



**StoneCreek**  
Capital Partners in Growth

# **Executive Buyouts in a Pandemic Environment**

**June 4, 2020**

# Background

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- **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

**PINNACLE**  
EXHIBITS design.build.manage



**Fire Dex**

**MONTANA**  
SILVERSMITHS

**KOVA**  
INTERNATIONAL

**FoodHandler**



**BARRIER SAFE SOLUTIONS**  
INTERNATIONAL

**KOLMAR**

**IHOP**  
RESTAURANT



**LANDSTAR**



**OSG** OUTSOURCING  
SERVICES GROUP

**ACCESS**  
Shared Experiences. Inspired People.™

**CYCLONIX**



**MICRO FLEX**  
THE MOST TRUSTED NAME IN GLOVES®



**Performance Textiles, Inc.**

**StoneCreek**  
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# Activity

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- **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

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- **Raise Capital from Supportive 3<sup>rd</sup> 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

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- **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**

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# Fundamental Approach (pre-Pandemic)

# Partnering with StoneCreek

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- **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

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- **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

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- **Quantitative**

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

# Backability

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- **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

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- **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

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- **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

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

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# Now What (post-Pandemic)?

# Same Basic Approach

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- **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

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- **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

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- **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

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- **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"> <li>• Strong proven leader</li> <li>• Experienced team, well established culture</li> </ul>
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"> <li>• Expanded agreement with major distributor</li> <li>• Implement Marketing Initiatives – New ERP System</li> </ul>
Limited Capital Intensity	<ul style="list-style-type: none"> <li>• Relatively low % of annual EBITDA</li> <li>• Initially, mid-six figures; ongoing, low six figures</li> </ul>
Strong Corporate Identity	<ul style="list-style-type: none"> <li>• Leading brand for decades</li> <li>• Exceptional customer loyalty</li> </ul>
Defensible Market Position	<ul style="list-style-type: none"> <li>• Smaller competitors, distributor private labels – minimal impact</li> <li>• Modest % of total diagnostic testing cost</li> </ul>
Low Technology or Obsolescence Risk	Best in industry w/o any evident need for technological enhancement
U.S. Headquarters	Southern California

# Contact Information

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