



INCREASING VALUE THROUGH PREPARATION

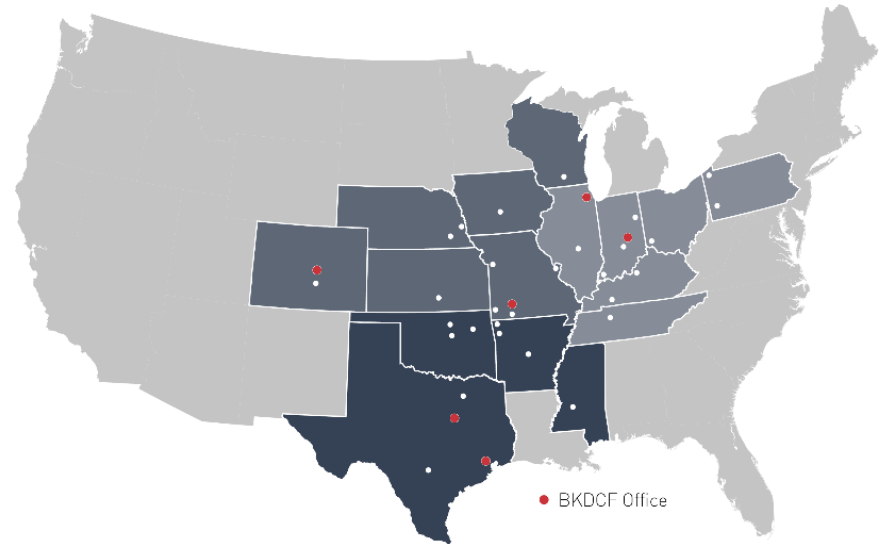
Jeff Johnson, Vice President

May 16th, 2018



BKD, LLP – BREADTH & DEPTH OF RESOURCES

- 35 offices in 16 states
- Approximately 280 Partners & Principals
- More than 2,650 employees
- Six industry niche groups
 - Manufacturing & Distribution, Energy, Healthcare, Financial Services, Construction & Real Estate, & Not-for-profit
- Clients in all 50 states & internationally
- End-to-end client service proposition
 - Audit & Tax
 - BKD Corporate Finance
 - BKD Wealth Advisors
 - Transaction Services
 - Forensics & Valuation Services
 - Risk Management
 - Special Tax Services



BKD CORPORATE FINANCE PROFILE

- Leading investment banking group assisting middle market companies with mergers and acquisitions, capital formation and strategic advisory services
- Solutions-driven firm with the ability to advise, analyze and execute a broad range of investment banking transactions for its clients
- BKD Corporate Finance has provided investment banking services to its clients for over 24 years
- Member of FINRA & SIPC
- Member CFxB – global alliance of international investment banking firms

INTERNATIONAL REACH



BKDCF is a member of CFxB – global alliance of international investment banking firms, consisting of 150+ M&A professionals in 30 countries, allowing for a global reach with local relationships

BKD CORPORATE FINANCE SERVICES



INDUSTRY EXPERIENCE



MANUFACTURING & DISTRIBUTION

- Aerospace & Defense
- Food Processing & Distribution
- Metal Fabrication
- Rubber & Plastic Products Manufacturing
- Toy & Game Manufacturing
- Auto Parts Manufacturing & Distribution



CONSUMER SERVICES & PRODUCTS

- Electronics
- Apparel
- Education
- Digital Media
- Beauty & Personal Care
- Grocery & Convenience Stores



CONSTRUCTION & ENGINEERING

- Engineering Companies
- Building Materials
- Real Estate/Construction



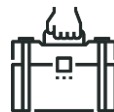
FINANCIAL SERVICES

- Commercial Banks
- Insurance Brokerages
- Mortgage Companies
- Trust Companies



TRANSPORTATION & LOGISTICS

- Transport Leasing
- OTR Trucking
- Warehousing & Brokerage



BUSINESS SERVICES

- Professional Services
- IT Consulting Services
- Marketing Services
- Human Resources & Staffing
- Business Process Outsourcing
- Environmental Consulting
- Revenue Cycle Management



