

The Roadmap to a Transaction

Presented by:
Brian Goodhart to



Overview

- Founded in 1995 and headquartered outside of Washington DC.
- Creators of the Roadmap to Acquisitions.
- Full Team of M&A Experts, Advisors, Analysts, Researchers and Support Staff.



About Your Presenter



Brian Goodhart serves as Director of Capstone's M&A Advisory Services. He is experienced in conducting middle-market transactions on both the buy and sell sides. In his role with the Capstone Team, he works side-by-side with clients throughout the deal making process to develop actionable transition strategies that maximize value and create generational wealth.

Brian's career in finance began in the ".com" era working with several venture-backed firms before spending several years with The Vanguard Group where he led a team of financial analysts managing the budgeting process and conducting financial analysis on a variety of technology initiatives. He then transitioned to working with a small private equity fund where he worked on a variety of projects including technology, real estate, and oil and gas. This work then led him to advising in private company mergers and acquisitions. Prior to joining Capstone, Brian was the Director of Wipfli's Business Transition Group, where he led a multi-disciplinary team in the firm's national offering to help private business owners devise and execute an appropriate transition strategy.

Brian has assisted companies in raising private and venture-backed capital. He is the co-developer of system processes which assess, collaborate, and implement a client's strategic transition objectives. He has worked with clients across a diverse cross-section of industries including agriculture, construction, healthcare, investment banking, manufacturing, wealth management, and technology.

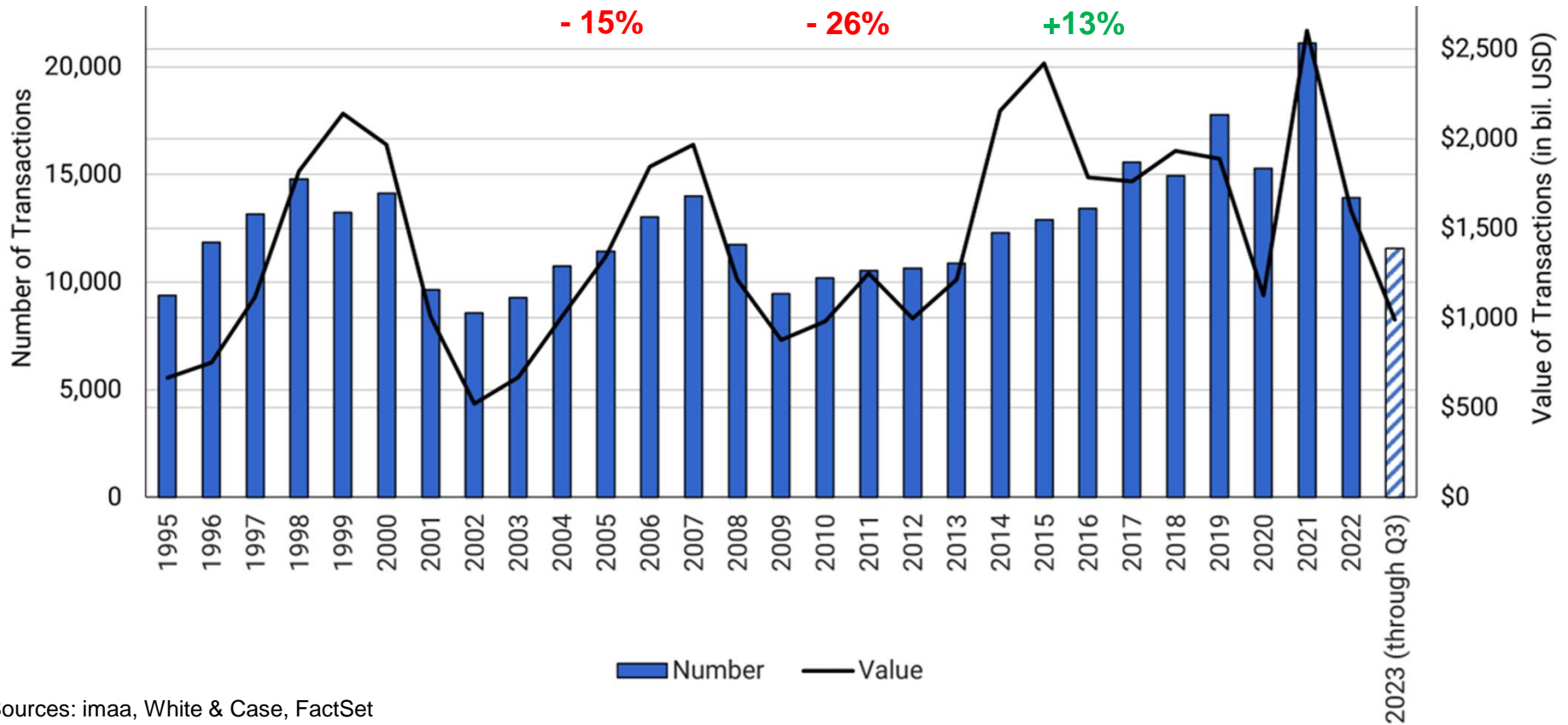
He holds a BS in Finance and an MBA, both from Pennsylvania State University.

