



StoneCreek
Capital Partners in Growth

Maximizing Your Backability

January 12, 2021

Private Equity Backability Course

- **Three Part Series**
 - *Maximizing Your Backability, January 12th*
 - *How LBO's Work, January 19th*
 - Fundamentals
 - *Pulling it All Together, January 26th*
 - Case Studies

Background

- **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**

Activity

- **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**

Representative Transactions

PINNACLE
EXHIBITS design.build.manage



Fire Dex

MONTANA
SILVERSMITHS

KOVA
INTERNATIONAL

FoodHandler



BARRIERSAFE SOLUTIONS
INTERNATIONAL

KOLMAR

IHOP
RESTAURANT



LANDSTAR



OSG OUTSOURCING
SERVICES GROUP

ACCESS
Shared Experiences. Inspired People.

CYCLONIX



MICROFLEX
THE MOST TRUSTED NAME IN GLOVES



Performance Textiles, Inc.

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Independent Private Equity Sponsor

- **Raise Capital on a Deal by Deal Basis**
 - Private Equity Funds
 - Family Offices/Wealthy Individuals
 - Supportive Funding Despite Pandemic
- **Proprietary and Compelling Investment Opportunities**
 - Broken Auctions
 - JCP StoneCreek – Aerospace/Defense
 - **Management Buyouts**

Backability

- **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**

Challenges

- **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**

Fundamental Approach (pre-Pandemic)

Investment Criteria

- **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

- **Quantitative**

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

Partnering with StoneCreek

- **Flexibility Positively Positions SCC**
 - **Management Buyouts**
 - *We're your partner, not your boss*
- **Complementary Partners**
 - **You've Got What we Need**
 - *Leadership, Vision, Proprietary Deal*
 - **We've Got What you Need**
 - *Access to Capital/Transaction Experience*

Acquisition Process

- **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

- **Securing the Opportunity**
 - Current Employer
 - *Slippery Slope*
 - Questionable Credibility as a Buyer
 - *Access to Financing*
 - *Unfamiliar with acquisition process*
- **LOI – Exclusivity and Negotiated Terms**
 - Our ‘Currency’ to PE Groups

Acquisition Process

- **Securing the Capital**
 - **Identify/Approach Financing Sources**
 - *Information Memorandum*
 - Summarize Target's Business
 - Describe Leadership Team
 - Explain Investment Opportunity
 - » Include Risks and Weaknesses
 - Thoughtful Projections/Assumptions
 - » Management & Base Cases
 - *Warm Introductions*

Acquisition Process

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

Now What (Pandemic)?

Same Basic Approach

- **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

- **Opportunistic Acquisition Environment**
 - Large number of struggling businesses
 - Purchase price multiples likely to decline
 - PEG's still need to deploy committed capital
- **Fewer Appealing Industry Segments**
 - Necessary Fundamentals
 - *Cyclical and pandemic resiliency*
 - *Defense, supermarkets, medical supplies*

How to Maximize Success

- **Open Door as a Consultant**
 - Start as part of the solution
- **Pursue segments where demand > supply**
- **Partner with StoneCreek**
 - Strengthens Credibility with Owners
 - Highest Funding Probability
 - Expedite Process
 - Best Economics
 - Best Fit

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