HEALTHCARE

- Hospital Strategic Affiliations
- Long-Term Care
- Long-Term Acute Care Hospitals
- Nuclear Pharmacies
- Pharmaceutical Distribution



ENERGY

- Exploration & Production
- Oilfield Services
- Refining & Marketing
- Midstream Services
- Downstream Services
- Utilities & Power



TECHNOLOGY, MEDIA & TELECOM

- Wireless ISPs
- Tower Constructors

UNDERSTANDING & DETERMINING VALUE

UNDERSTANDING & DETERMINING VALUE

- Privately held companies, by their nature, have less perpetuity than their publicly traded counterparts and will like face an ownership transition at some point
 - Founder/CEO energies & shifts in personal interests
 - Other succession planning issues
 - Wealth concentration; desire to diversify
 - Competitive landscape & cost of growth
- Ultimately, business owners are confronted with many important questions and decisions, including
 - How do I monetize the (illiquid) value built in the company for the past 10, 20, 30+ years?
 - What is the company worth and what factors impact its value?
 - Who are the potential buyers (best partner) and what are the pros and cons of each?
 - What are the goals in a transaction and roles post transaction?
 - Who will be involved through this process?

LIQUIDITY EVENT OPTIONS

Good News, there are a lot of choices available:

- Sale of 100% (or less) to Strategic Buyer
- Sale of 100% (or less) to Financial Buyer (Private Equity & Family Office)
 - Majority recap
 - Minority recap
- Leveraged recap
- Sale to management team (MBO)
- ESOPs