M&A

The Market Today

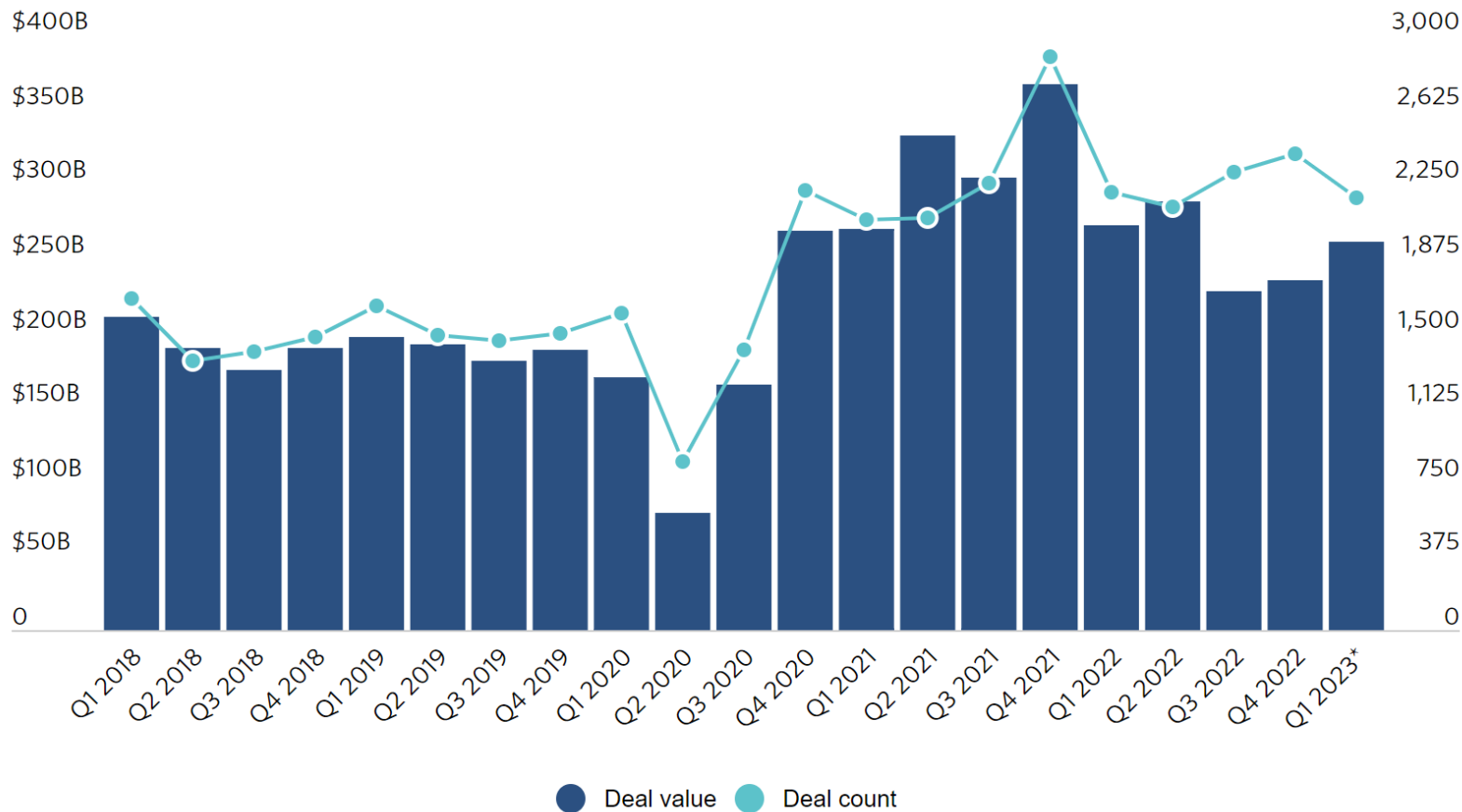
US M&A Activity

	Deal Value	Number of Deals	Average Deal Size
Q3 2022	\$353 billion	4,426	\$79 million
Q3 2023	\$298 billion	3,270	\$91 million



Sources: imaa, White & Case, FactSet

US PE Activity (2018 - 2023)



Source: PitchBook data
 *As of March 31, 2023

Recent Noteworthy Transactions

- In Q2 Berkshire Hathaway purchased shares in the following homebuilders:
 - D.R. Horton
 - Lennar
 - NVR
- Combined investment of \$814mm with D.R. Horton dominating the purchase. Berkshire is now one of the company's 10 largest shareholders.

Recent Noteworthy Transactions

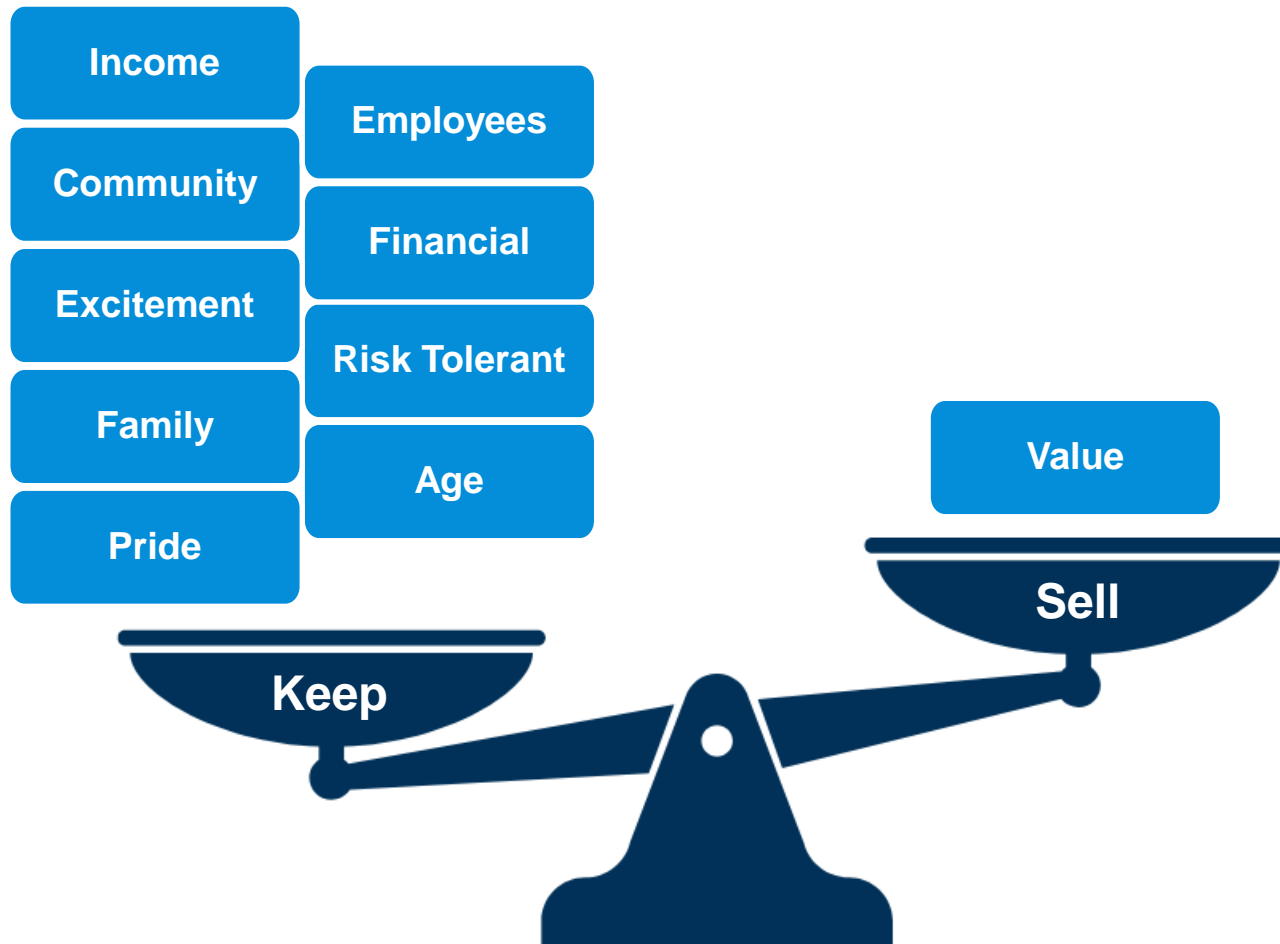
- Bob Dylan sold his publishing catalogue for an estimated \$300-400 million and his master recordings for another \$200 million.
- Sting sold his entire music catalogue for more than \$300 million.
- David Bowie sold his entire catalogue for \$250 million before his demise.
- Katy Perry sold her catalog rights for \$225 Million.
- The financial benefits extend beyond immediate cash injections. Selling their catalogue allows for more efficient estate planning, ensuring that heirs are not burdened with the complexities of managing these assets in the future.

