

SUMMER STREET

CAPITAL PARTNERS

Go further together.



Understanding private equity.

## What is private 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.

### WHO MIGHT SEEK A PRIVATE EQUITY INVESTOR AS A SOURCE OF CAPITAL?

- 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

### EXAMPLES OF PRIVATELY HELD COMPANIES:

**BAUSCH + LOMB**

**Cargill**

**L.L.Bean**

**Levi's**

**RICH'S**

**Wegmans**

**HCR ManorCare**  
Heartland • ManorCare • Arden Courts

## Private equity strategies.

**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

## EXAMPLES OF PRIVATE EQUITY FIRMS:



The **Blackstone** Group®



**THE CARLYLE GROUP**

## Sources of capital for PE funds.

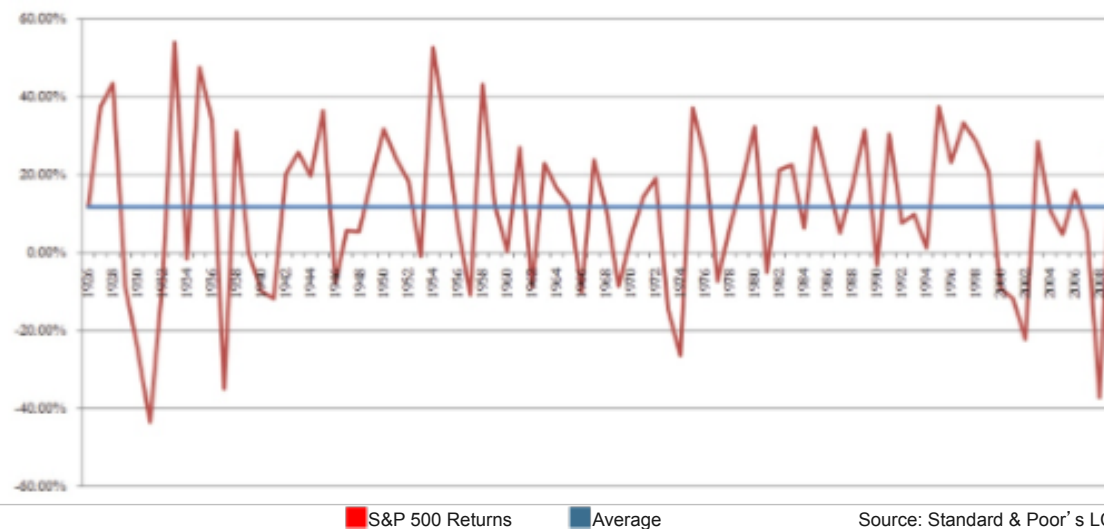
### THERE ARE TWO TYPES OF PRIVATE EQUITY FIRMS:

- 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)