WHAT DETERMINES THE MULTIPLE

$$\text{EBITDA} * \text{Multiple}$$

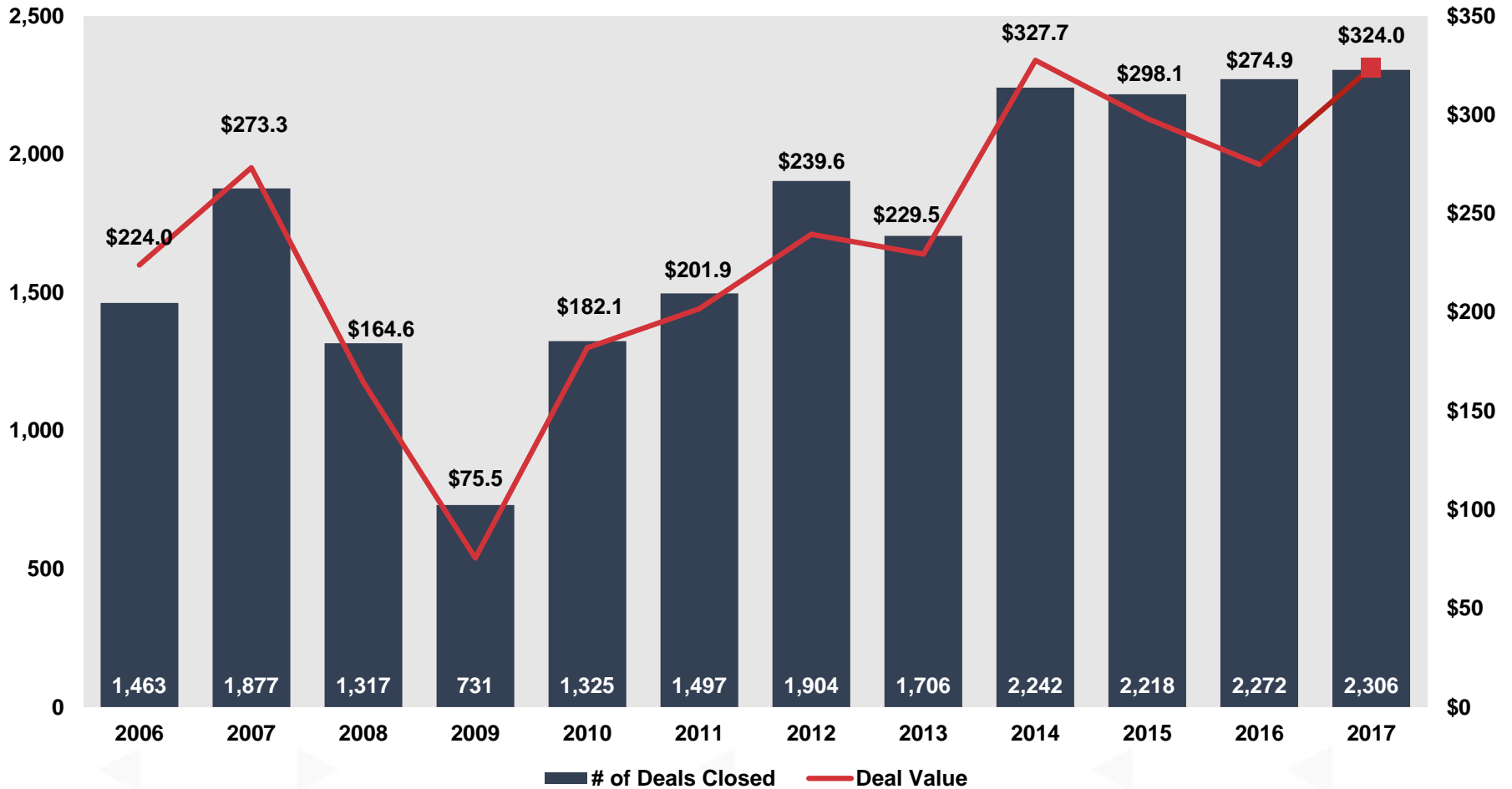
Very simple formula, but a prevalent valuation benchmark in many industries. Business decisions made every day will have significant impact on both sides of the equation.

WHAT DETERMINES THE MULTIPLE?

Factors Beyond our Control	Factors Within our Control
Macroeconomics	PREPARATION
Current Merger & Acquisition Conditions	
Industry Trends	
Political & Geopolitical Environment	



TIMING - MERGER & ACQUISITION CYCLE



Source: PitchBook "US PE Middle Market Report"

MONETIZING VALUE

- At the end of the day, my role and goal as an investment banker is to help our clients **monetize the value they have created.**
- The pursuit of value accretion has intensified in recent years.
 - There is abundant capital available in the markets, with premiums being paid for those enterprises with above average financial and operational characteristics. Size is also driving value in today's market.
 - The Private Equity industry has elevated the fact that superior strategies, teams and executions can meaningfully impact business success and wealth creation.
 - The markets are becoming more efficient, informed and discerning.
- **Preparation Matters** - Profiled on the next slide are two transaction and companies which exemplified this concept. They were high performing companies, and were rewarded in their respective liquidity events with “above market” values. Note, that while they were different in many ways, they had some overlapping or similar traits that contributed to their success, as well as limitations.



TRANSACTION COMPARISON

Company
A

Company
B

	Company A	Company B
Industry	Mfg. – Niche Industrial Machinery	Transportation & Logistics
Industry Profile	Mature, limited market size →	Mature/Cyclical, yet rapidly changing driven by technological innovations →
Nature of Product / Service	Proprietary, strong brand recognition, recurring component ↑	Service oriented, medium asset intensity →
Company Age	50+ years (2 nd Generation) ↑	30+ years ↑
Leadership	75-year old President, outstanding reputation, but no succession plan ↓	Two individuals (one seeking retirement, one seeking to rollover equity). Solid management depth ↑
Company Growth	Stagnant →	Moderate →
Profitability	1.2X Industry ↑	1.3X Industry ↑
Strategic Investment	Minimal ↓	Moderate →
Systems & Processes	Limited ↓	Strong ↑
Future	Uncertain →	Steady, but headwinds foreseeable →

