

The Roadmap to a Transaction

Presented by:
David Braun



About Your Presenter



Company Founder: David Braun is the founder and CEO of Capstone, which he established in 1995. The firm’s clients range from family-owned businesses to Fortune 500 multinational companies.

Published Author: David is the author of *Successful Acquisitions: A Proven Plan for Strategic Growth*, which provides a detailed and practical guide to his entire “Roadmap to Acquisitions.”

M&A Expert: David has over 30 years of experience formulating proactive growth strategies in a wide range of manufacturing and service industries. As an M&A expert David has been featured on a variety of media outlets including the *Financial Times*, *Healthcare Business Today*, *Telecom Reseller*, Fox Business News, CBS Money Watch, CNN Money, and The Street.

Speaker: A dynamic speaker, David has lectured to over 40,000 top-level business executives on the subject of M&A and successful external growth.

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.



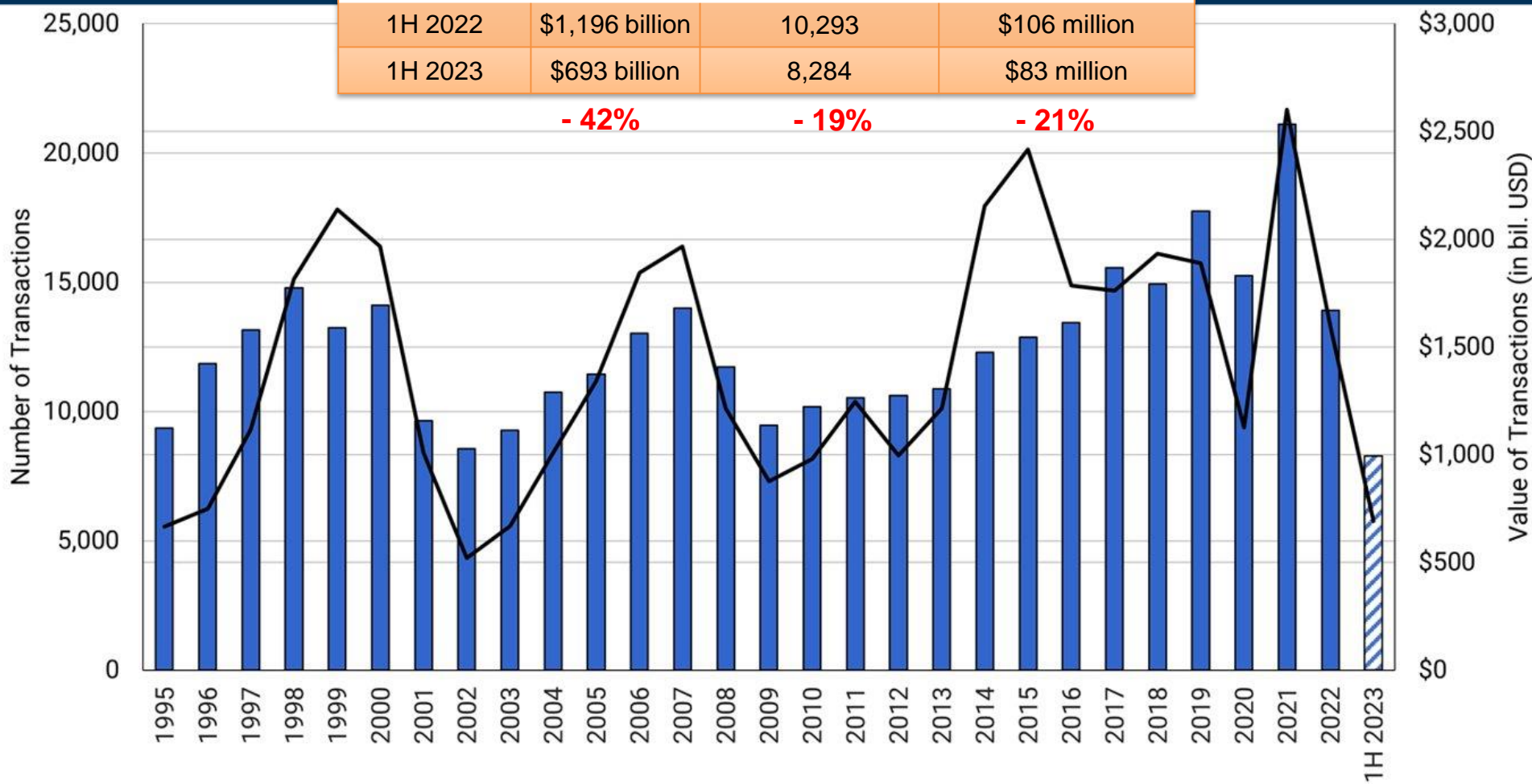
M&A

The Market Today

US M&A Activity

| | Deal Value | Number of Deals | Average Deal Size |
|---------|-----------------|-----------------|-------------------|
| 1H 2022 | \$1,196 billion | 10,293 | \$106 million |
| 1H 2023 | \$693 billion | 8,284 | \$83 million |

