

# Blackmore partners

## BUY-SIDE PRIVATE EQUITY ADVISORY

- A Introduction to Private Equity and How to Succeed

# Agenda

3 What Blackmore Provides

Blackmore Programs 4

5 What is an Actionable Deal

Why Now? 8

9 What are the Options

How Private Equity Creates Value 12

14 Deal Shopping Process

Private Equity Acquisition Process 15

Sample Project Time-Line

Next Steps 18

19 Determinants of Growth in 2012

Debt Market Summary 22

30 What is Private Equity?

Who are the Investors? 35

36 Private Equity Fund Structure

Current Trend in Private Equity 40

50 What is a P/E Intermediary?

Types of Transaction by P/E 52

53 Types of Deals Blackmore Looks for

Your Role 54

# Blackmore Provides

## We...

- are considered a respected intermediary by the industry
- are paid by PE to help, place you in a company or share closing fees with you

### Maintain relationships with...

- 1,500 PE firms in U.S.
- 8,000 PE firms globally
- We narrow focus to 50 – 200 specific PE groups.
- Provide “back-ups” in case deal falls through.

## You Gain

- Experienced guidance through acquisition Process.
- Payment from Private equity firm.
- Option to Co-invest in company
- Significantly lower sale price than investment banking sale
- = More initial wealth creation for you
- Receive **Finders/Consulting fee** for “lining up” deals.

# Blackmore Programs

## Backed Executives

### Requirements

- +10 years of industry experience
- Direct operational P/L responsibilities of +\$100 M
- (or, approximately double size of acquired company)
- References that support you as CEO
- Previous role as CEO, COO, GM, President, VP operations

### Compensation

- Placed executives receive a minimum of 5% equity in new company, without capital investment.
- Generally increased salaries and bonus packages.

And/Or

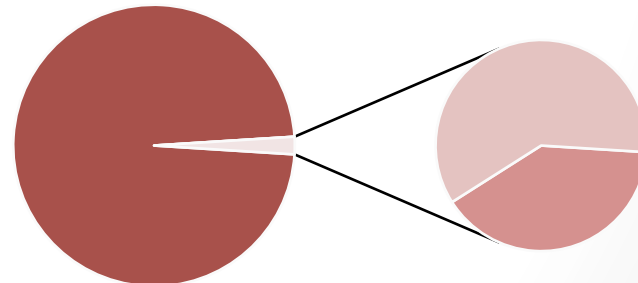
## Connectors

If you do not meet the buyers requirements to run a company then you can benefit from our Finder Program

- Line up deals and get paid out of our Fee
- From 5% -40%

### **Compensation Fee**

- Seller - 98%
- Blackmore Fee- 1.2%
- Executive Fee- .08%



# What is an Actionable Deal?

- Companies whose owners are willing and ready to sell
  - Industry Agnostic
  - Middle Market Companies \$35 - \$200 M in revenue
  - EBITDA between \$5 million and \$15 million
- Distressed Companies
  - Carve- Outs, LBOs, LBIs
- Companies located in the U.S. Canada
- Companies that are not represented by investments banks
- What are the signs of a good target?
  - Unnatural ownership/neglected divisions
  - Estate plans/Family Transition
  - Broken Process/investment banks unable to sell
- Potential growth of 2x - 3x within 3-5 years.
- Operating margins of at least 10%
- Growth through acquisition – Potential Add-on targets
- Large fragmented markets
- Generational transitions – Companies with Subcontractors looking for succession plans.
- High barrier to entry from competitors – I.P. assets, sole source position.
- Customer diversification (no customer concentration of greater than 30%)

WHY IS NOW A GREAT TIME TO BUY  
A BUSINESS?

## Anticipated Tax Changes in 2013 will continue to drive M&A activity

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- Tax increases in 2013 are inevitable given the size of the US deficit
- Investment Bankers are using the increase in taxes to motivate sell-side assignments in 2012
- Individual Sellers are likely to sell in 2012 to take advantage of low current capital gains rates

# Deterrents to Growth in 2012 are Similar to Those in 2011

- ISM – Purchasing Managers Index data continues to bounce around indicating no further momentum in the economy
- Unemployment rate will continue to hover around 10%
- Significant drag from the state and local sectors
- Large overhand of unused industrial capacity and vacant homes
- Limited credit availability remains a problem
- Concerns of European sovereign debt will continue



# Why now?

Create true wealth by gaining equity in your company

## Current seller's market

- Taxes are going up in 2013
- In the next 15 years, eight million business owners will exit
- The number of buyers will remain stable
- More supply and limited demand means a lower multiple paid for businesses
- Post recession means many markets are at bottom of cycle and will reverse course

## Deal timeline

- We can get deals funded in as little as 90 days from now if there is a ready, willing and able seller.
- A sale will take from 12 to 24 months to complete in our normal process.
- An owner considering retirement in the near future is advised to begin the selling process as early as possible

## Ten-year transfer cycle

| Deal Recession (Value Enhance) | Prime Selling Time Almost Recession (Seller's Market) | Almost Recession (Uncertain Market) |      |
|--------------------------------|---|-------------------------------------|------|
| 1980                           | 1983  | 1988                                | 1990 |
| 1990                           | 1993  | 1998                                | 2000 |
| 2000                           | 2003  | 2008                                | 2010 |
| 2010                           | 2013  | 2018                                | 2020 |

Source: Rob Slee – Midas Nation

# Key 2012 M&A Assumptions

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- 2012 will continue to see robust M&A activity
- Valuations and aggressive terms are likely to continue to be above historical averages
  - 7x-9x EBITDA range not uncommon for companies in our investment universe
- Aggressive forecasts and greater uncertainty will drive longer due diligence periods and lower certainty to close
- Why.....?

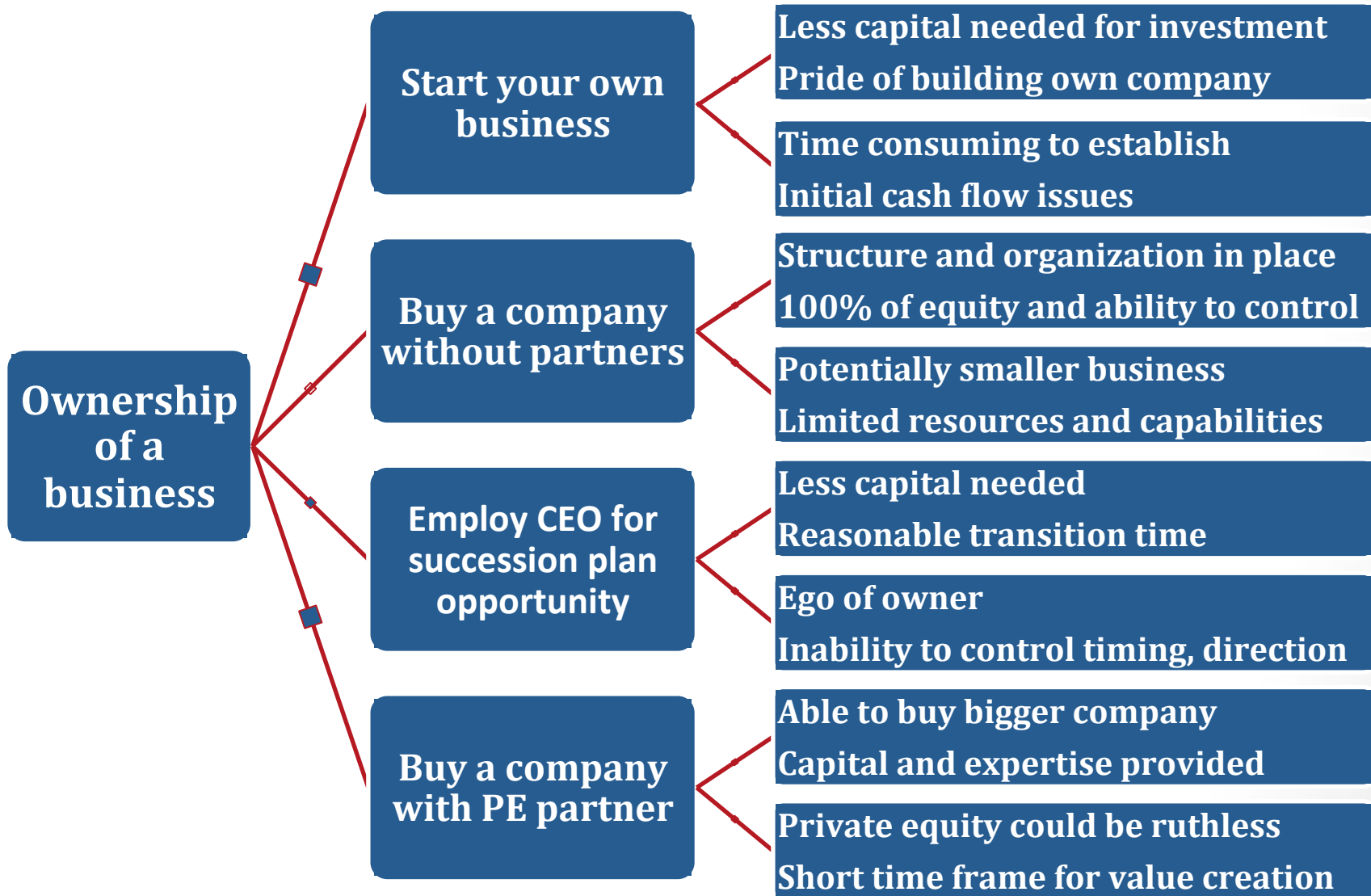
WHAT ARE THE OPTIONS?

# What are the options?

## Goals

## Options

## Pros & Cons



# What are the options?

## Buying With Private Equity Partner

|                          | ON ACQUISITION      |               | ON EXIT              |               |
|--------------------------|---------------------|---------------|----------------------|---------------|
| Revenue                  | \$ 25,000,000       |               | \$ 32,000,000        |               |
| <i>Revenue Growth</i>    |                     |               | 28%                  |               |
| EBITDA                   | 5,000,000           | 20.0%         | 8,000,000            | 25.0%         |
| <i>EBITDA Growth</i>     |                     |               | 60%                  |               |
| EBITDA Multiple          | 4.0X                |               | 5.0X                 |               |
| Enterprise Value         | <u>20,000,000</u>   |               | <u>40,000,000</u>    |               |
| <b>Typical Structure</b> |                     |               |                      |               |
| Debt                     | 12,000,000          | 60.0%         | 12,000,000           | 30.0%         |
| Equity                   | 8,000,000           | 40.0%         | 28,000,000           | 70.0%         |
|                          | <u>20,000,000</u>   | <u>100.0%</u> | <u>40,000,000</u>    | <u>100.0%</u> |
| <b>Injected Equity</b>   |                     |               |                      |               |
| Management Team          | 500,000             | 6.3%          | 3,990,000            | 14.3%         |
| PEG                      | 7,500,000           | 93.8%         | 24,010,000           | 85.8%         |
|                          | <u>\$ 8,000,000</u> | <u>100.0%</u> | <u>\$ 28,000,000</u> | <u>100.0%</u> |

Increase in management ownership with stock options **8%**

## Buying with no Partner

|                          | ON ACQUISITION    |               | ON EXIT             |               |
|--------------------------|-------------------|---------------|---------------------|---------------|
| Revenue                  | \$ 2,083,333      |               | \$ 6,514,286        |               |
| <i>Revenue Growth</i>    |                   |               | 213%                |               |
| EBITDA                   | 416,667           | 20.0%         | 1,628,571           | 25.0%         |
| <i>EBITDA Growth</i>     |                   |               | 291%                |               |
| EBITDA Multiple          | 3.0X              |               | 3.5X                |               |
| Enterprise Value         | <u>1,250,000</u>  |               | <u>5,700,000</u>    |               |
| <b>Typical Structure</b> |                   |               |                     |               |
| Debt                     | 750,000           | 60.0%         | 1,710,000           | 30.0%         |
| Equity                   | 500,000           | 40.0%         | 3,990,000           | 70.0%         |
|                          | <u>1,250,000</u>  | <u>100.0%</u> | <u>5,700,000</u>    | <u>100.0%</u> |
| <b>Injected Equity</b>   |                   |               |                     |               |
| Management Team          | 500,000           | 100.0%        | 3,990,000           | 100.0%        |
| PEG                      | -                 | 0.0%          | -                   | 0.0%          |
|                          | <u>\$ 500,000</u> | <u>100.0%</u> | <u>\$ 3,990,000</u> | <u>100.0%</u> |

# How Private Equity Creates Value

## Strategy

- In the '80s it was **Financial Engineering**: “If I have 10 cents, borrow ninety cents and buy your tie for a dollar, I make a 50% return on my investment.”
- In the '90s it was **Operational Enhancement**: Making portfolio companies more efficient.
- The next winning move in private equity is **Organic Growth Enhancement**: Ability to systematically increase top line organically.