Upcoming concerns

- Elevated Gift Tax Exclusions Will Sunset after 2025
 - The 2017 Tax Cuts and Jobs Act nearly doubled the lifetime estate and gift tax exemption from \$5.6 million to \$11.18 million for individuals, indexed for inflation after 2018.
 - For 2023, the indexed exemption rose to \$12.92 million (\$25.84 million for married couples).
 - Barring congressional action, the inflation-adjusted exemption is expected to return to approximately \$7 million (\$14 million for married couples) in 2026, effectively reducing the limit by half.

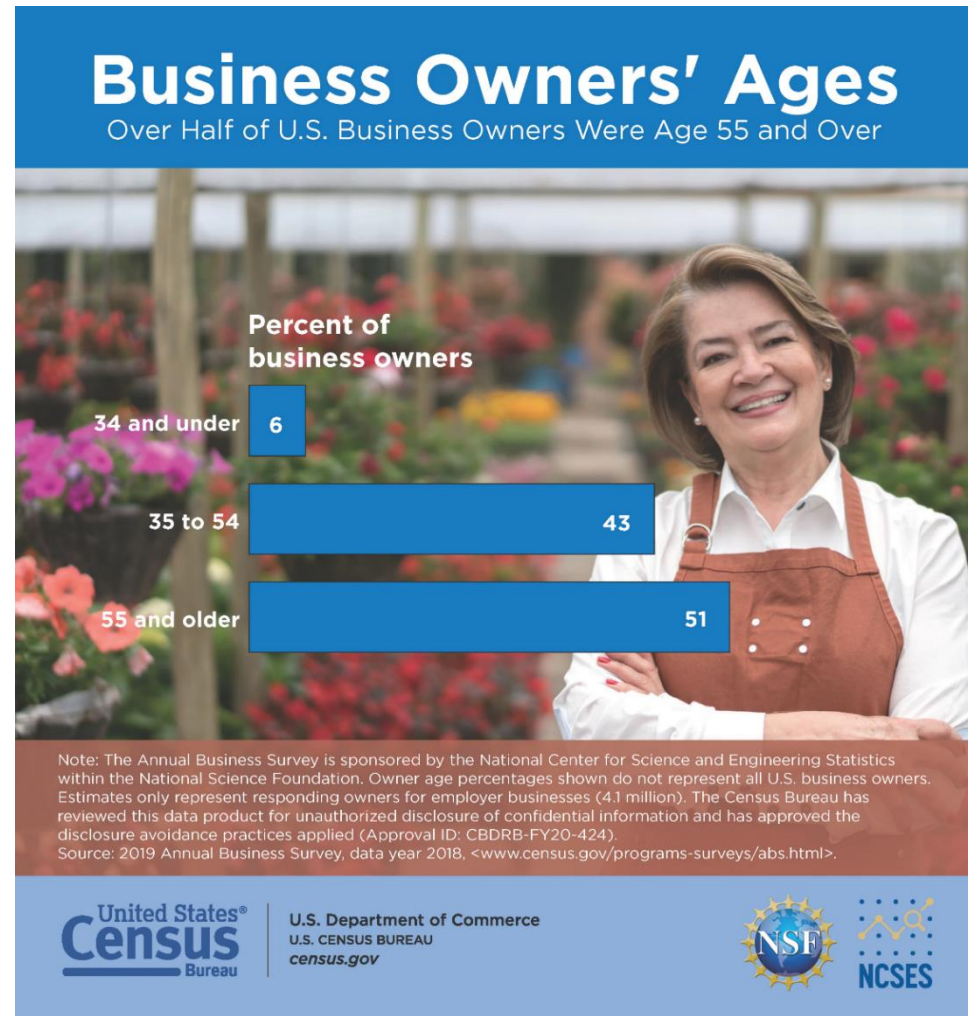
Why do Owners Sell?

The balance of owning a business...



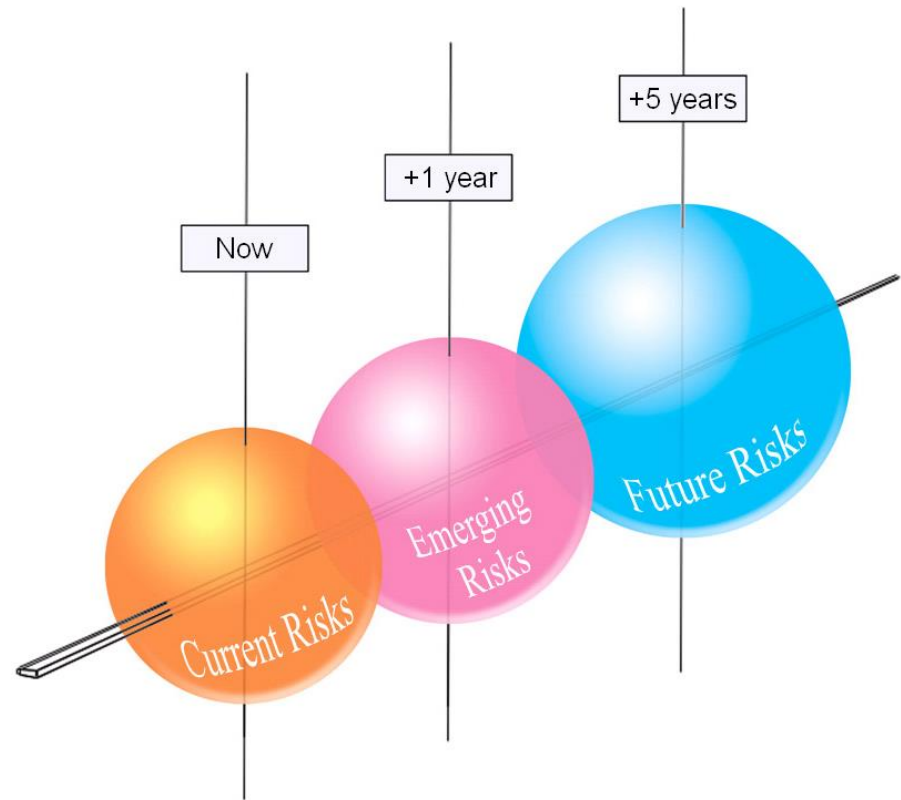
Why Owners Sell: Age

- Retirement
- Overworked
- Burnout
- “Burden of Ownership”
- Health



Why Owners Sell: Risk

- Security Now!
- Competitor was Acquired
- Excess Capacity
- Compliance
- Silent Partner Wants Out
- Bank Pressure
- Business Peaked
- Corporate Challenge