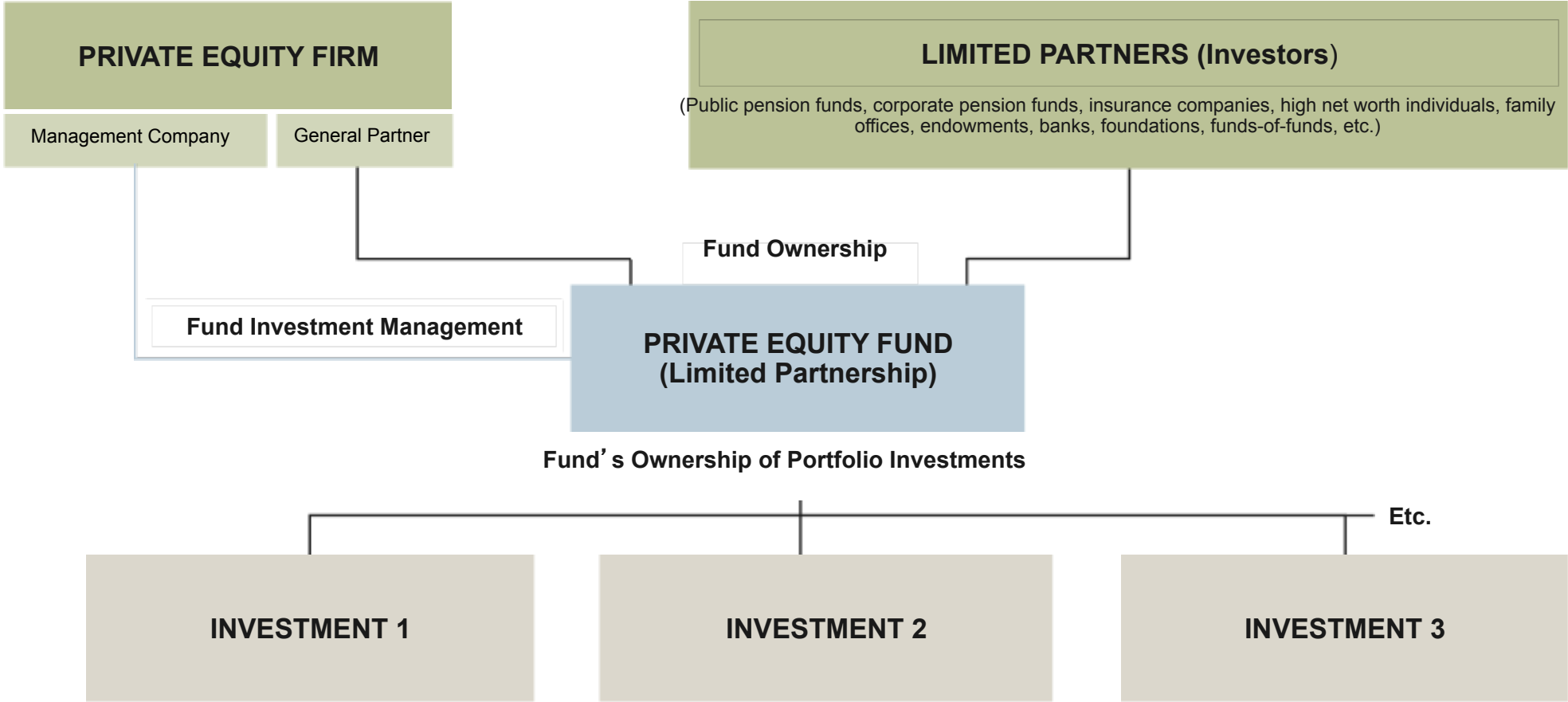
### INVESTMENT DURATION AND RETURNS.