Source: **Booz & Company – The Next Winning Move in Private Equity**

## Tactics

- Increase equity stake and incentives to attract, retain and motivate top management team with the objective of maximizing exit proceeds in 3-5 years.
- Drive a process of rapid change with new management, new incentives and strong board-level leadership.
- **Start exit planning early**, positioning the business to make it attractive to likely buyers, as well as developing early relationships with those buyers.

Source: **Ernst & Young - How Do Private Equity Investors Create Value?**

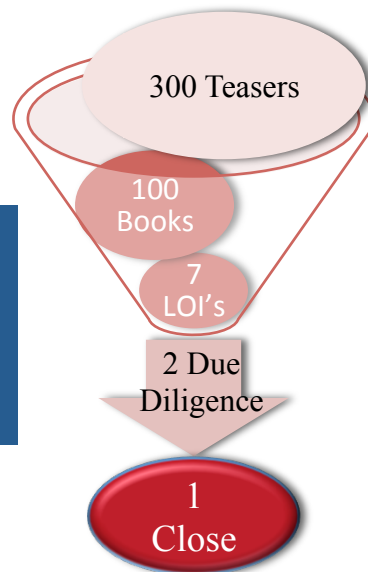
# THE PRIVATE EQUITY PROCESS

# Deal Shopping Process

## Not For Everyone

- Requires **patience** and **persistence**
  - +10 hours per week
  - Takes 12- 24 months
- 99.9% of targets say 'No'
- PE firms are extremely selective, making the odds of closing a deal low.

Average  
PE deal  
flow

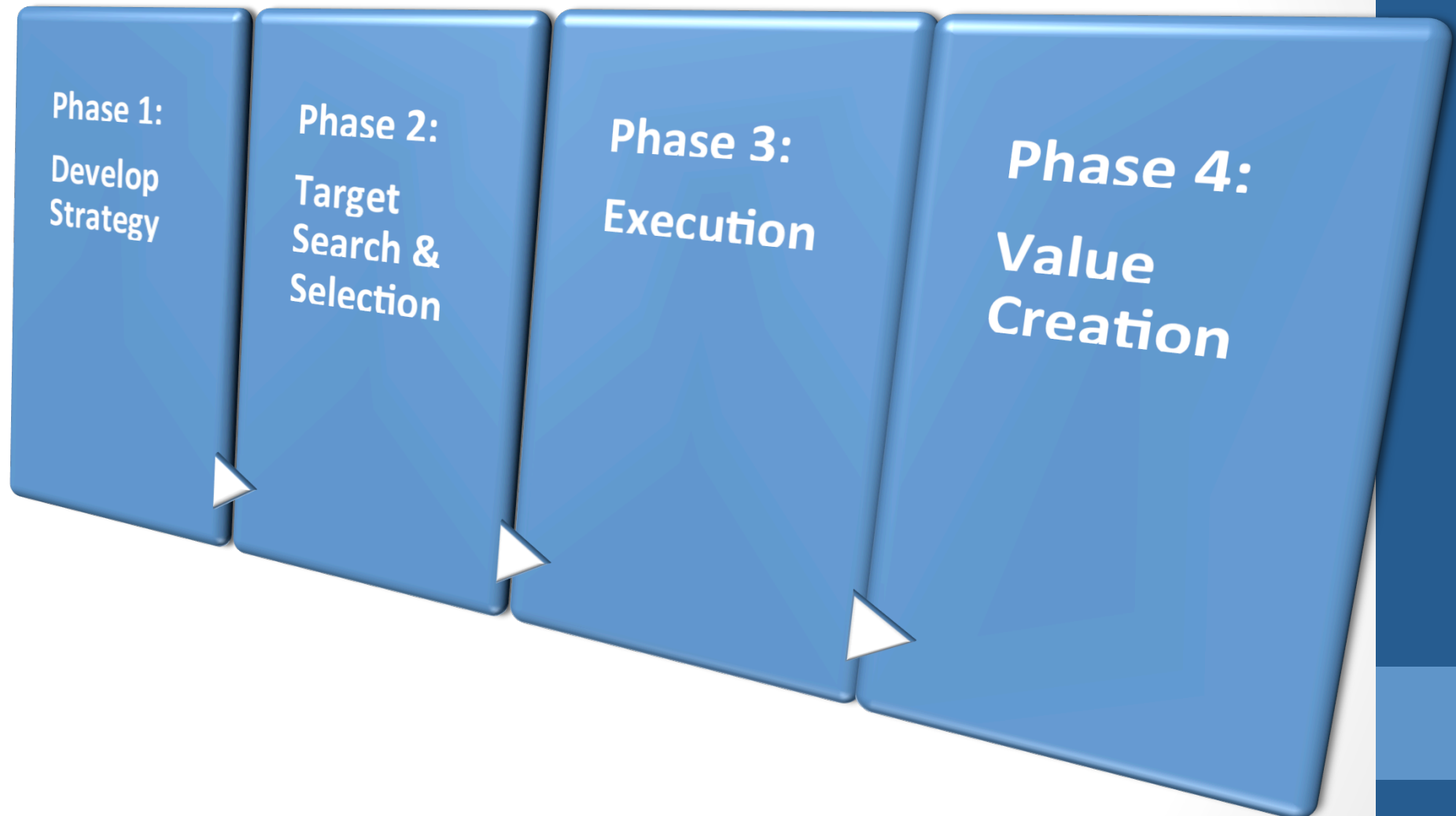


## Benefits

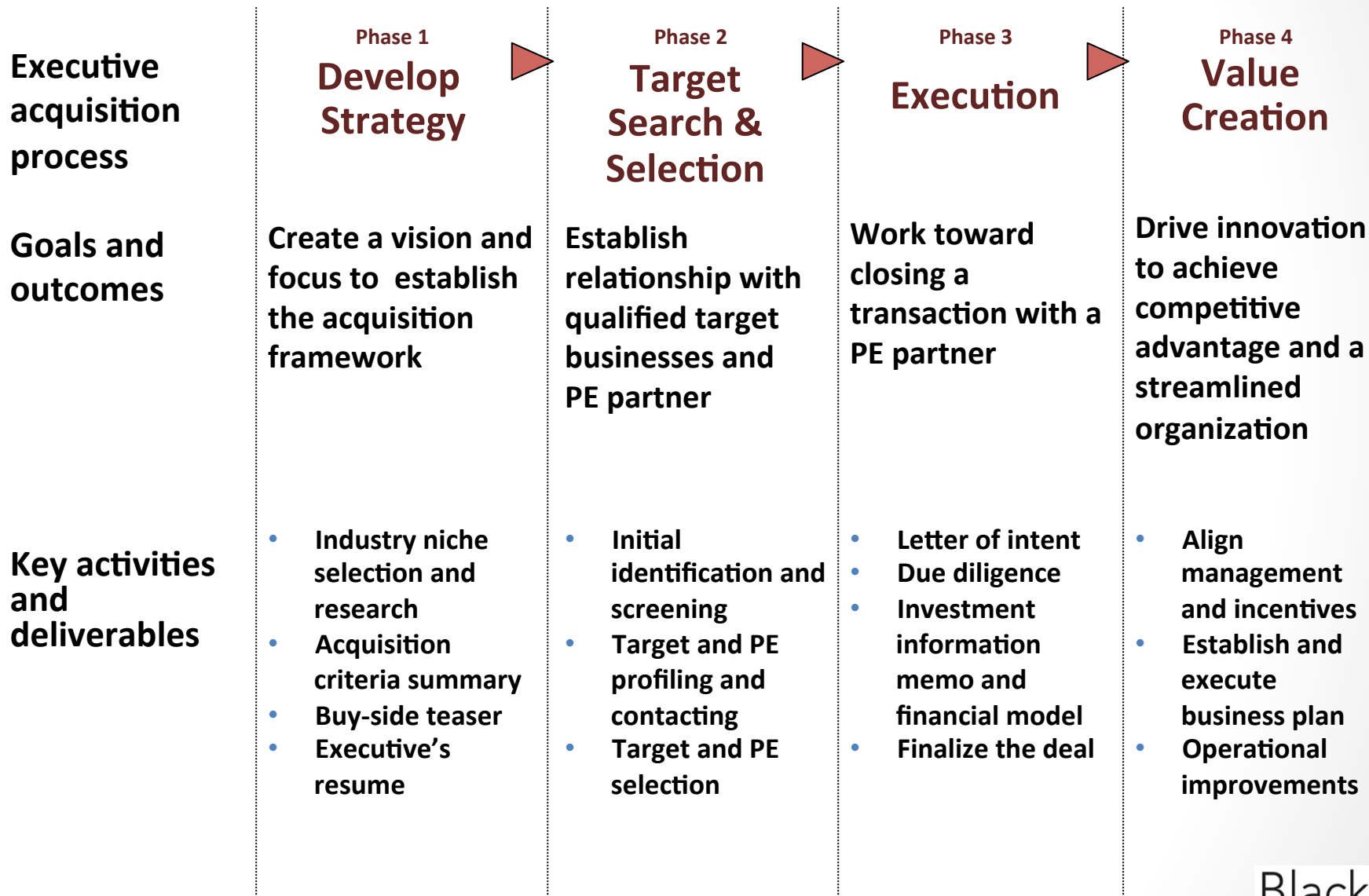
- Less competition for targets =  
Lower sale price
- 3x- 6x EBITDA multiples  
Vs.  
-8x- 15x EBITDA multiples at investment bank auction
- Be your own boss
- Create value through equity



# Private Equity Acquisition Process



# Private Equity Acquisition Process



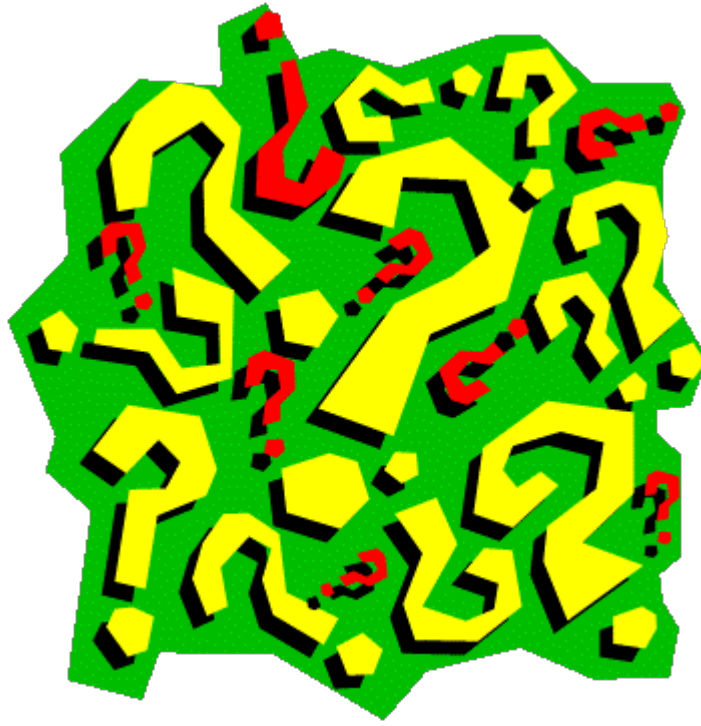
# Next Steps

- **Backed Executives**

1. This is a formal process in which we meet every two weeks by phone. All meetings are 15-30 minutes.
  - Schedule a 1 to 1 phone meeting by emailing
  - [gerald.odwyer@blackmorepartnersllc.com](mailto:gerald.odwyer@blackmorepartnersllc.com)
2. The process will take 10 hrs a week. I will email you the next steps, involving approximately of 2hrs due diligence on your part.
3. We will identify 100's target by searching our database (NAICS) and by Blackmore paying brokers who will search for targets on your behalf. In addition, we will reach out to our 8000 execs on linkedin to help you.