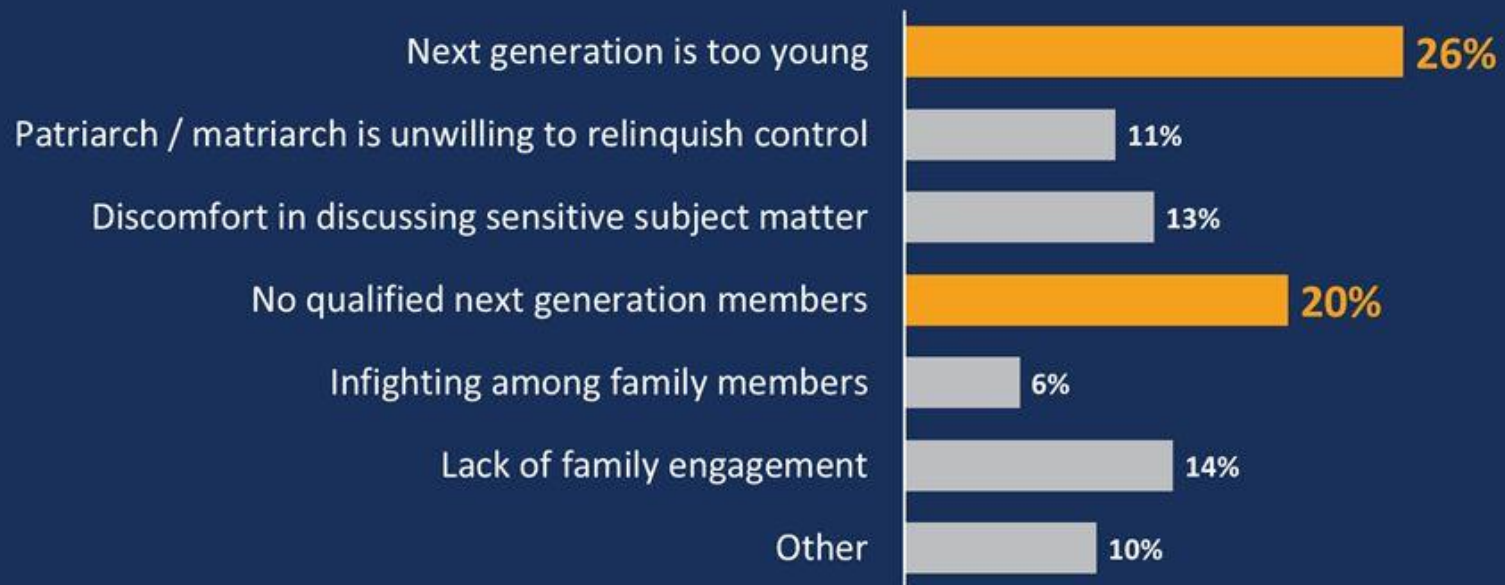
Why Owners Sell: Family

- No Heir Wants the Business
- Heir Not Capable
- Spend More Time with Family
- Succession Problem
- Estate Planning
- Divorce
- Death



Why Owners Sell: Family

WHAT ISSUES ARE FAMILY OFFICES FACING IN REGARD TO SUCCESSION PLANNING?



Source: 2022 Wharton Family Office Study

Why Owners Sell: Financial

- Asset Diversification
- Liquidity
- Brag Factor
- Tax Concerns
- Premium Prices Now

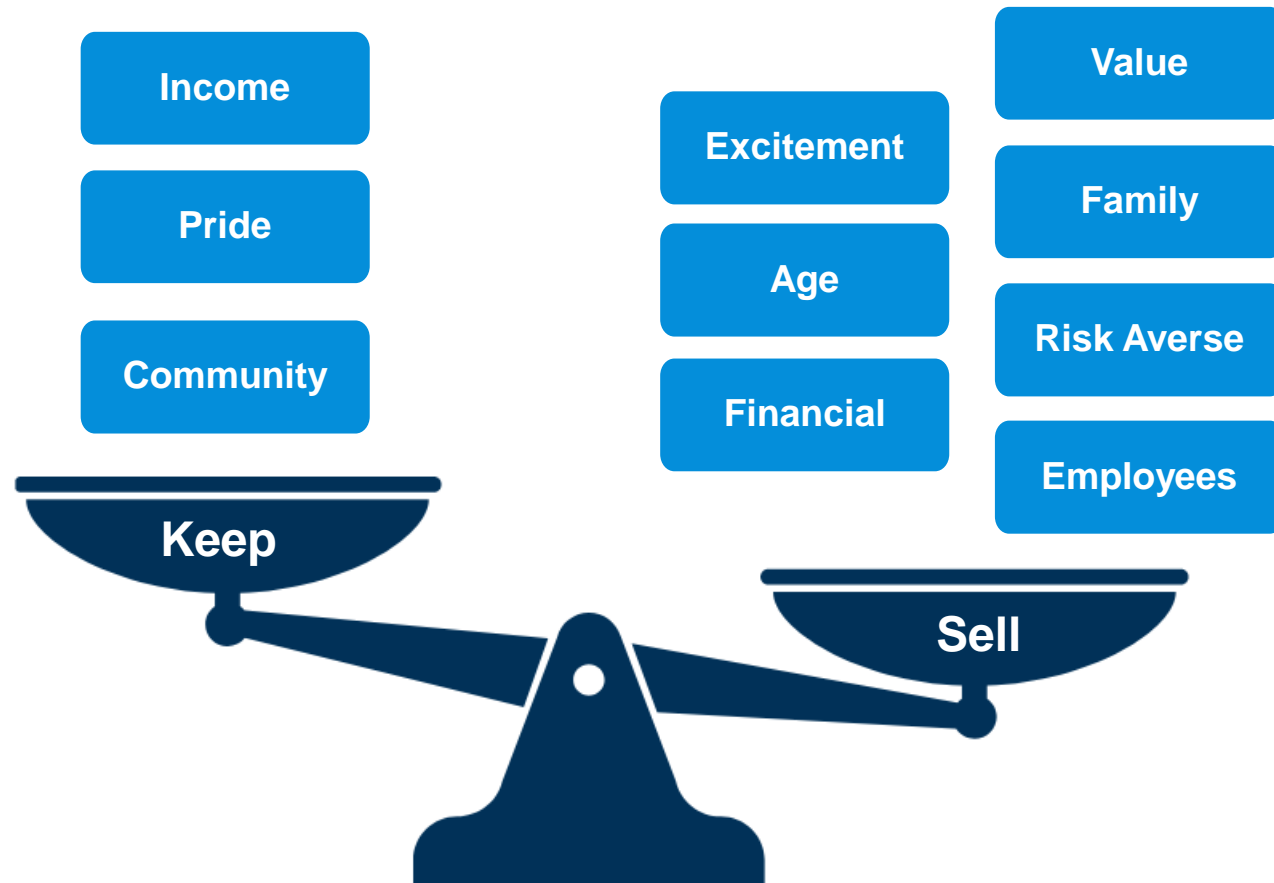


Why Owners Sell: Excitement

- New Technology
- Bigger Deals
- Additional Markets
- Increased Capacity
- Vision Realization
- “Run a Business”



Tipping the scales...