- 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

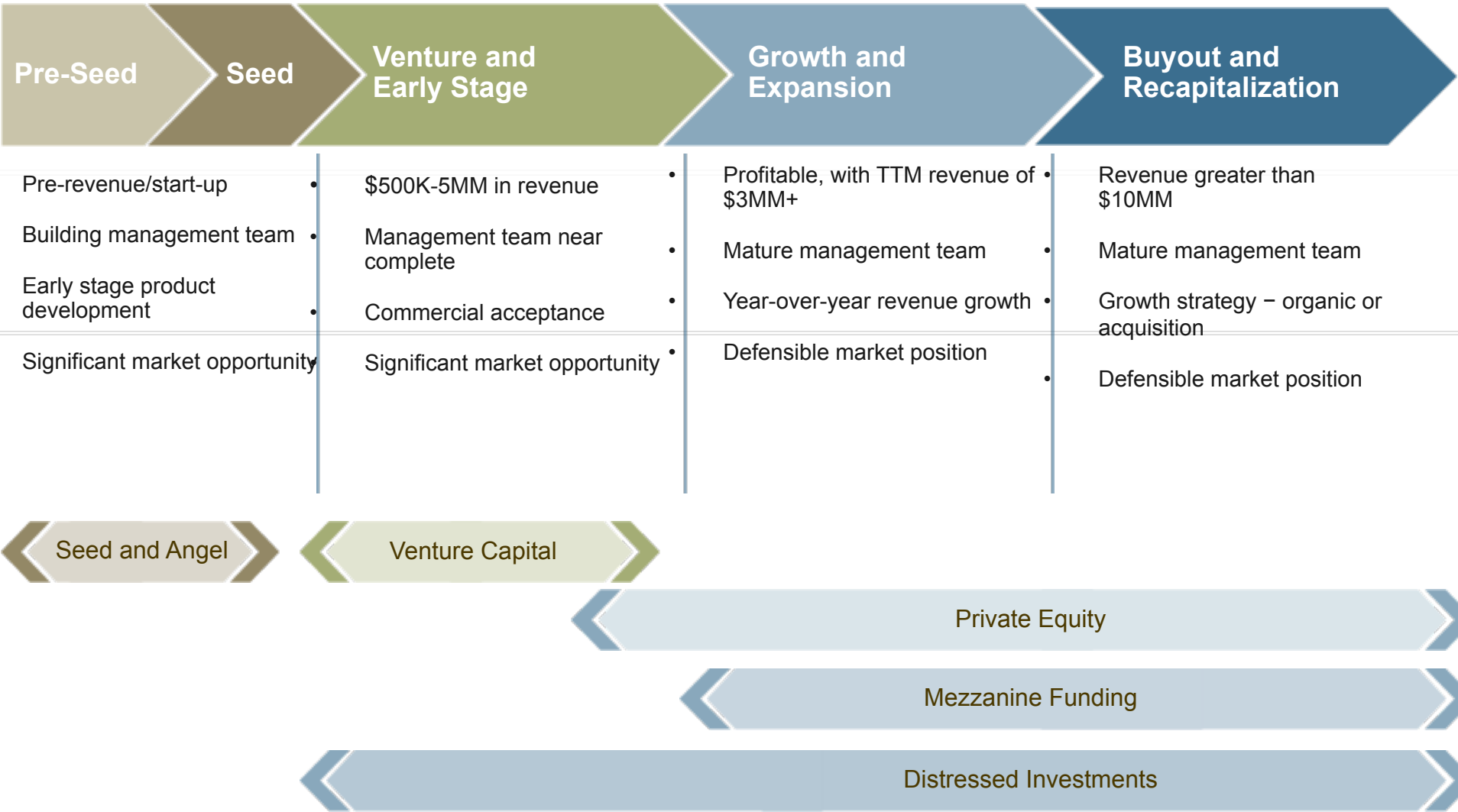
HISTORICAL  
S&P 500 RETURNS



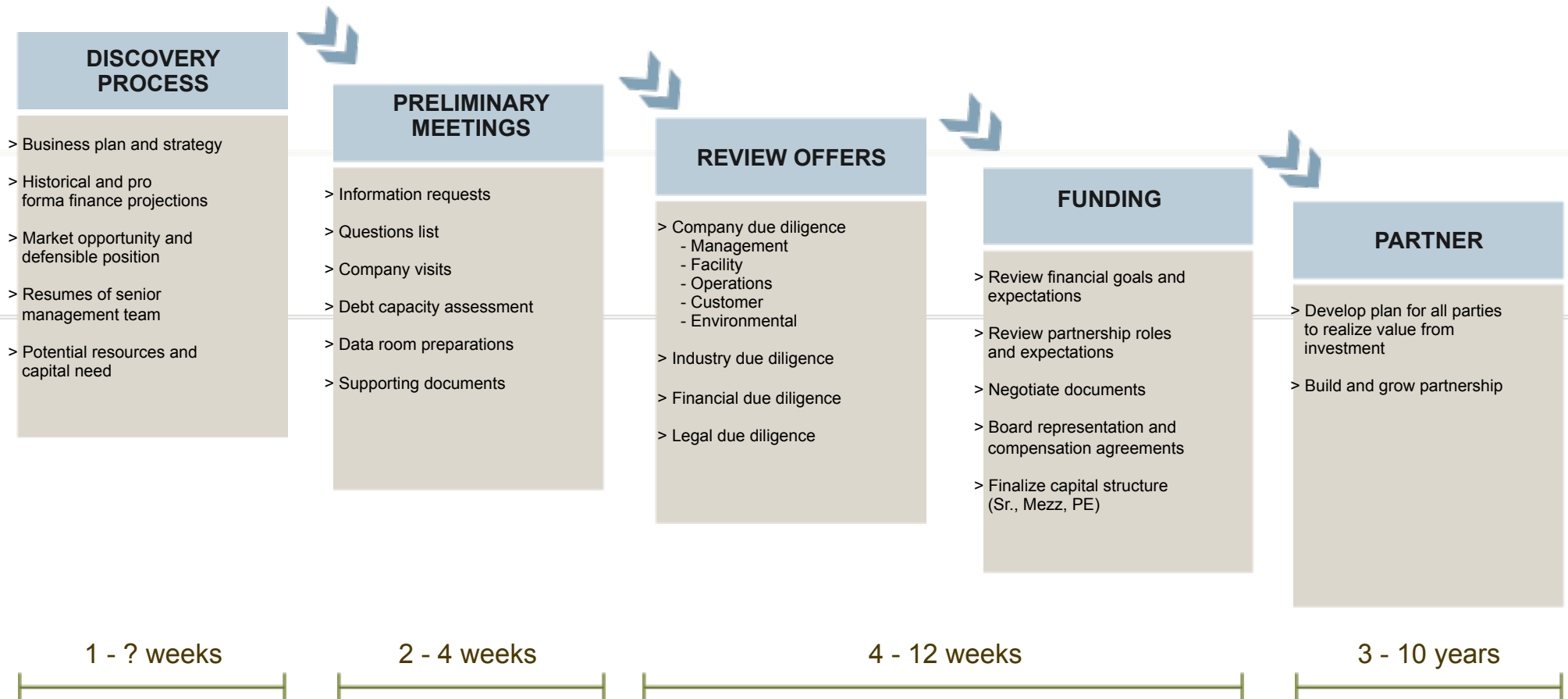
# Private equity fund structure.