- **Connectors**

1. We can make this a formal process or ad-hoc
  2. Send me a note at [gerald.odwyer@blackmorepartnersllc.com](mailto:gerald.odwyer@blackmorepartnersllc.com) to set up
- 1- to - 1 phone meeting to discuss opportunities.



# What is Private Equity?

# Private Equity Defined

- Equity capital that is not quoted on a public exchange. Private equity consists of investors and funds that make investments directly into private companies or conduct buyouts of public companies that result in a delisting of public equity.
- A private equity investor is an individual or entity that invests capital into a private company (i.e. firms not traded on a public exchange) in exchange for equity interest in that business. In the US, there are approximately 18,000 publicly traded companies, and more than 300,000 privately held companies.
- Capital for private equity is raised from retail and institutional investors, and can be used to fund new technologies, expand working capital within an owned company, make acquisitions, or to strengthen a balance sheet.

## Who Might Seek a Private Equity Investor?

- Companies looking to fund a capital need that is beyond traditional bank financing
- Owners considering a partial or complete sale of their business
- Managers looking to buy a business

# A Brief History of Private Equity

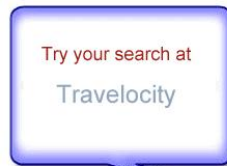
- During the 25 years from 1980 to 2005, the top-quartile private equity firms generated annualized returns to investors of 39.1 percent (net of all fees and expenses). By contrast, the S&P 500 returned 12.3 percent a year during the same period.
- Since 2006 the returns have declined and even become negative during the recession

# Companies Owned by Private Equity

- J.D. Byrider
- AMC Theaters
- Linens 'N Things
- Hertz
- Michael's
- J. Crew
- Petco
- Travelocity
- Toys 'R Us
- LL Bean
- Levi's
- Bausch & Lomb
- Polaroid



J. CREW



BAUSCH + LOMB

# Who are the investors?

- Public pension funds, university endowments, and leading foundations; these funds represent the single largest group of investors in PE and collectively accounted for one-third of all capital allocated to private equity in 2006
- Individual Investors, Other institutional investors (insurance)



# PE Strategies and Firms

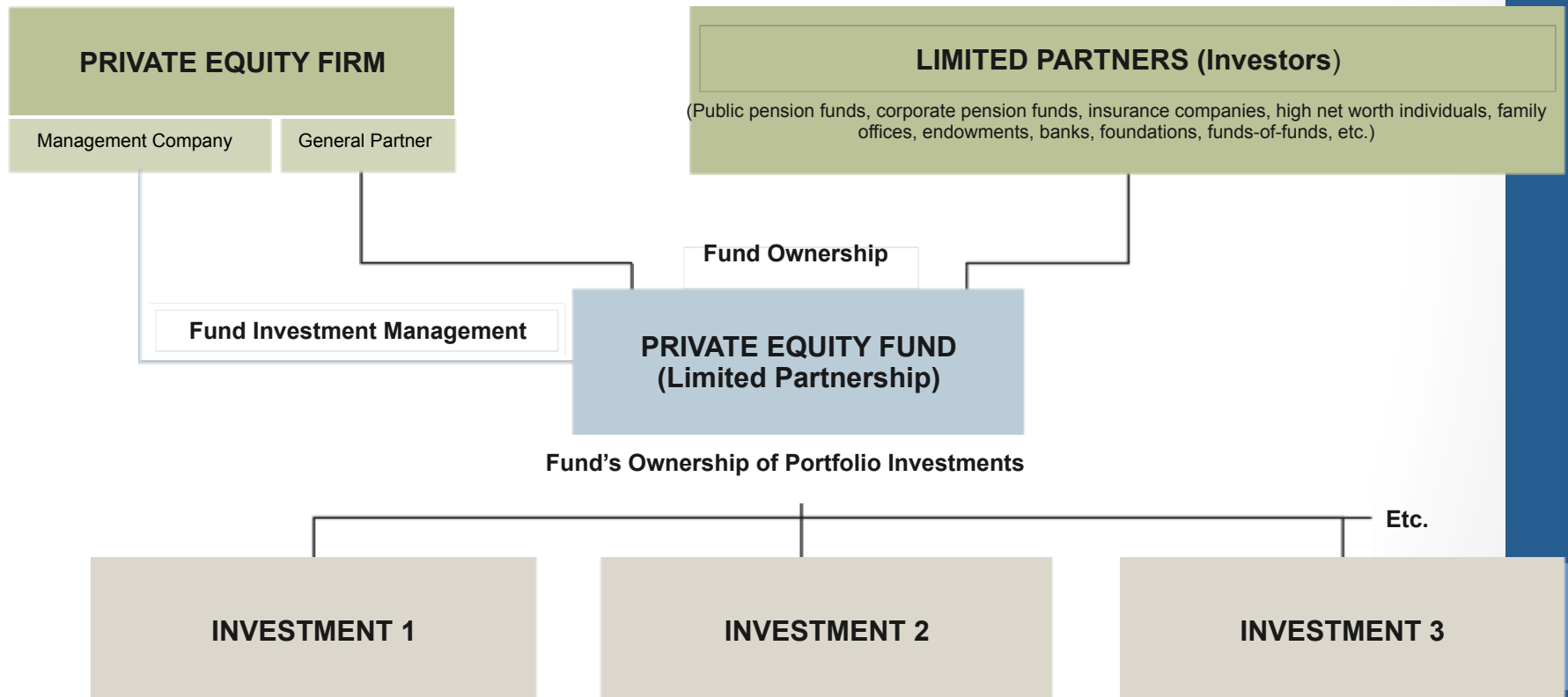
**MOST PRIVATE EQUITY INVESTORS WILL LIMIT THEIR INVESTMENTS TO ONE OR TWO OF THE FOLLOWING STRATEGIES:**

- Angel investing
- Venture capital
- **Leveraged buyouts (LBO)**
- **Growth capital**
- **Distressed investments**
- **Mezzanine capital**

FIRMS:



# Private Equity Fund Structure



# Sources of capital for PE funds

## **THERE ARE TWO TYPES OF PRIVATE EQUITY FIRMS:**

- Firms with a dedicated fund, with the majority of the capital sourced from institutional investors (i.e. pension funds, banks, endowments, etc.) and accredited investors (i.e. high net worth individual investors)
- Firms that raise capital from investors on a per-deal basis (pledge funds)

## **INVESTMENT DURATION AND RETURNS.**

- Typical investment period is 3–10 years, after which capital is distributed to investors
- Rates of return are higher than public market returns, typically 15–30%, depending on the strategy

# What is a Private Equity Intermediary?

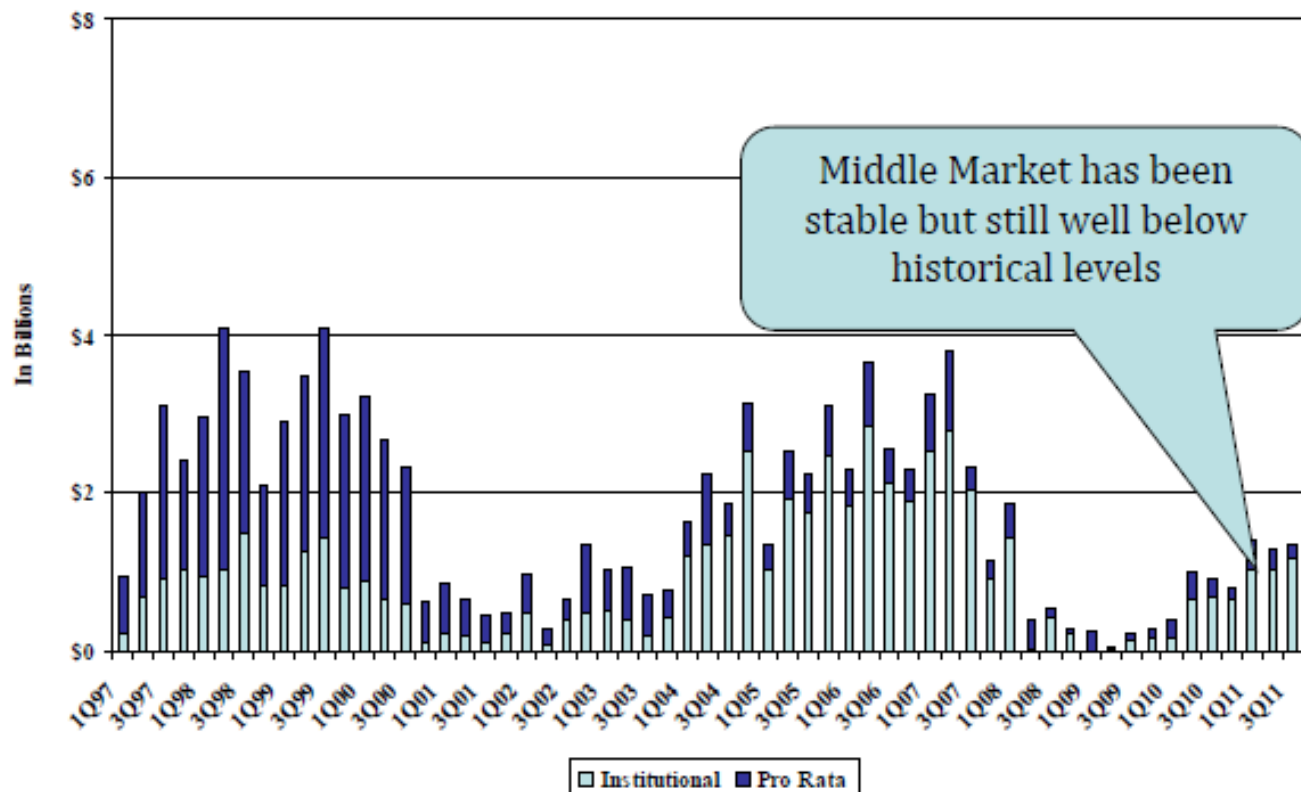
- A PE intermediary sources (informs) deals to private equity firms for a fee.
- Blackmore gets “target” companies from its network of CEOs, which is termed a “deal”
- These deals are pitched to Private Equity firms as an investment package with 2 parts:
  1. A CEO and management team
  2. A specific company or companies

# Types of Transactions by PE

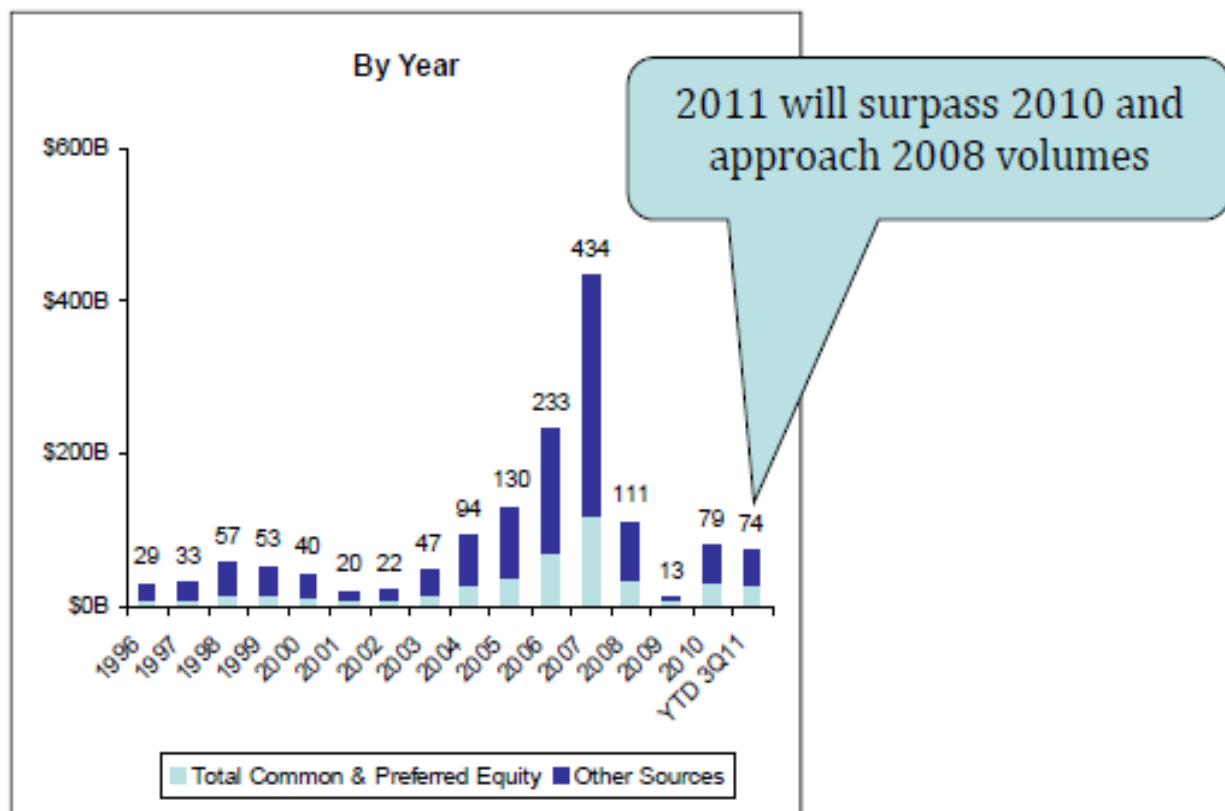
- LBO (Leveraged Buy-out): The acquisition of another company using a significant amount of borrowed money (bonds or loans) to meet the cost of acquisition. Often, the assets of the company being acquired are used as collateral for the loans in addition to the assets of the acquiring company. The purpose of leveraged buyouts is to allow companies to make large acquisitions without having to commit a lot of capital.
- MBO (Management Buy-out): When the managers and/or executives of a company purchase controlling interest in a company from existing shareholders.