The Roadmap to a Transaction



Phase 1: Planning & Preparation

What are the keys to good transaction?

There are two primary things that I tell owners who are interested in selling their business.

1. Transactions are processes, not events. Work with a team that executes a plan to achieve your objective.
2. Transactions take teams.

1. The Selling Equation

What is your “Selling Equation”?

$$= \sum (\underline{\mathbf{v}}\text{alue, } \underline{\mathbf{I}}\text{nvolve}ment, \underline{\mathbf{T}}\text{iming, } \underline{\mathbf{O}}\text{perations \& } \underline{\mathbf{S}}\text{tructure}) + X$$
$$= \text{SALE!}$$

It is the combination of factors that, when present, would inspire you to sell your business.

1. The Primary Dimensions of a Deal

Remember – a good transaction is determined by your unique, individualized combination of these factors.

Use caution when comparing your transaction to others.

What makes headlines is often not what makes a deal.

Transactions are usually much more complex than they first appear.

1. Your Selling Equation

Example:

- **Value** – I believe my business is worth \$8.5 million.
- **Involvement** – I would like a small amount of operational involvement and want no financial involvement beyond the closing of the transaction.
- **Timing** – I would like to begin my transition within 6 months and be completely separated from the business three years after.
- **Operations** – I would like to be out of day-to-day operations within 6 months of close, though I am willing to help with strategic decisions for up to three years.
- **Structure** – I would prefer an asset sale and want 100% of the purchase price at close.

The Capstone Roadmap to a Transaction



2: Gather the team and the data

- Internal Team
 - The internal team should be a select, small group of individuals who have the time and ability to provide information to interested parties.
 - This group typically involves
 - Senior Executives
 - Finance
 - HR
 - IT
 - Sales
 - Confidentiality and discretion is a must



2: Gather the team and the data

- External Team

- The external team should be a select group of experienced individuals who can help you execute a transaction and provide sound advice throughout the process.
 - Legal counsel
 - Accountants
 - Transaction Advisors
 - Financial Advisors

*Your existing team may not have the required knowledge and experience to adequately assist you with a transaction. Don't be afraid to reach out for experienced help. It will save time and money in the long run.

2: Gather the team and the data

- Identify Decision Makers and Deal Breakers
 - How will the sell decision be made at your organization? Does it require Board approval? Does it require a supermajority vote by the partners? Does it require a majority of the family?
 - Are there individuals or organizations that can stop a sale?
 - Business partners
 - Employees
 - Financial partners
 - Regulatory bodies
 - Etc.



2: Gather the team and the data

Internal Team	External Team	Decision Makers	Deal Breakers
CFO	Law Firm	Chairman	Surety Company
VP of Business Dev.	Accountants	Board Member #1	Regulator
CIO	Transaction Advisor		Employee _____
VP of HR	Financial Advisor		
President			

2: Gather the team and the data

- Gather the data
 - Begin to assemble the data an interested buyer would want see
 - Use a Virtual Data Room to house the information
 - Information should include:
 - Financial information
 - HR and personnel data
 - Technology data
 - Legal contracts
 - Information should be prioritized. General information will be shared early in the process, detailed information later

*This data will not be turned over to the prospective buyer(s) all at once. This information will be provided over time, but assembling the information now will save you time when you enter due diligence.

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3: Identify key strategies

- What is your value-add to a potential target? Why would someone want to buy you?
 - Financial Performance
 - Unique and/or valuable assets
 - Market position, relationships
 - Management Team & Personnel
 - Products or Services
 - Defined Niche
 - Geography



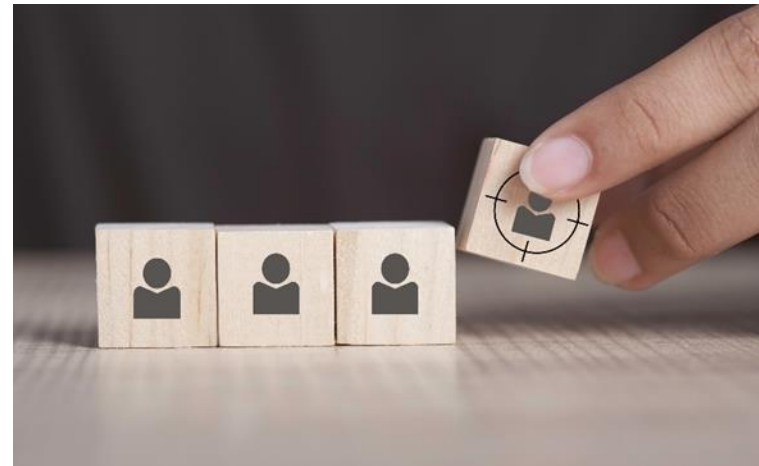
*Value, much like beauty, is often in the eye of the beholder. Different companies will find different attributes valuable.

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4: Define Ideal Buyer

- Formulate decision criteria
 - **Who can meet the requirements laid out in Your Selling Equation?**
 - Can a family transition meet your requirements?
 - Can a transition to members of management?
 - Can a transition to employees through an ESOP?
 - Can a third party via a sale?



4: Define Ideal Buyer

- Two broad and sometimes overlapping categories
 - **Strategic Buyers**
 - Strategic buyers are those buyers for whom your company could serve as a “missing piece of the puzzle”.
 - Strategic buyers may also be looking for you to become a “platform” company onto which they will add other firms.
 - **Financial Buyers**
 - Financial buyers are those firms or companies that will acquire you to obtain a desired return on invested capital.
 - Financial buyers come in a variety of styles including:
 - Private Equity
 - Family Offices

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5: Prepare Collateral Material

- Teaser
 - Short, generally 1pg document that details what the company does, the type of transaction anticipated, geographic information, revenue/profitability or other performance metrics.
- Confidential Information Memo
 - Key investment considerations
 - Company description
 - Company strategy
 - Products
 - Marketplace
 - Customers & Partners
 - Management team
 - Financial summary



Phase 2: Outreach & Engage

6: Screen, Assess and Prioritize

- For those contemplating a transition to a family member, management team or employees, this is the time to objectively assess and rank their ability to consummate a transaction.
- For those planning a transaction with a third party, now is the time to begin to screen and organize the universe of potential buyers.