# Private equity investment strategies.



## Partnering process.



Total process from meeting to funding will typically take 6 months.

## Understanding leveraged buyouts.

Leveraged buyouts (LBOs) include any acquisition by a private equity group that involves a mix of equity and leveraged finance (i.e. senior debt, mezzanine debt, etc.) to fund the capital required for the transaction. In the past, the debt portion of an LBO comprised 50-90% of the purchase price, but in today's market, debt levels are reduced to 50%, if not lower.

### THE AMOUNT OF DEBT USED TO FINANCE A TRANSACTION VARIES ACCORDING TO:

- Market conditions
- Financial condition and history of the acquisition target
- Willingness of lenders to extend credit – both to the company being acquired and to the sponsoring private equity firm

Debt (interest and principal payments) will ultimately be repaid with the cash flows of the acquisition target. Due to the debt service burden placed on a company as a result of an LBO, such transactions are not always appropriate for cyclical companies with uneven cash flows.

### BENEFITS OF A LEVERAGED FINANCING STRUCTURE:

- The private equity group only needs to provide a fraction of the capital for the acquisition
- As long as the capital returned upon exit exceeds the invested equity plus the cost of the debt, the return for all investors can be significantly enhanced



## Compelling LBO targets.

Many factors will determine how attractive a company is to a private equity group considering an LBO, and will also impact the willingness of banks and investors to provide financing.

- Cash flow consistency
- Stability during economic downturns
- Quality of the management team
- Defensible market position
- Operational leverage for growth
- Presence of larger, well-capitalized competitors
- History of successful LBOs in the industry
- Feasibility of a solid exit strategy
- Ability to generate returns greater than 25% (assuming an exit in 3–10 years)
- A purchase price in line with comparable companies and transactions

## Generating LBO results.

For the right company, an LBO can generate solid results with limited growth. This simple "financial engineering" strategy enticed many firms into leveraged buyouts in the 1990s.