# Leveraged Buyout Middle-Market Volume By Quarter

1Q97 - 3Q11



# Total US Leveraged Buyout Volume 1996 - 3Q11



\*The volume on this page includes the total sources (loans, secured debt, unsecured debt, sub debt, and equity) involved in leveraged buyouts.

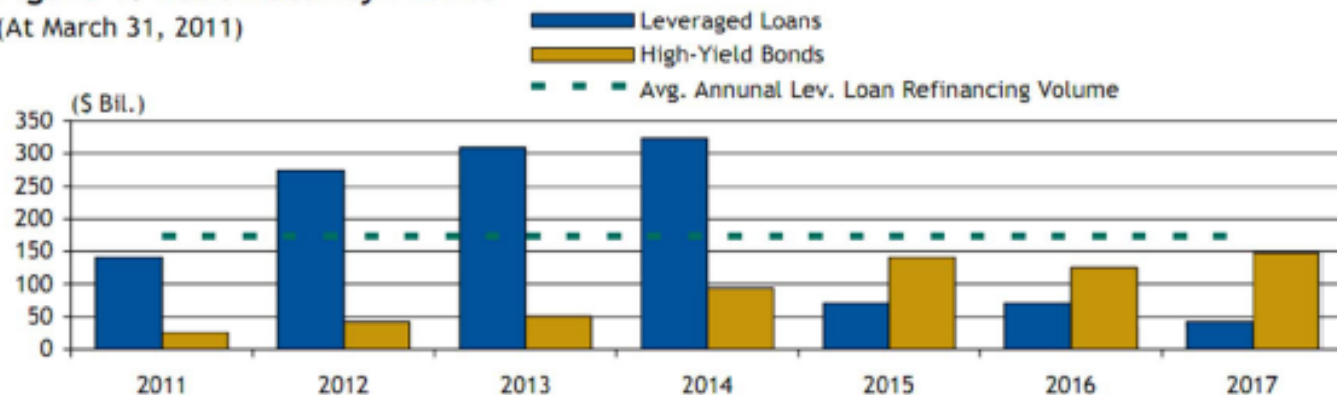
Source: S&P Leveraged Commentary & Data

# \$1 Trillion of Debt Maturities will continue to drive M&A activity

- Over 1 Trillion in Leveraged Loans will mature from 2011-2014
- Ramping maturities will fuel M&A Activity through 2014
- Robust High Yield Market and improving credit markets will allow some loans to be refinanced
- Banks are being more aggressive with Sponsors to force restructurings and/or sales of overleveraged companies

**Figure 1: Debt Maturity Profile**

(At March 31, 2011)



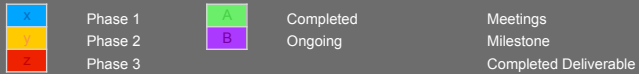
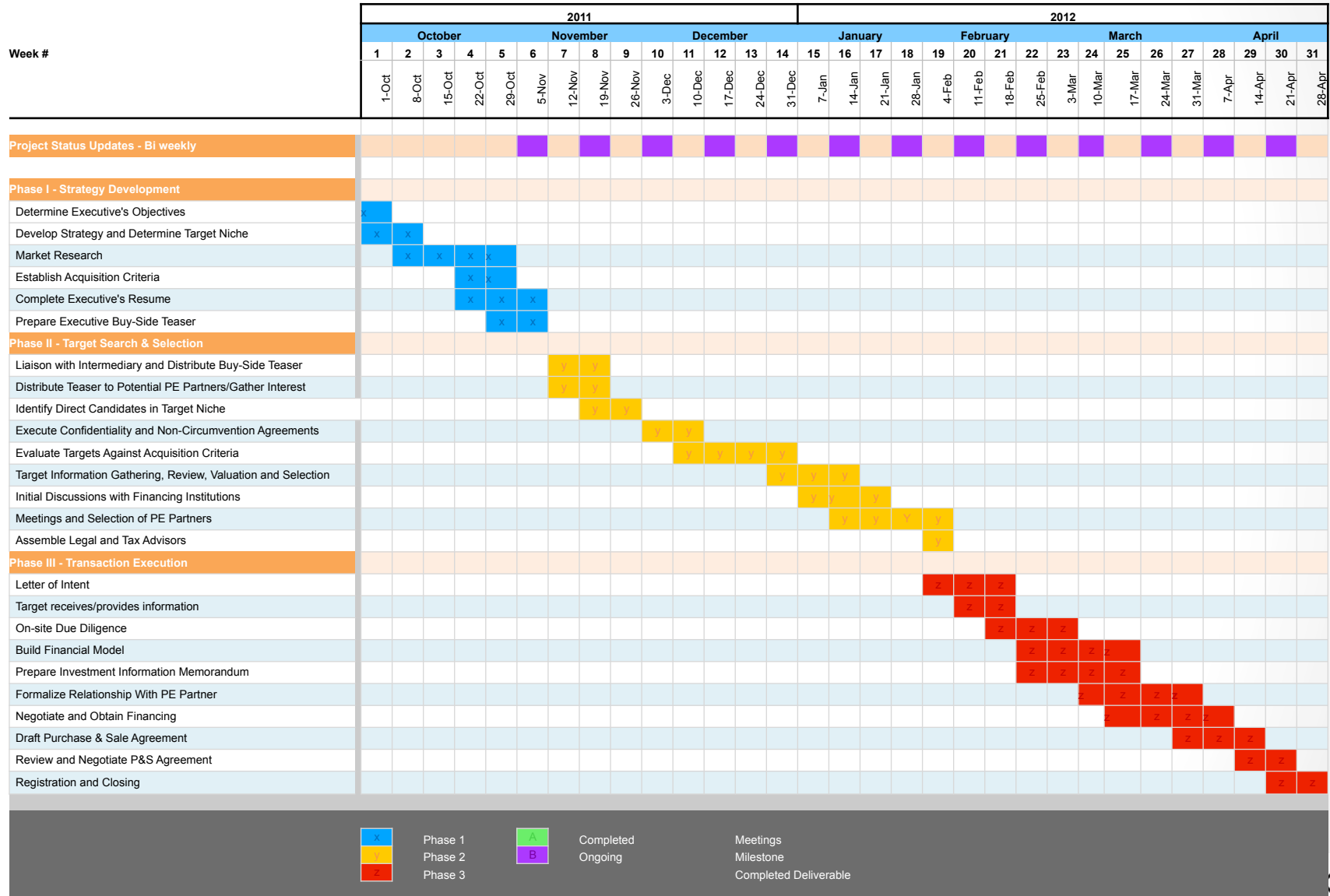
Source: Thomson Reuters LPC, Bloomberg, Fitch Ratings.



# More Types of Transactions by PE

- Management Buy-In (MBI): Outside executive team is buying out the current management/owners
- Corporate Carve-out/Spinoff: Corporation is selling off/divesting a division of its company-can be an MBO or MBI

# Sample Project Timeline



# Next Steps

- **Backed Executives**

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  - Schedule a 1 to 1 phone meeting by emailing
  - [gerald.odwyer@blackmorepartnersllc.com](mailto:gerald.odwyer@blackmorepartnersllc.com)
2. The process will take 10 hrs a week. I will email you the next steps, involving approximately of 2hrs due diligence on your part.
3. We will identify 100's target by searching our database (NAICS) and by Blackmore paying brokers who will search for targets on your behalf. In addition, we will reach out to our 8000 execs on linkedin to help you.

- **Connectors**

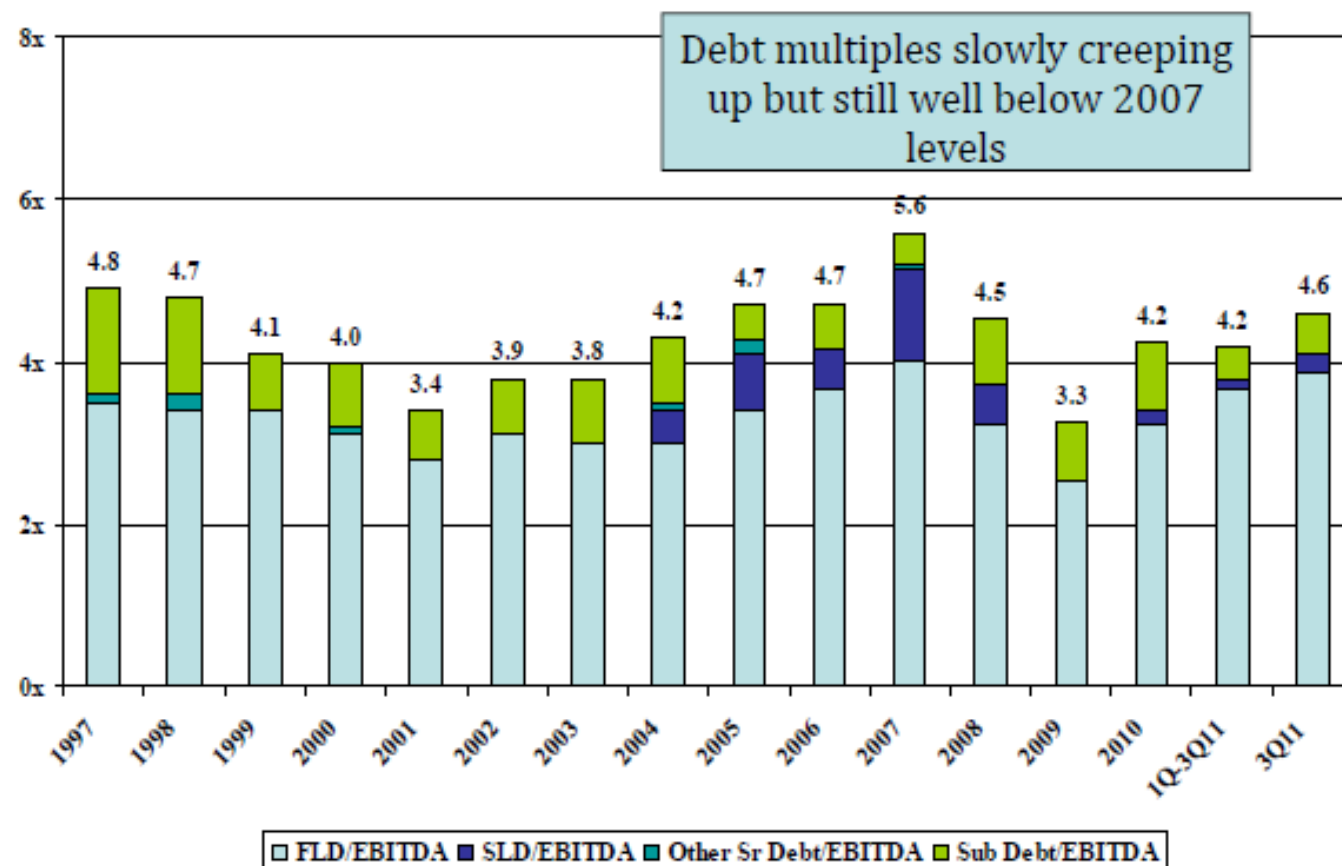
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# Debt Market Summary