PREPARING A BUSINESS FOR TRANSITION

TOP 10 VALUE DRIVERS

– COMPANY SPECIFIC ATTRIBUTES

1. Proprietary product, process or service
2. Recurring nature and “stickiness” of revenue
3. Market position - Overall Size and Scale (of business and industry)
4. Customers
5. Geography
6. Management team
7. Employee base
8. Balance Sheet
9. Operating performance (historical and projected, relative to industry)
10. Quality and consistency of information



CLEAN BALANCE SHEET

- Optimize working capital, remove excess – well in advance of sale
- Address obsolete inventory
- Consolidate ownership. Fractured ownership groups with a high number of competing interests can cause unnecessary disruptions and delays
- Payoff loans to shareholders (consider paying down other debt)
- Invest in the future (PP&E and other assets). Many company owners mistakenly believe that decreasing expenses will result in a higher purchase price (or deferring key expenditures will allow the owner to extract more cash). In reality, outdated systems, facilities or equipment can diminish value significantly. Optics do matter, so it's important to continue to invest



CUSTOMERS

- Diversified customer base
- High credit quality
- Contractual relationships
- Make the company's product or service "indispensable" to its customers
- Length of relationship
- Cut unprofitable customers (or products)



QUALITY AND CONSISTENCY OF INFORMATION AND FINANCIAL REPORTING

- Audited / Reviewed statements
- **Invest** in adaptable and high quality accounting / ERP systems. ROI will be very strong
- Empower talented CFO's and finance personnel
- Review and address Recast EBITDA - remove discretionary impact
- **Sell-side diligence:** Becoming much more common in market place and again, translates into high ROI. Allows business owners to identify and mitigate red flags prior to going to market to avoid surprises. Also greatly improves timeline and probability to close. **Think like a buyer.** What would concern you and what would you try to take advantage of? Looking in the mirror can be an eye opening and objective reality check



MOLD A STRONG MANAGEMENT TEAM

- If a buyer believes a key executive's continued involvement is vital to the company's success, they may be forced to stay on after a sale, or the value of the company will be adversely effected
- Business owners need to “marginalize” themselves and “institutionalize” their business. Attracting and training high quality leadership can be challenging, but ultimately a key determination of value in any transaction
 - Delegate important roles, responsibilities and decision making (to more than just one or two other individuals)
 - Move key customer relationships to others within the organization
- Ultimately, the goal is to create a sustainable and thriving business, with success driven by a diverse management team not dependent upon an individual or small group
- **Needs to be proven out in well advance of sale**

EXIT PLANNING TOOLS

- On a shorter time horizon, exit planning is often somewhat biased toward enhancement, rather than transformation, but enhancement can be meaningful.
- **Engage a Multidisciplinary Team of Advisors** with deep transactional expertise that can handle a business owners' transition and transaction from start to finish, allowing focus to be maintained on other key value drivers.
 - M&A Legal Counsel
 - Financial, Accounting, and Tax team
 - Estate Planner
 - Investment Banking professional
 - Exit Planning Advisor - There is a new discipline of advisor that has emerged in recent years focused exclusively on the theme of "Exit Planning", with educational and certification programs designed to train these professionals.

IN CONCLUSION

- Exit planning can be valuable and effective, whether it is initiated 1 year, 5 years or 15 years before a prospective transition or monetization event. It is important to comprehensively consider the objectives of the business, and the professional and personal objectives of the owner, and his or her family.
- Not everyone is meant to be, has the resources, or is capable of taking their company to the “next level”. Minority or majority re-caps might be an attractive option.
- The sooner you start, the greater the impact.



Thank You!

For a complete list of our offices and subsidiaries, visit bkd.com
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