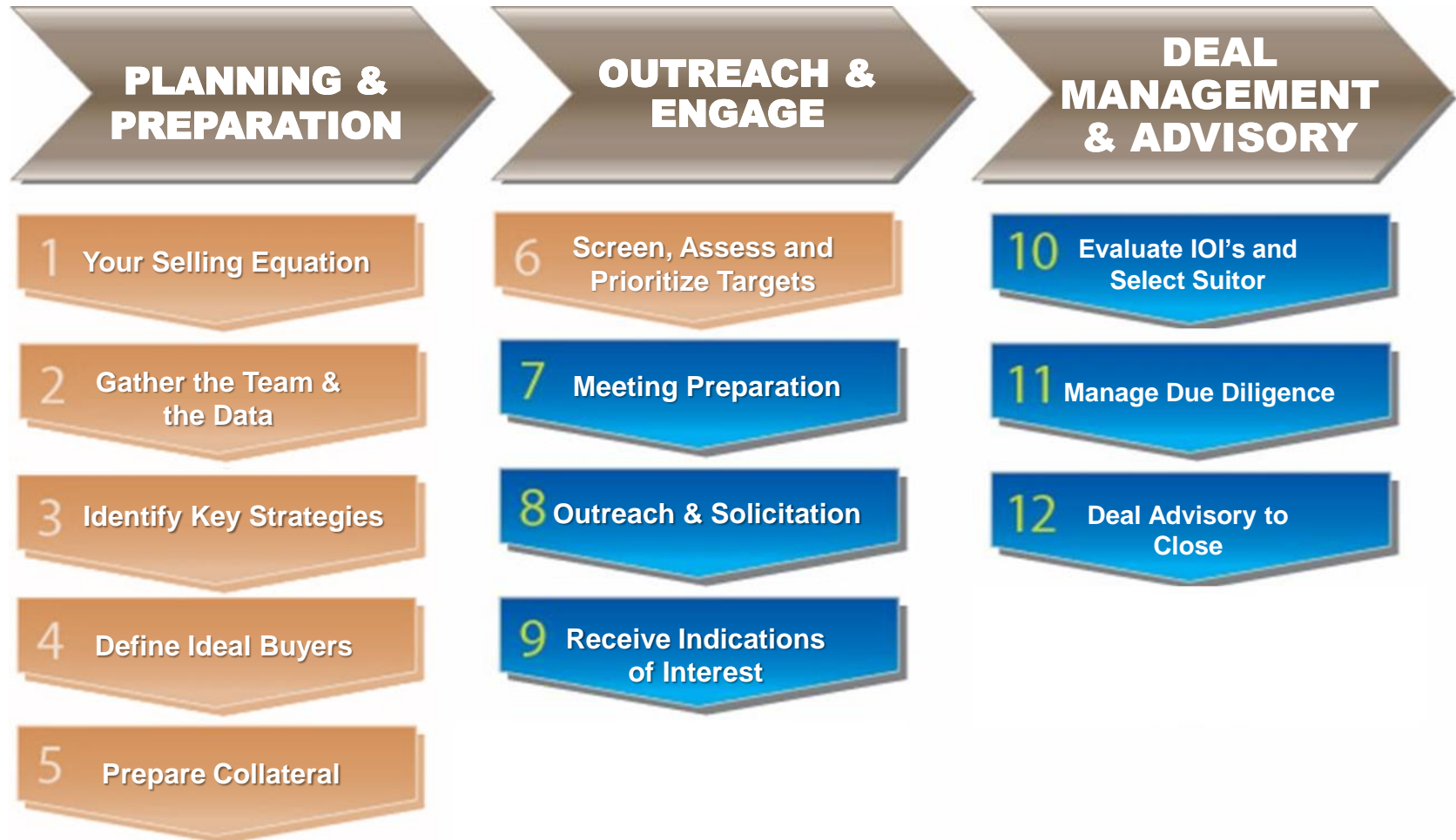
6: Screen, Assess and Prioritize

- Review “usual suspects”
- Research and evaluate firms against buyer criteria (established during Phase I)
- Prioritize alternatives; develop a list of Tier 1, Tier 2 and Tier 3 candidates
- Develop prospect profiles for top prospects
- Score prospects using weighted criteria to establish the new priority list

Prospect Research Funnel



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7: Prepare for First Meetings

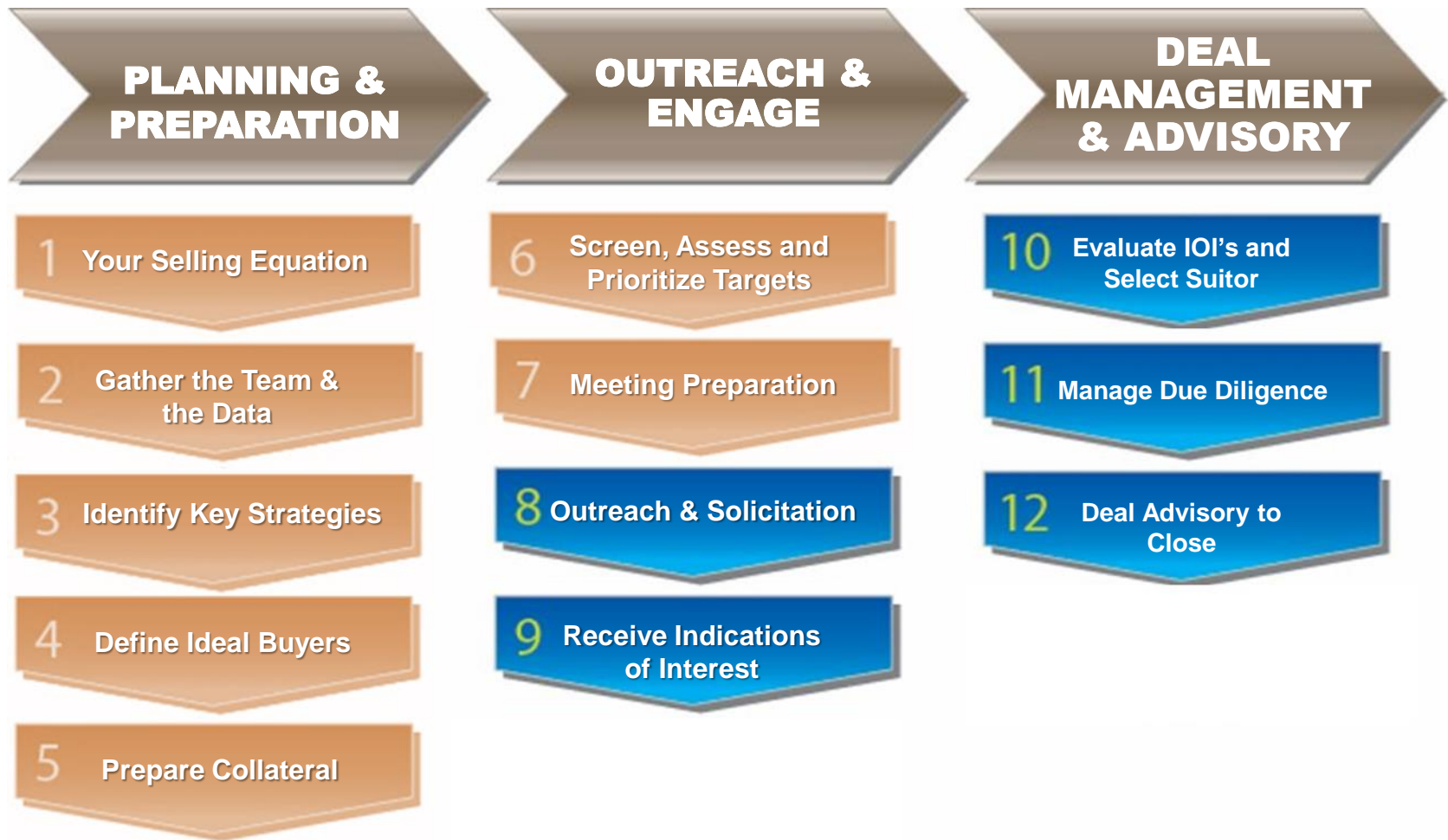
- For those contemplating a transition to family or employees:
 - You may have to “help” make a transaction happen in a variety of different ways
 - Brainstorm ways a transaction could be crafted that would meet your needs
 - Write down your ideas