# Average Debt Multiples of Middle Market

## LBO Loans (Defined as Issuers with EBITDA of less than \$50M)

1997 - 3Q11

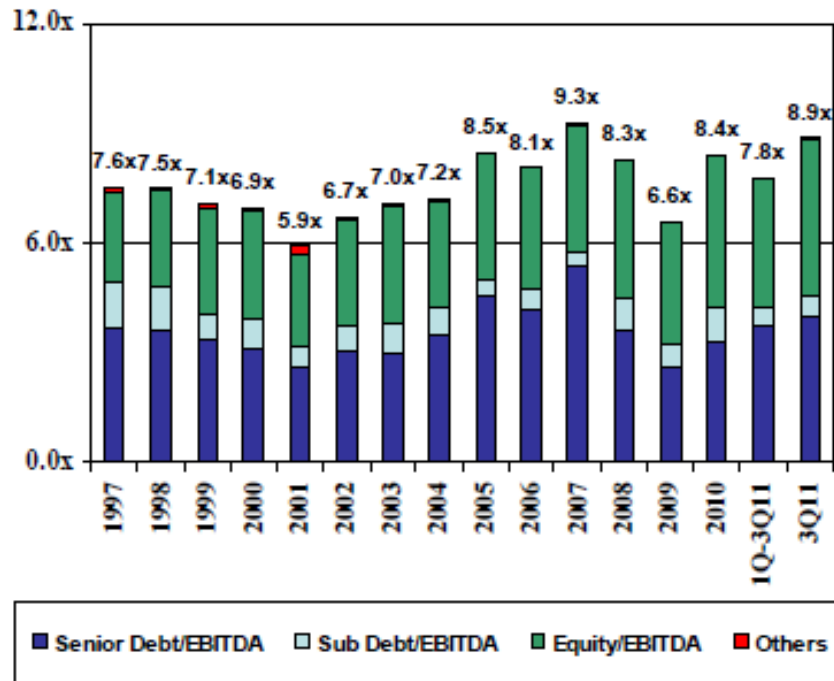


# Purchase Price and Equity Contribution

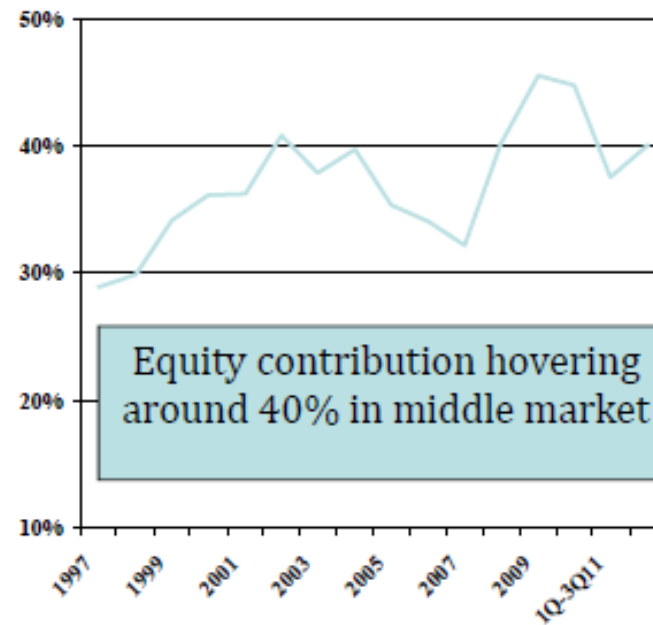
(Defined as Issuers with EBITDA of less than \$50M)

1997 - 3Q11

Purchase Price Breakdown



Equity Contribution



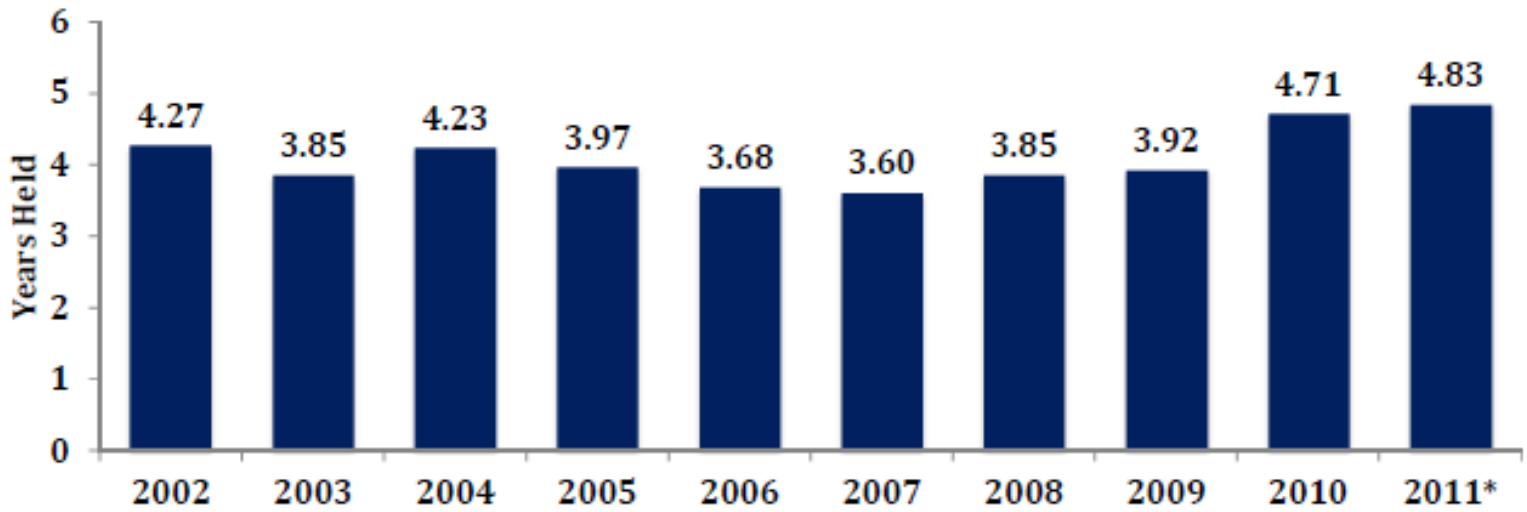
Source: S&P Leveraged Commentary & Data



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# PE Firms Need to Sell Older Investments to Facilitate Fund Raising

- The recession caused average PE hold times to increase by 34% since 2007
- PE firms seeking to monetize investments to facilitate fund raising will certainly increase M&A activity

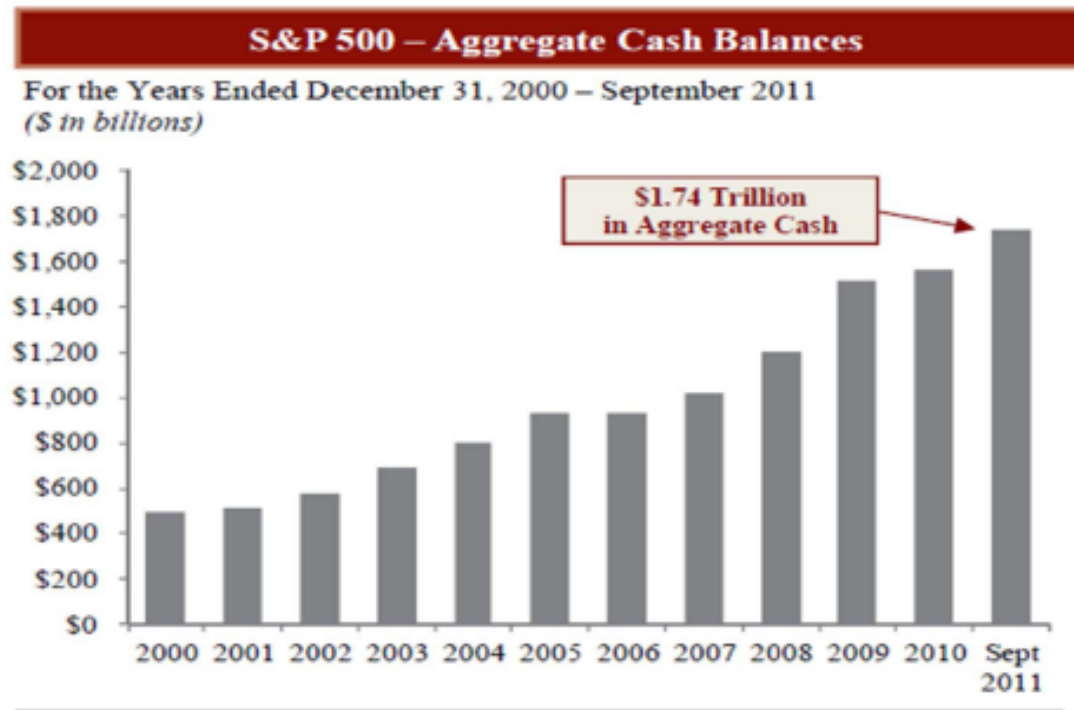


■ Median Time to Exit - Yr

\*Through 3Q 2011  
Source: PitchBook

## \$1.75 Trillion on Corporate Balance Sheets will continue to increase competition and drive valuations up

- U.S. corporations, with record cash balances, are pursuing acquisitions to maintain growth in their businesses to offset low organic growth environment



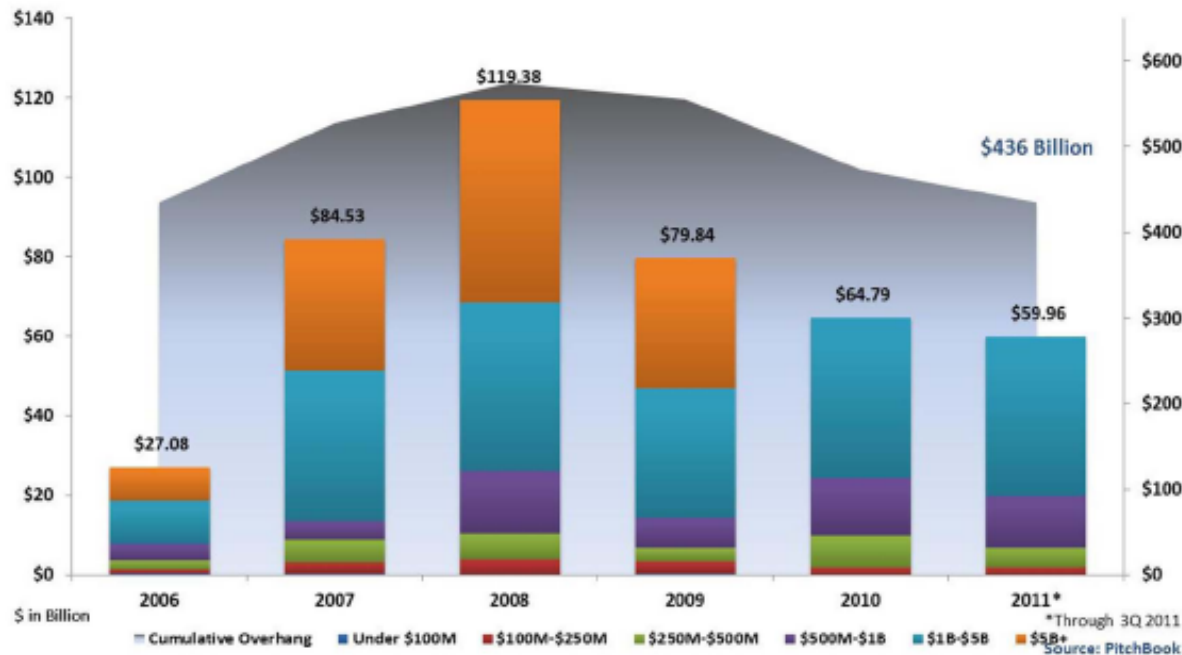
Source: Capital IQ.



