="list-style-type: none"> • Smaller competitors, distributor private labels – minimal impact • Modest % of total diagnostic testing cost
Low Technology or Obsolescence Risk	Best in industry w/o any evident need for technological enhancement
U.S. Headquarters	Southern California

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