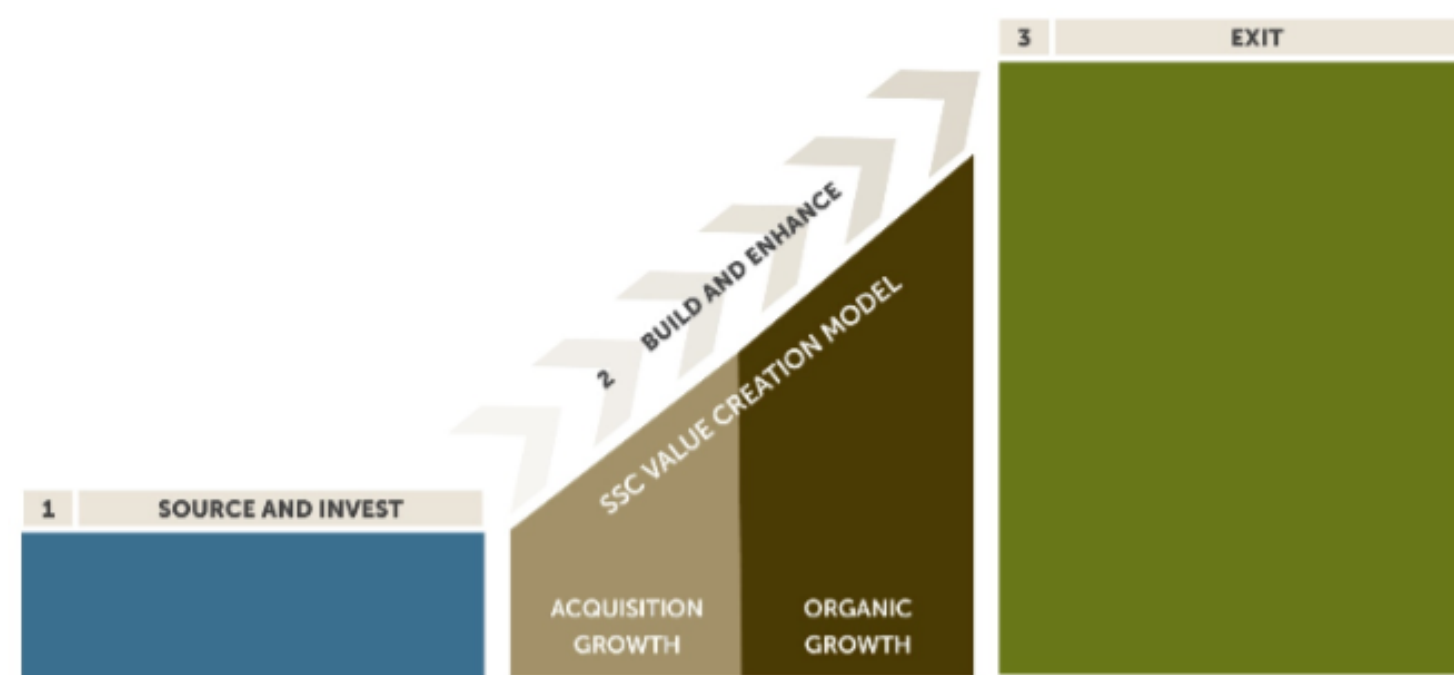
### NO GROWTH SCENARIO

(\$ in millions)

	Acquisition	Year 1	Year 2	Year 3	Year 4	Year 5/Exit
<b>Enterprise Valuation</b>						
EBITDA	\$10	\$10	\$10	\$10	\$10	\$10
Valuation Multiple	5.0x	5.0x	5.0x	5.0x	5.0x	5.0x
Implied Enterprise Value	\$50	\$50	\$50	\$50	\$50	\$50
<b>Equity Valuation</b>						
Implied Enterprise Value	\$50	\$50	\$50	\$50	\$50	\$50
Less: Debt	(\$30)	(\$24)	(\$18)	(\$12)	(\$6)	\$0
Plus: Cash	\$0	\$0	\$0	\$0	\$0	\$0
Implied Equity Value	\$20	\$26	\$32	\$38	\$44	\$50
<b>Returns Analysis</b>						
Equity Value	\$20	\$26	\$32	\$38	\$44	\$50
Return on Investment (ROI)		1.3x	1.6x	1.9x	2.2x	2.5x
Internal Rate of Return (IRR)		30.0%	26.5%	23.9%	21.8%	20.1%

## Generating value through growth.

Summer Street's strategy depends on real growth, not financial engineering.



## Generating value through growth.

### VALUE CREATION DRIVERS

#### ORGANIC GROWTH

- Develop new products/ services
- Leverage new distribution channels
- Expand geographic presence

#### STRATEGIC ACQUISITIONS

- Product/service overlap
- Geographic expansion
- Product/service extension

#### OPERATIONAL IMPROVEMENTS

- Improve IT systems
- Enhance/augment management team
- Implement lean manufacturing

#### ALIGNMENT OF SHAREHOLDER INTERESTS

- Equity held by senior executives
- Profit sharing pool for management
- Incentive-based bonus programs

## Generating enhanced LBO results.

Adding real growth to the equation increases returns dramatically for all shareholders. Greater earnings and improved operations make the company an attractive acquisition for a larger universe of prospective buyers.