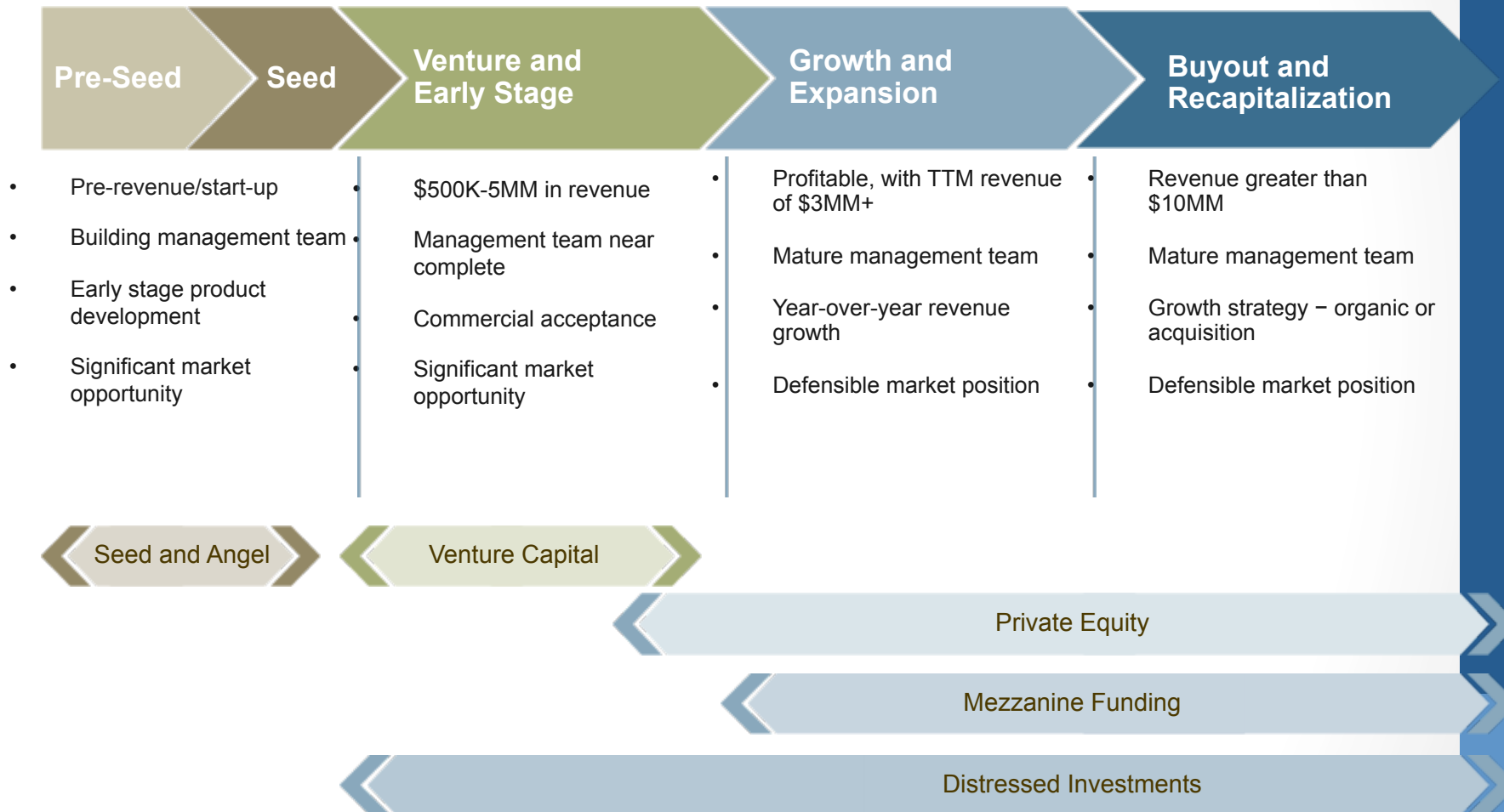


# \$436 BB of PE Dry Powder will continue to drive competition and valuations up

- Large Cap Funds continue to move down market to deploy capital since large cap deals are still difficult to finance, resulting in higher middle market valuations



# Private Equity Investment Strategies



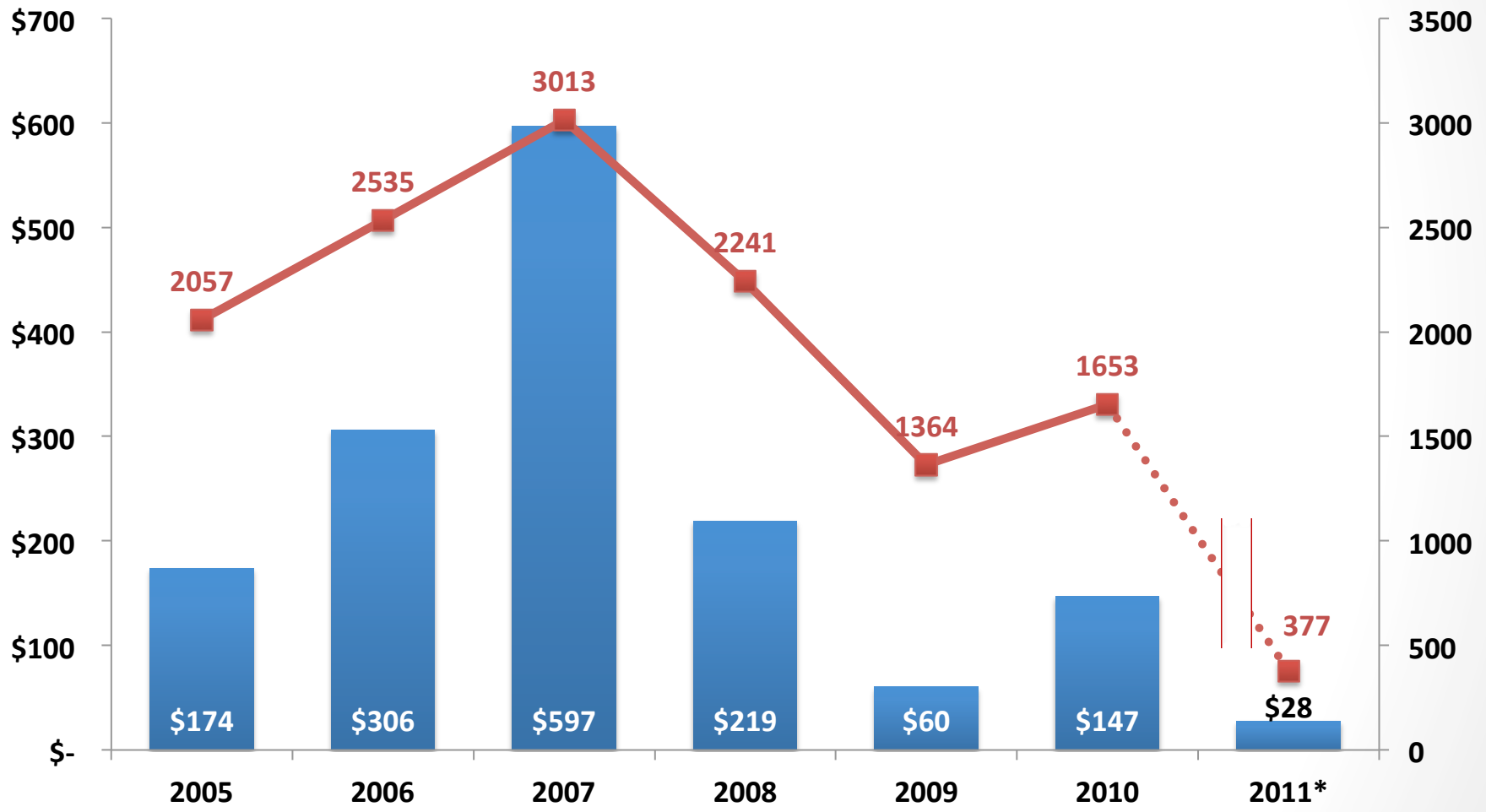
# Mission of Private Equity Funds

- Ultimately, the managers of private equity firms understand that they must improve the underlying value of the companies they own over time to generate the returns their investors demand and to attract the capital they will want to raise for future funds.

# Current Trends in PE

- Multiples are creeping up again, were down in last 2 years, now at 4-6x
- 2011: Owners have been hanging on to their firms through the crisis, need to sell
- Overleveraging in 2006-07 is resulting in distressed debt, IRR's negative in 2008-9
- Funds-Use it or lose it
  - Fund timeline: typically 10 years. First 5 years is to invest, last 5 years is to exit

# Capital Invested In 2010 2.5X More Than 2009



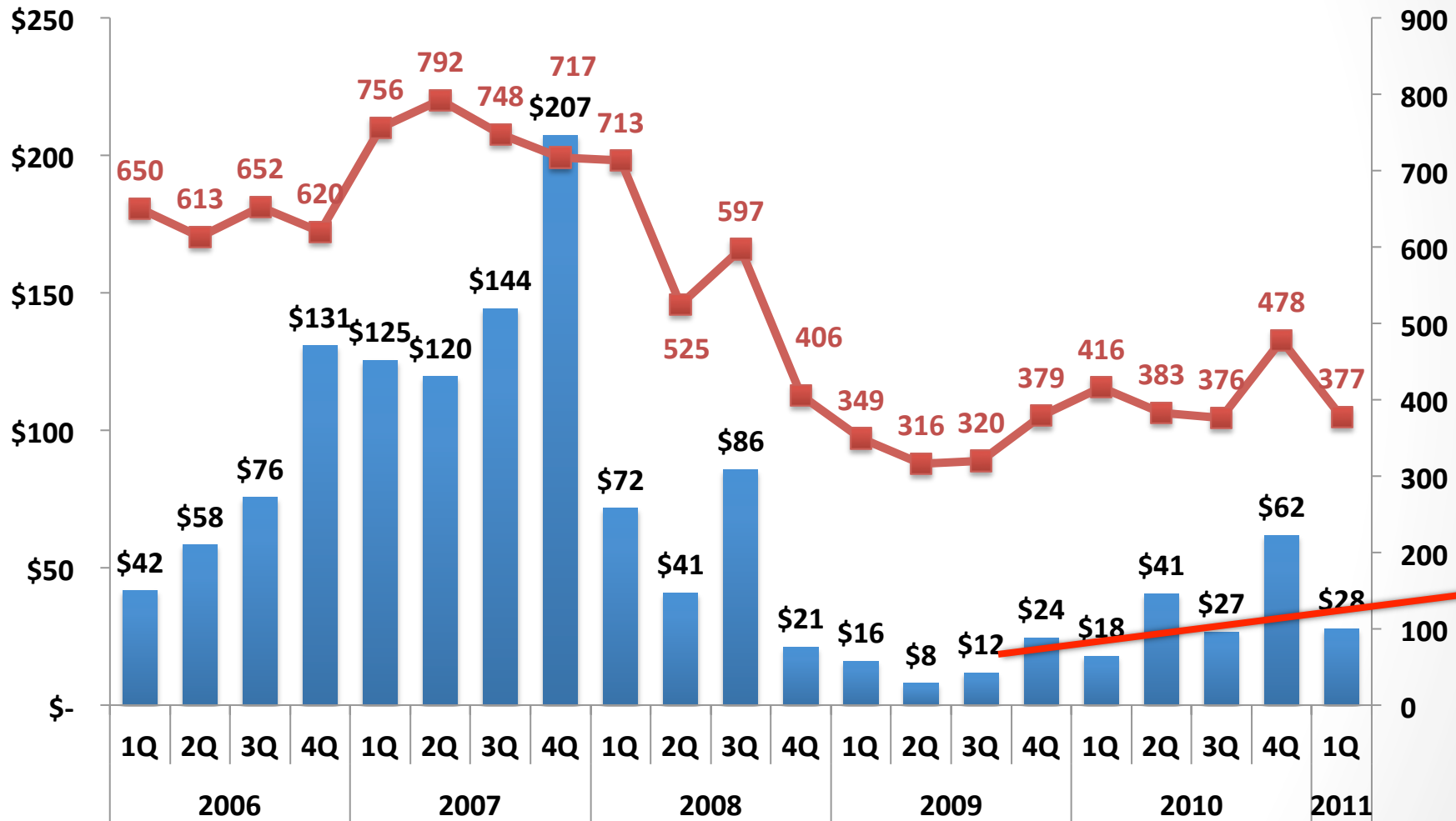
Source: PitchBook

■ Capital Invested (\$B) ■ # of Deals

\*Through 1Q 2011

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# Capital Invested in 1Q 2011 55% more than 1Q 2010