7: Prepare for First Meetings

- For those contemplating a sale:
 - The goal of the first meeting is to pique the interest of the potential buyer and induce them to want to investigate the opportunity further without inundating them with information.
 - Brainstorm “selling points” as to why prospects would want to purchase the business
 - Develop first meeting materials
 - Role-play typical interaction scenarios
 - Come up with a “cheat sheet” with answers to typical questions posed by buyers

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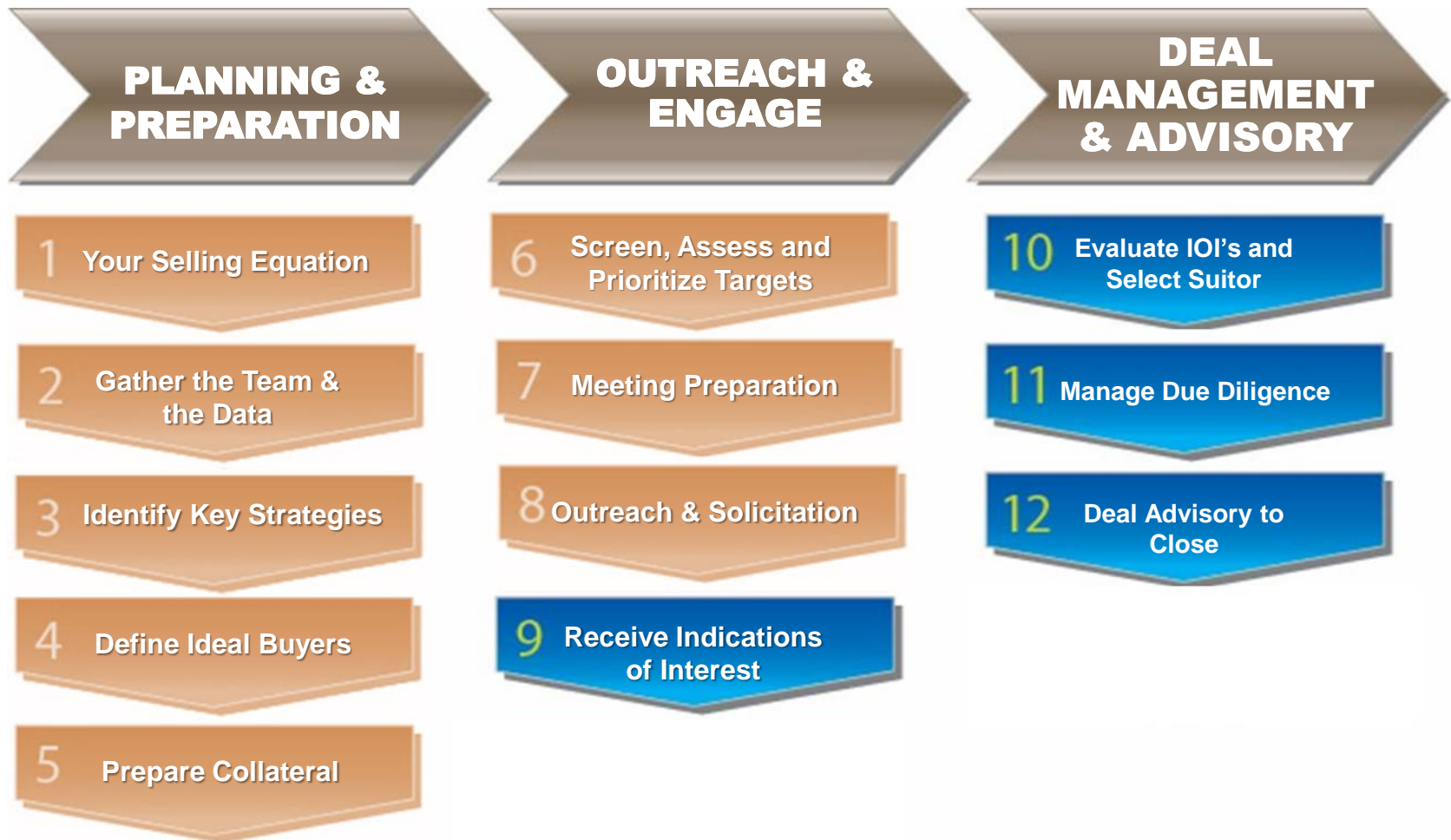
8: Outreach & Solicitation

- For those contemplating a transition to family or employees:
 - Usually, you will engage in a series of meetings over a longer time horizon than when selling to a third party
 - Collaboration is the key
 - Provide requisite data needed for them to understand the business and formulate an offer
 - Continually evaluate how interactions have gone and improve the process
 - Establish clear and objective milestones
 - “Some day” is the enemy
 - Follow Through!