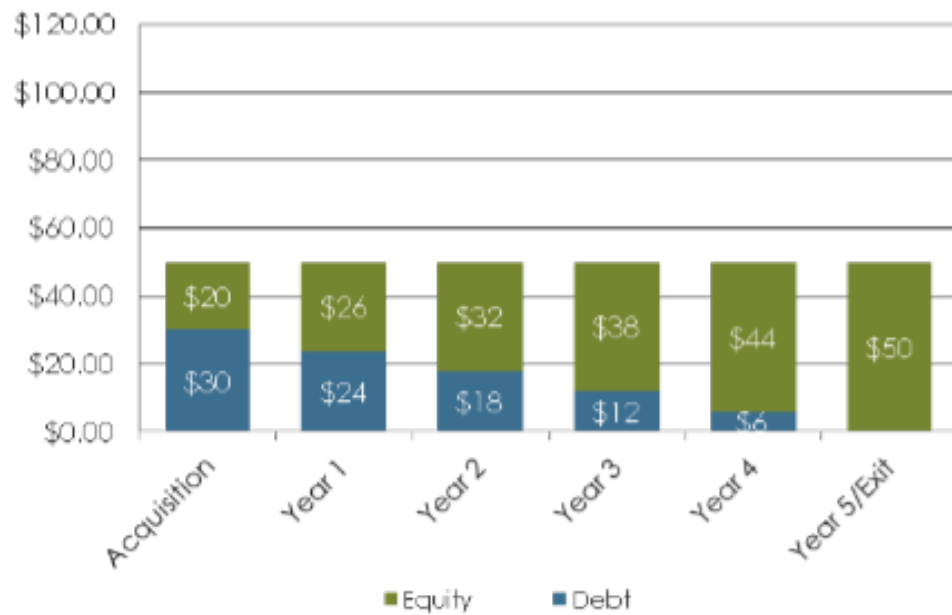
### VALUE CREATION SCENARIO

(\$ in millions)

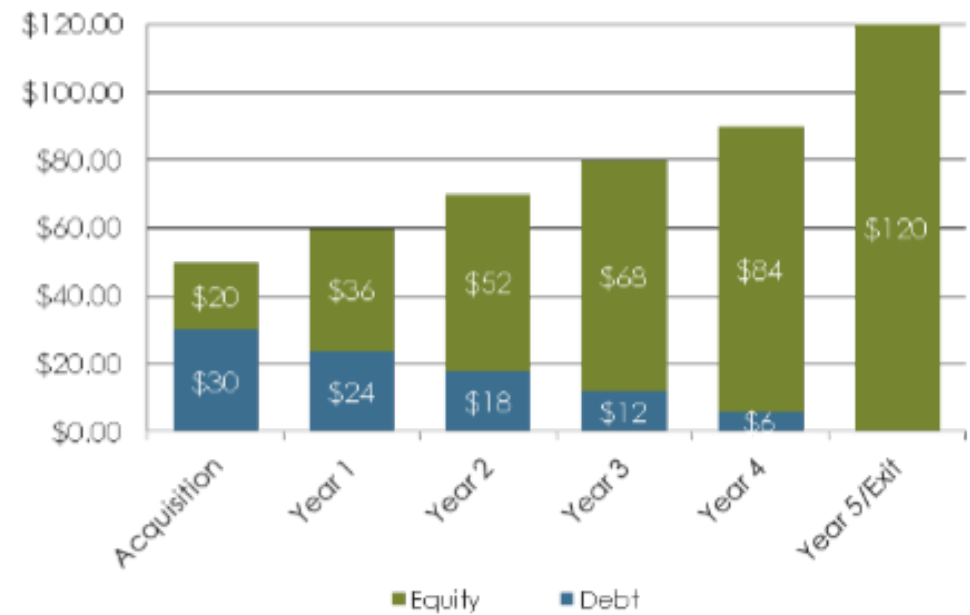
	Acquisition	Year 1	Year 2	Year 3	Year 4	Year 5/Exit
<b>Enterprise Valuation</b>						
EBITDA	\$10	\$12	\$14	\$16	\$18	\$20
Valuation Multiple	5.0x	5.0x	5.0x	5.0x	5.0x	6.0x
Implied Enterprise Value	\$50	\$60	\$70	\$80	\$90	\$120
<b>Equity Valuation</b>						
Implied Enterprise Value	\$50	\$60	\$70	\$80	\$90	\$120
Less: Debt	(\$30)	(\$24)	(\$18)	(\$12)	(\$6)	\$0
Plus: Cash	\$0	\$0	\$0	\$0	\$0	\$0
Implied Equity Value	\$20	\$36	\$52	\$68	\$84	\$120
<b>Returns Analysis</b>						
Equity Value	\$20	\$36	\$52	\$68	\$84	\$120
Return on Investment (ROI)		1.8x	2.6x	3.4x	4.2x	6.0x
Internal Rate of Return (IRR)		80.0%	61.2%	50.4%	43.2%	43.1%