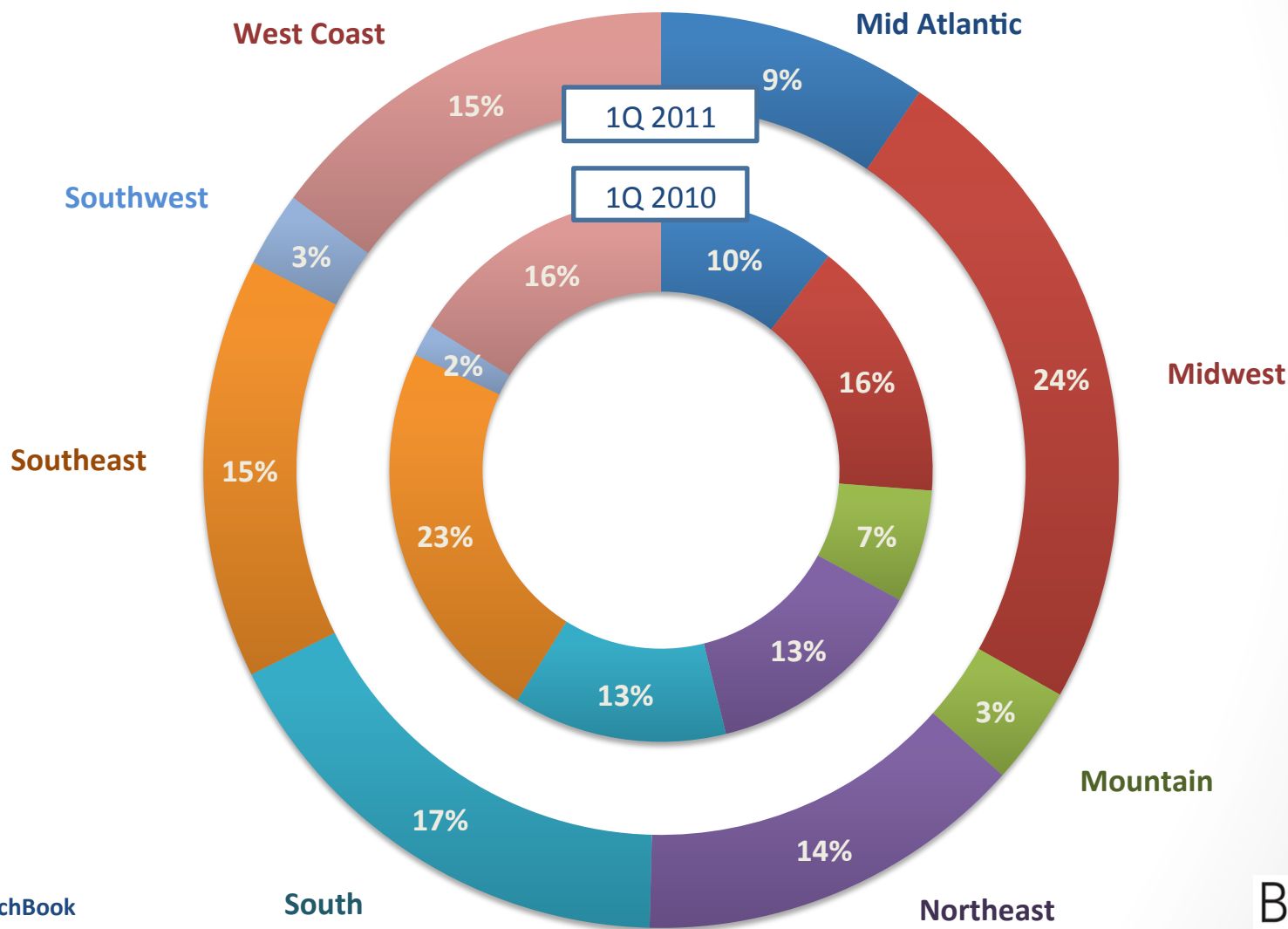


Source: PitchBook

■ Capital Invested (\$B)    ■ # of Deals

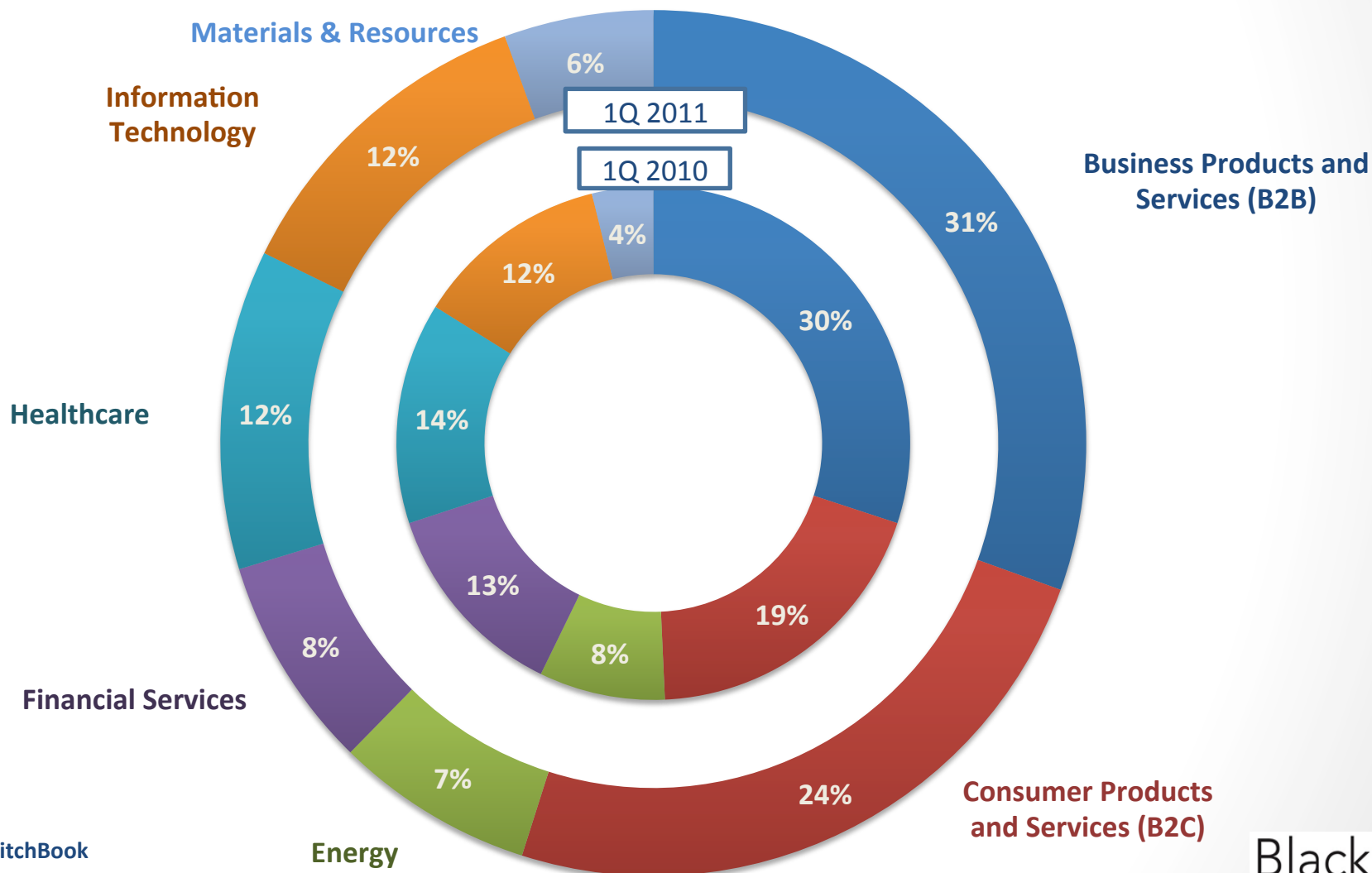
# Midwest Takes Top Spot for PE Investment

*Percentage of Deal Volume (count) by Region*



# B2C's Share of Deal Flow Grows in 1Q 2011

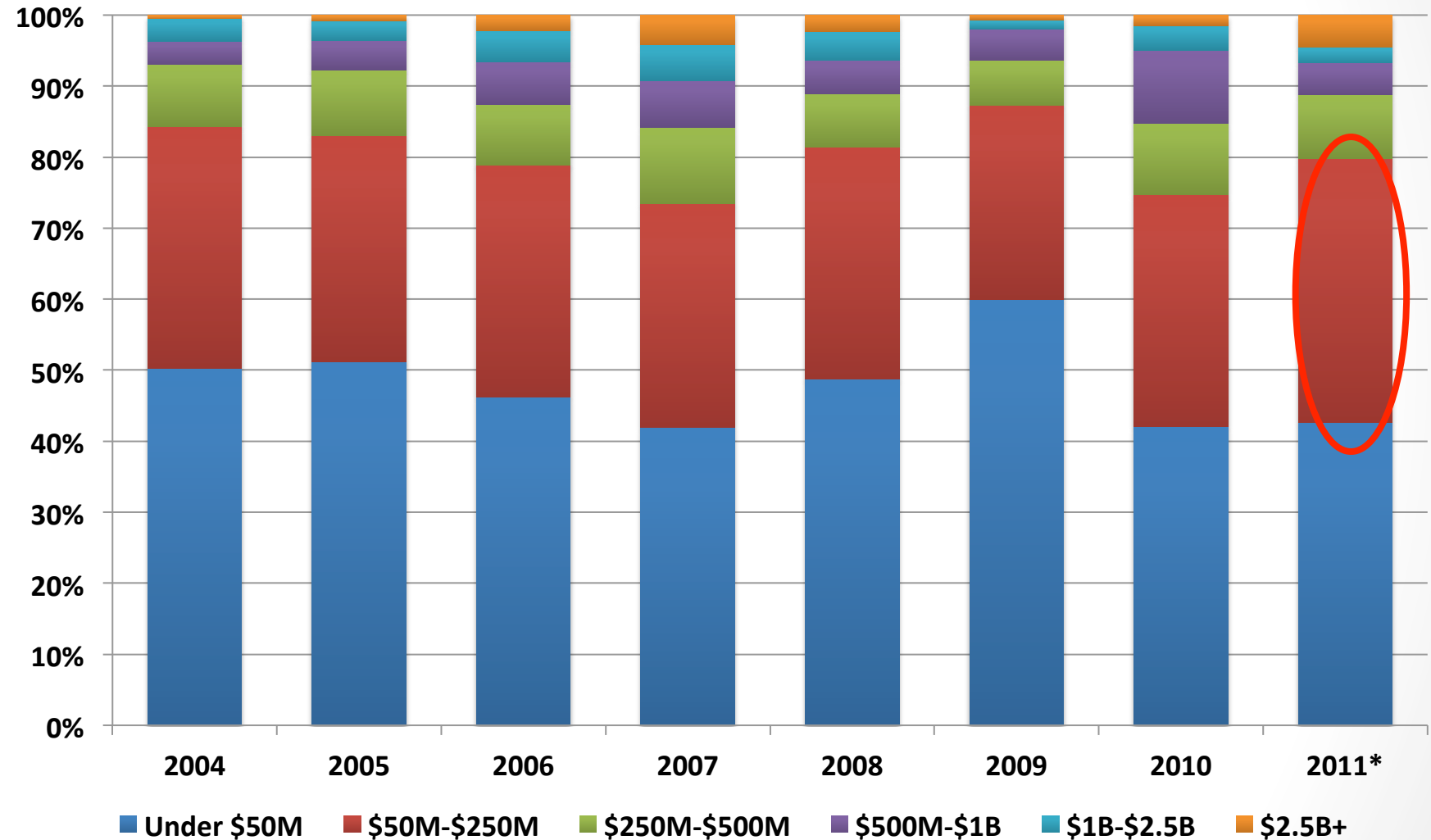
*Percentage of Deal Volume (count) by Sector*