8: Outreach & Solicitation

- For those planning a sale to a third party
 - Reach out to targets using the Teaser & Confidential Information Memorandum
 - Conduct first meetings and visits
 - Provide requisite data for targets to construct an Indication of Interest
 - Continually evaluate how interactions have gone and improve the process
 - Iterate

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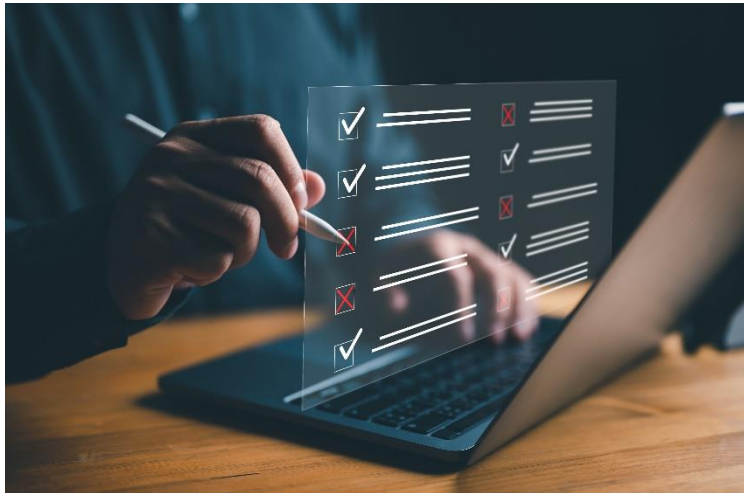
9: Receive Indications of Interest

- The goal of meeting interested parties is to induce them to provide a pre-determined indication of interest
- This proof could be in the form of a Letter of Intent (“LOI”) or a simpler Indication of Interest (“IOI”)
- These documents are non-binding documents which detail basic deal value and terms
- Some buyers may request additional information in order to provide this document

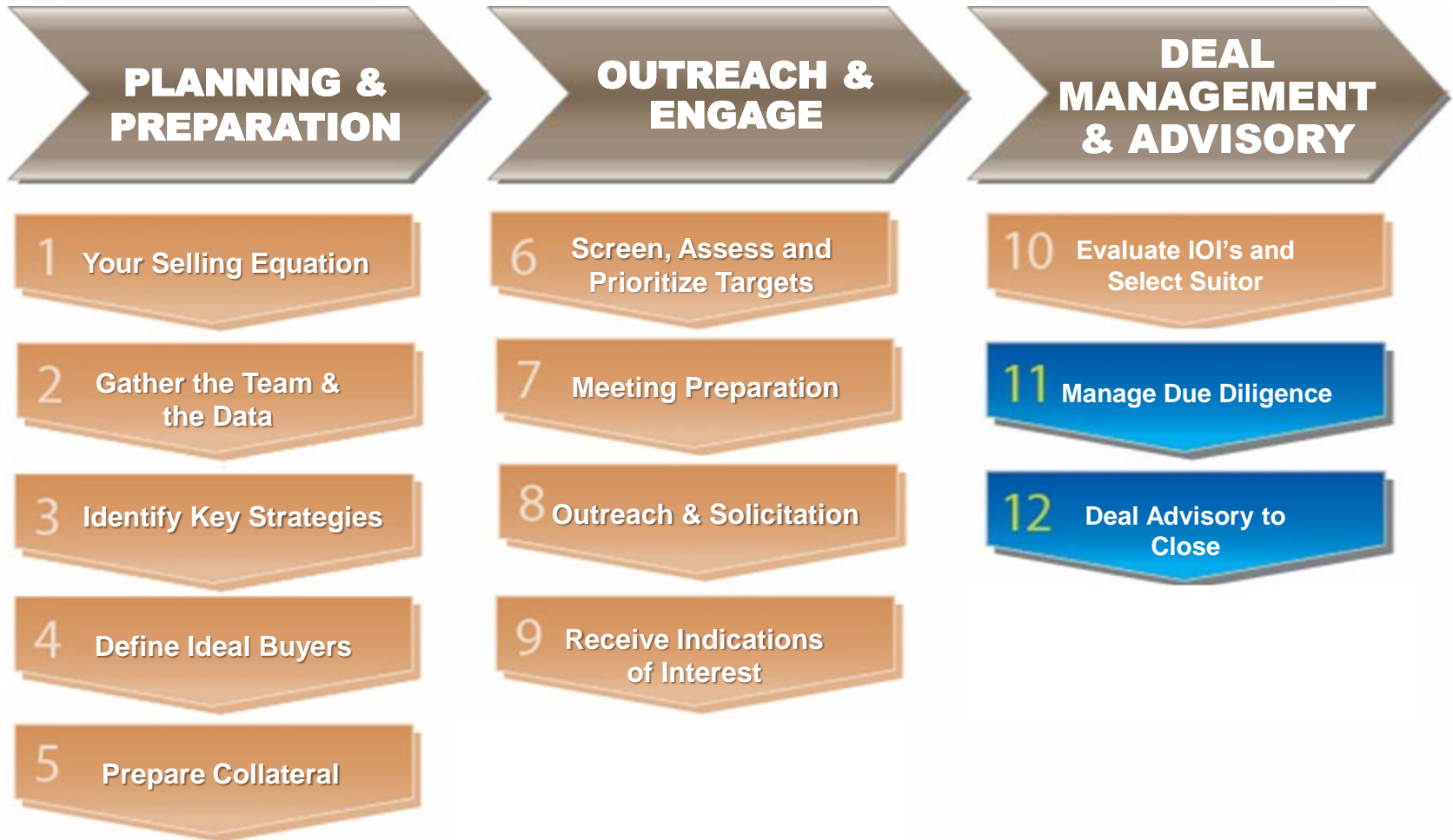
Phase 3: Deal Advisory & Management

10: Evaluate IOI's and Select

- Review and Evaluate the tangible and intangible aspects of each proposed offer
- Use the Selling Equation (established in Phase 1) to assess each offer
- Request subsequent information from the prospective buyers as needed
- Select a suitor



The Capstone Roadmap to a Transaction



11: Due Diligence Management

- Liaison between buyer and seller (and associated outside advisors) throughout process
- Logistics coordinator
- On-site due diligence schedule coordination and coaching
- Sounding board for buyer and seller due diligence leads and executives
- Virtual Data Room setup, ongoing management and tracking

The Capstone Roadmap to a Transaction



12: Deal Advisory to Close

- Interface with Client, suitor, tax counsel, legal counsel, financial advisors and other members of the deal team
- Help Client anticipate questions and prepare for meetings
- Act as a sounding board and advise Client throughout the process leading to a satisfactory close



Final Thoughts

- Remember – regardless of the type of transaction, transactions are processes, not events.
- Transactions take teams. Assemble a good one that executes a solid plan to achieve your strategic objective



Final Thoughts

- “What should I do, if I don’t know what to do?”
 - The simplest and easiest way to get started is usually with a Valuation or Market Assessment.
 - This is a key component in The Selling Equation and will give a business owner a perspective on how the market is currently valuing similar businesses.
 - Price is often a “go/no go” decision for business owners. It doesn’t obligate a business owner to any course of action, but it is usually the first hurdle to overcome.



**Stay in
Touch.**



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