## Equity return comparison.

**NO GROWTH  
SCENARIO**

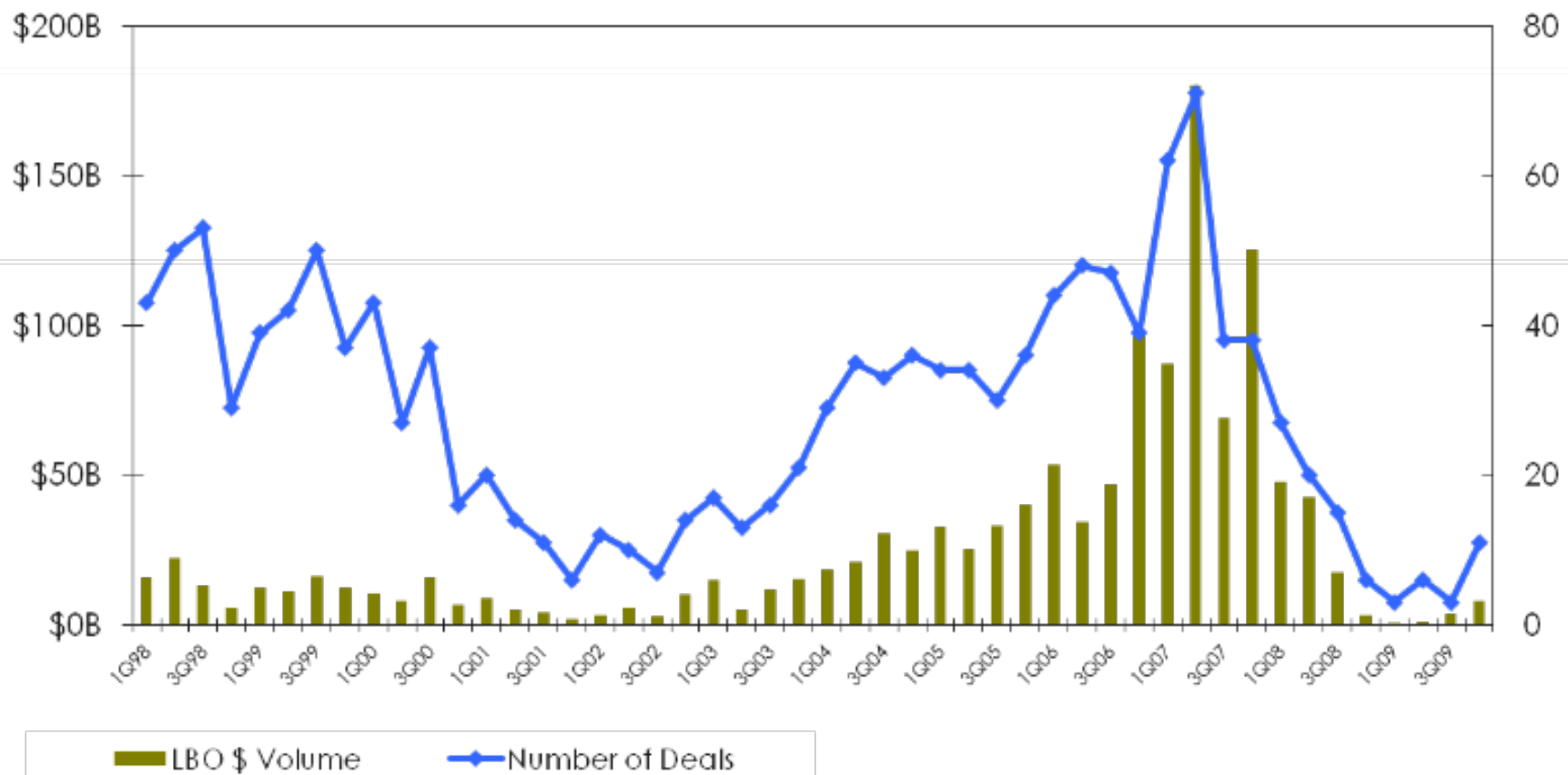


**VALUE CREATION  
SCENARIO**



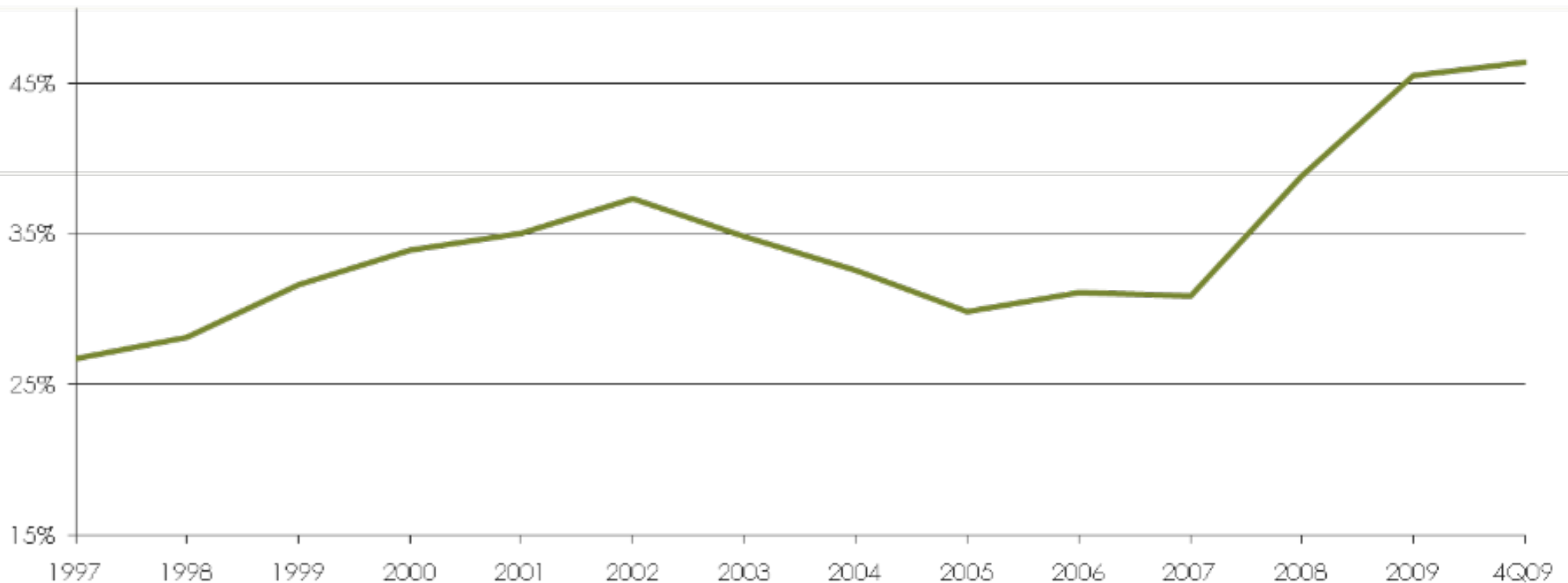
## Historical LBO activity.

In late-2008 and 2009, very few deals were completed, due to the lack of credit and volatility of corporate profits.



## Equity contributions in LBOs.

As banks reduce the amount of credit available, private equity funds have to invest more in each transaction. This pressure on returns means more funds are adopting Summer Street's strategy – generating real growth to drive great results.





## About Summer Street Capital.

Summer Street is a private equity firm focused on investing in lower middle market companies. We invest alongside talented managers, bringing capital and resources to enable extraordinary growth.

- Location: Buffalo, NY
- Founded: 1999
- Funds under management: \$300 million (currently investing in our second fund)
- Investment type: Equity for growth and buyout transactions
- Investment preference:

**INVESTMENT AMOUNT:** minimum of \$15 million  
**REVENUES:** \$30–150 million (10% + EBITDA)  
**GEOGRAPHY:** Eastern half of US and Canada  
**OWNERSHIP:** Minority and control positions

### HOW TO CONTACT US

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