# Lower Middle Market Highest % in 7 Years

*Percentage of Deal Volume (count) by Deal Size Range*



Under \$50M

\$50M-\$250M

\$250M-\$500M

\$500M-\$1B

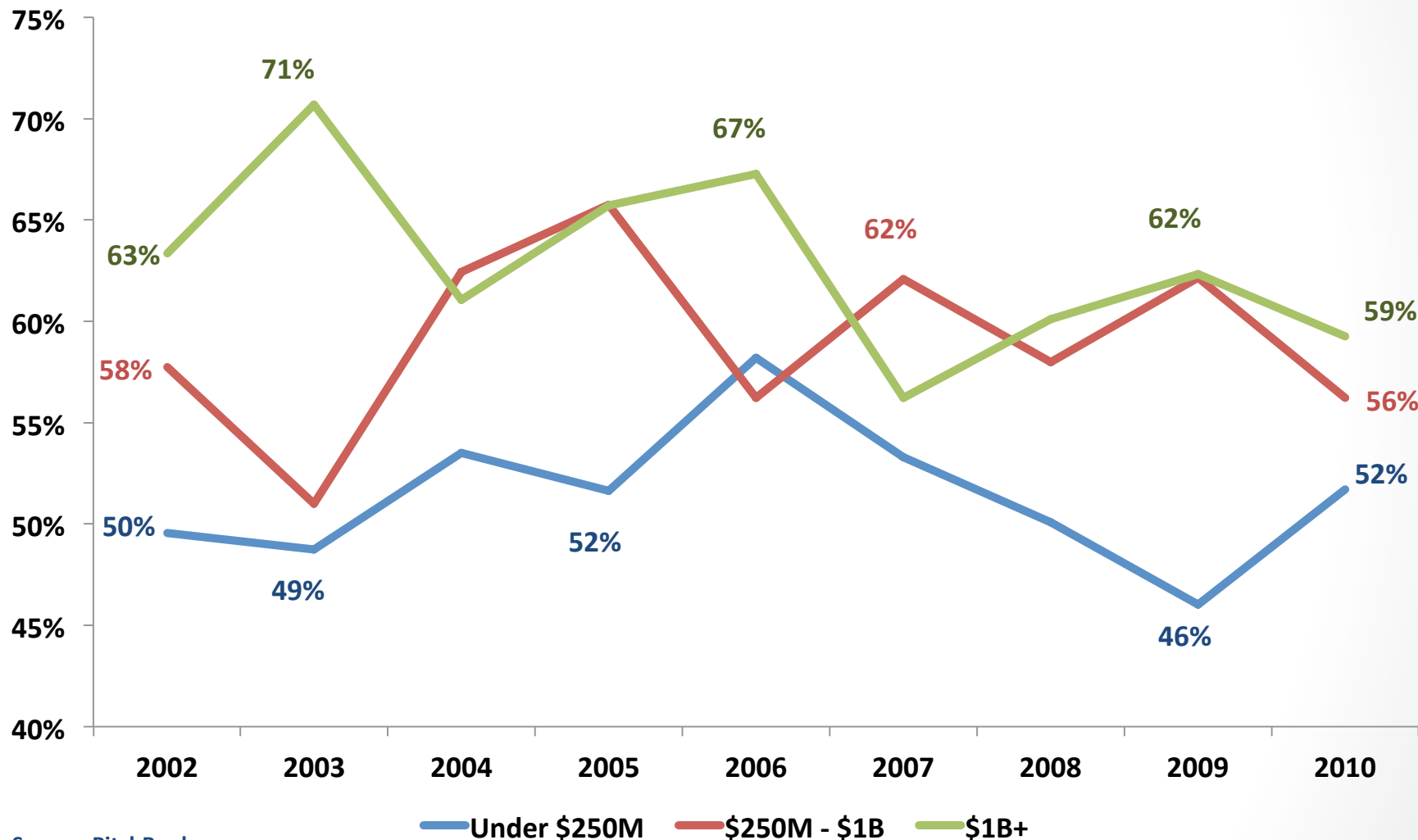
\$1B-\$2.5B

\$2.5B+

Source: PitchBook

# Deals Below \$1B Requiring Less Debt

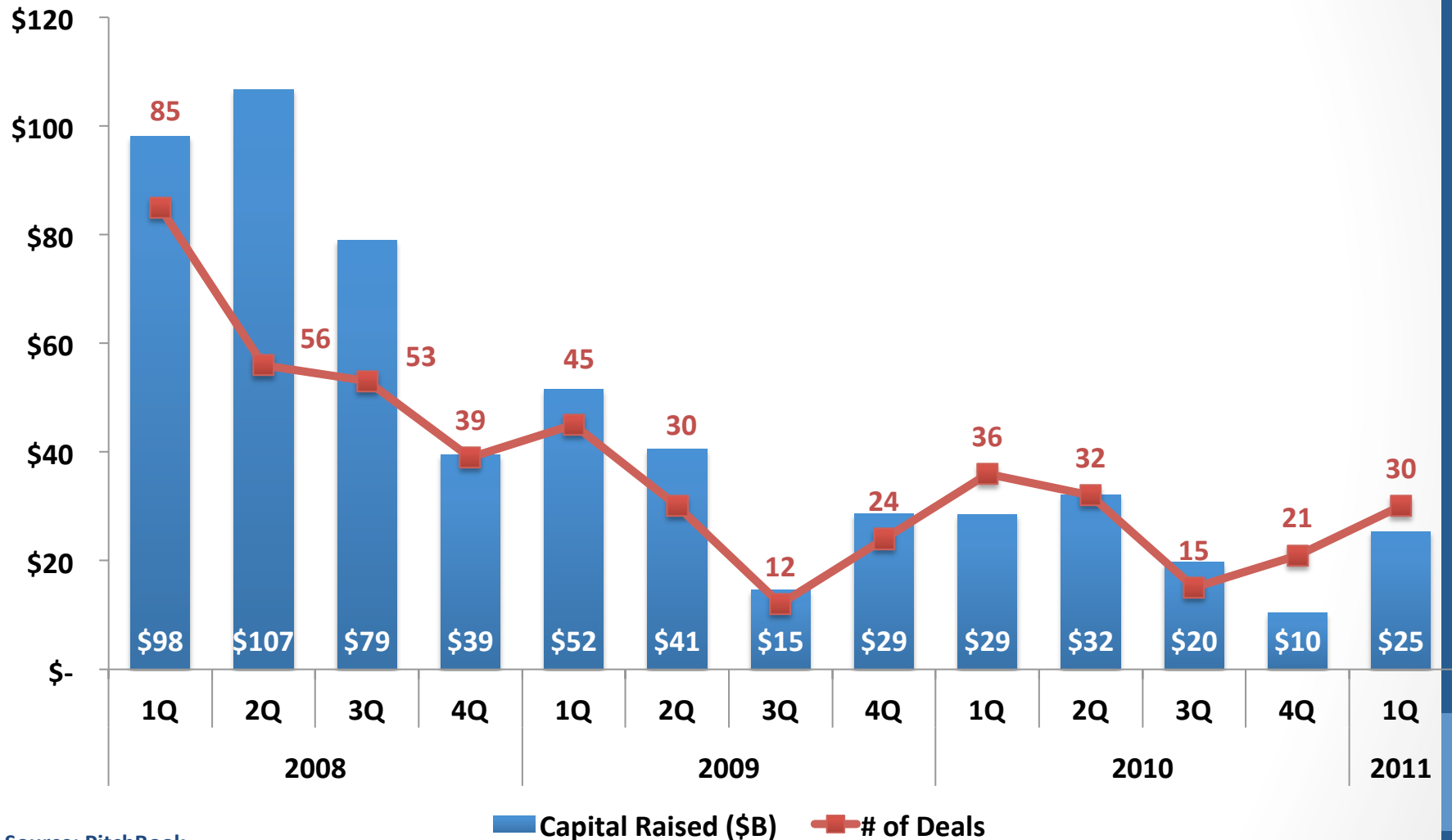
*Percentage of Debt Used in Buyouts*



Source: PitchBook

# Fundraising Slowly Rising in 1Q 2011

*Number of Funds Closed and Total Capital Raised by Quarter*



Source: PitchBook

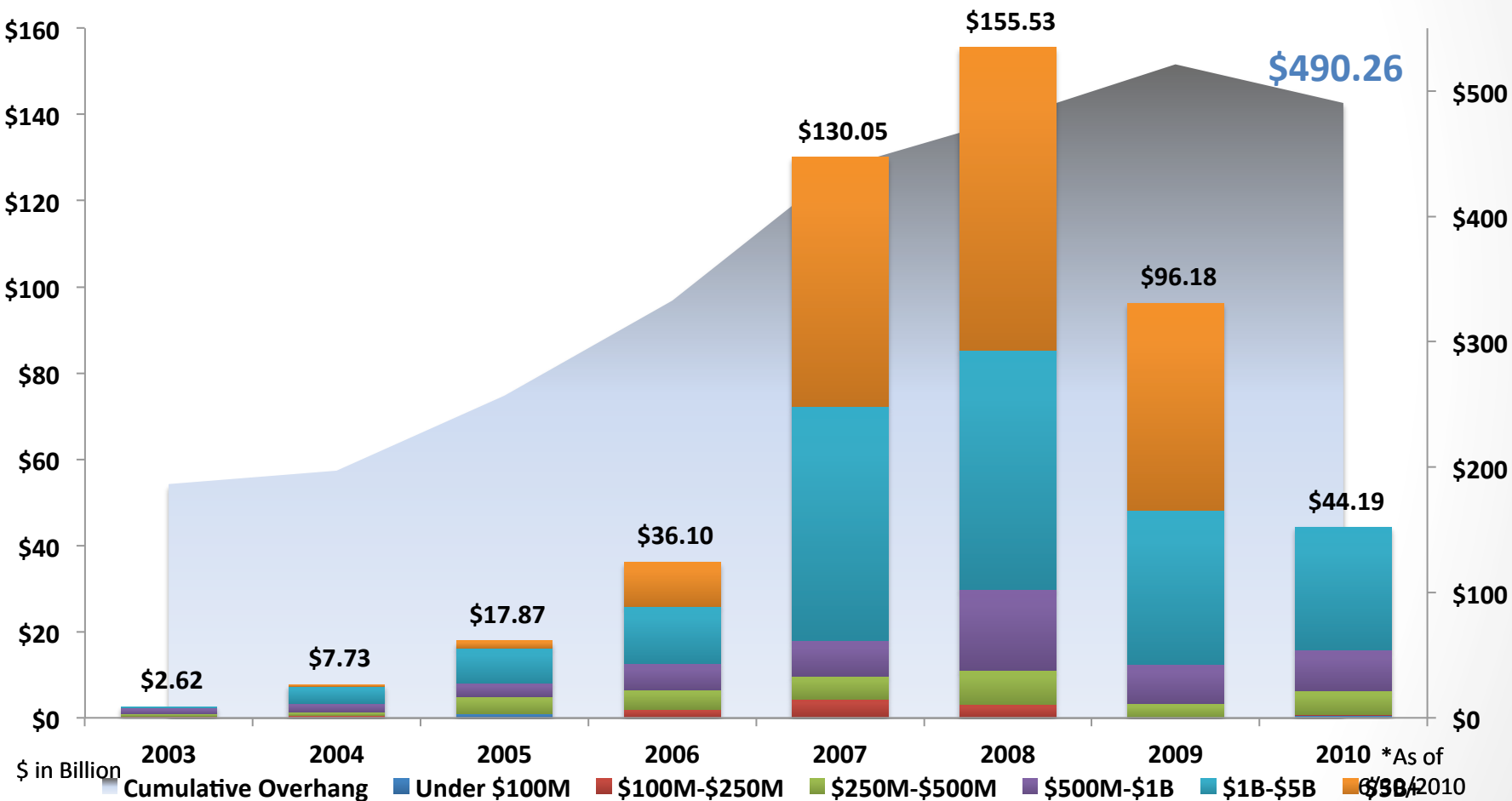
# Recent PE Trend: Dry Powder

*“Over the last few years, there has been a spectacular accumulation of PE dry powder. The U.S. PE capital overhang steadily increased each year from \$197 billion in 2004 to \$521 billion in 2009. However, it crested in 2009 before dropping to \$477 billion as of September 30, 2010. About three-fourths of that dry powder is sitting in funds with vintage years from 2007 to 2009. While the large amount of dry powder is allowing PE firms to pursue bigger, more expensive companies, it has also contributed to a tough fundraising environment, as limited partners wait on distributions before committing capital to new funds.”*

PITCHBOOK DATA

# PE Investors Sitting on \$490B of Dry Powder

*Capital Overhang of US PE Investors by Vintage Year*



Source: PitchBook

# Types of Deals Blackmore Looks for

- Headquarters & Majority of Operations in the United States
- Revenues of \$30 million+
- EBITDA of \$3 million+
- Distressed Opportunities
- CEOs with Operating Experience and \$100 million+ Profit/Loss

# Your Role

- Understanding a business plan including operations and financials
- Writing a teaser for that plan
- Pitching the deal to different private equity firms based on geographic location, industry, size(\$)
- Talking to PE firms with the executive of the deal to close the PE buyout