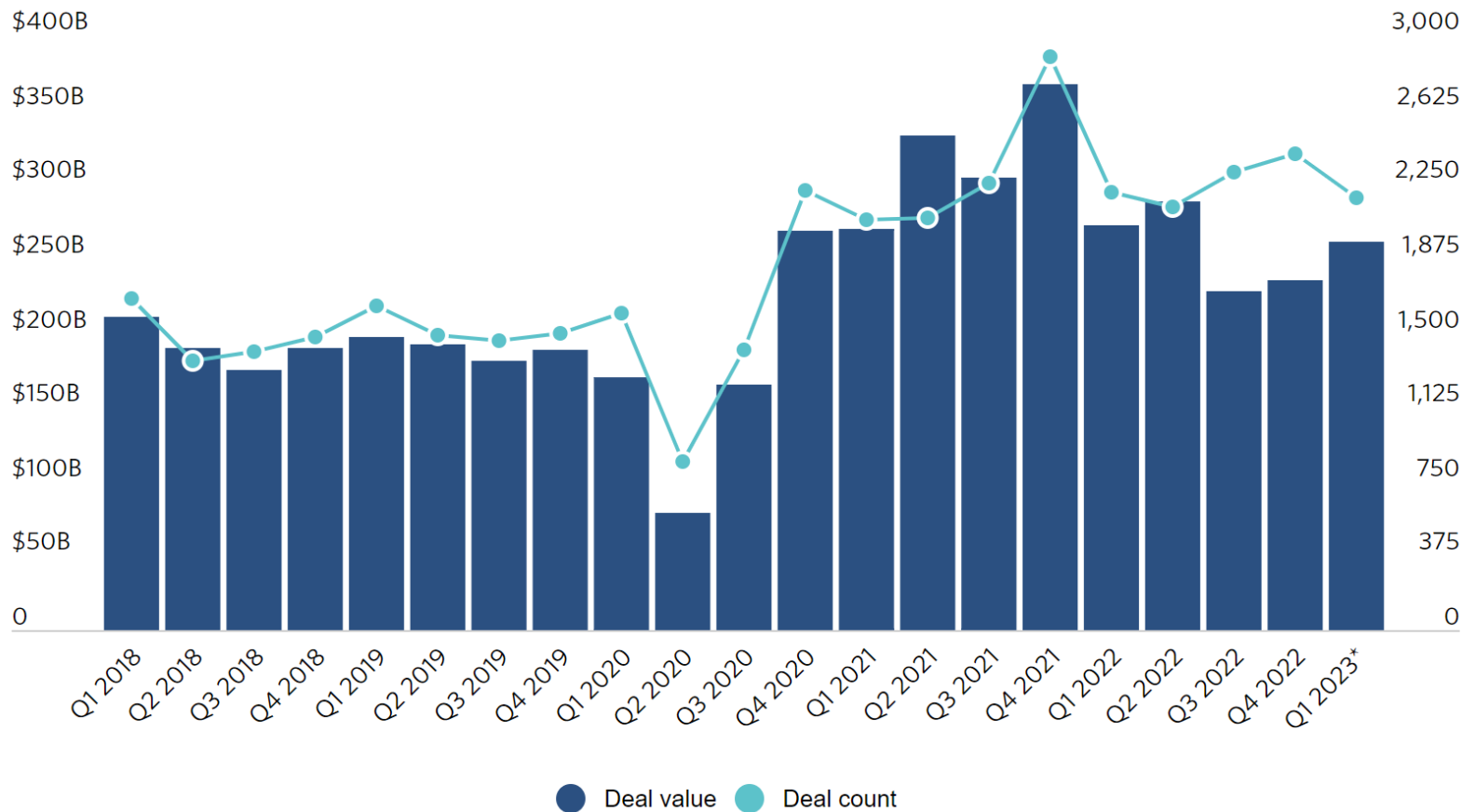
- 42% - 19% - 21%



Sources: imaa, White & Case, FactSet

■ Number — Value

US PE Activity (2018 - 2023)



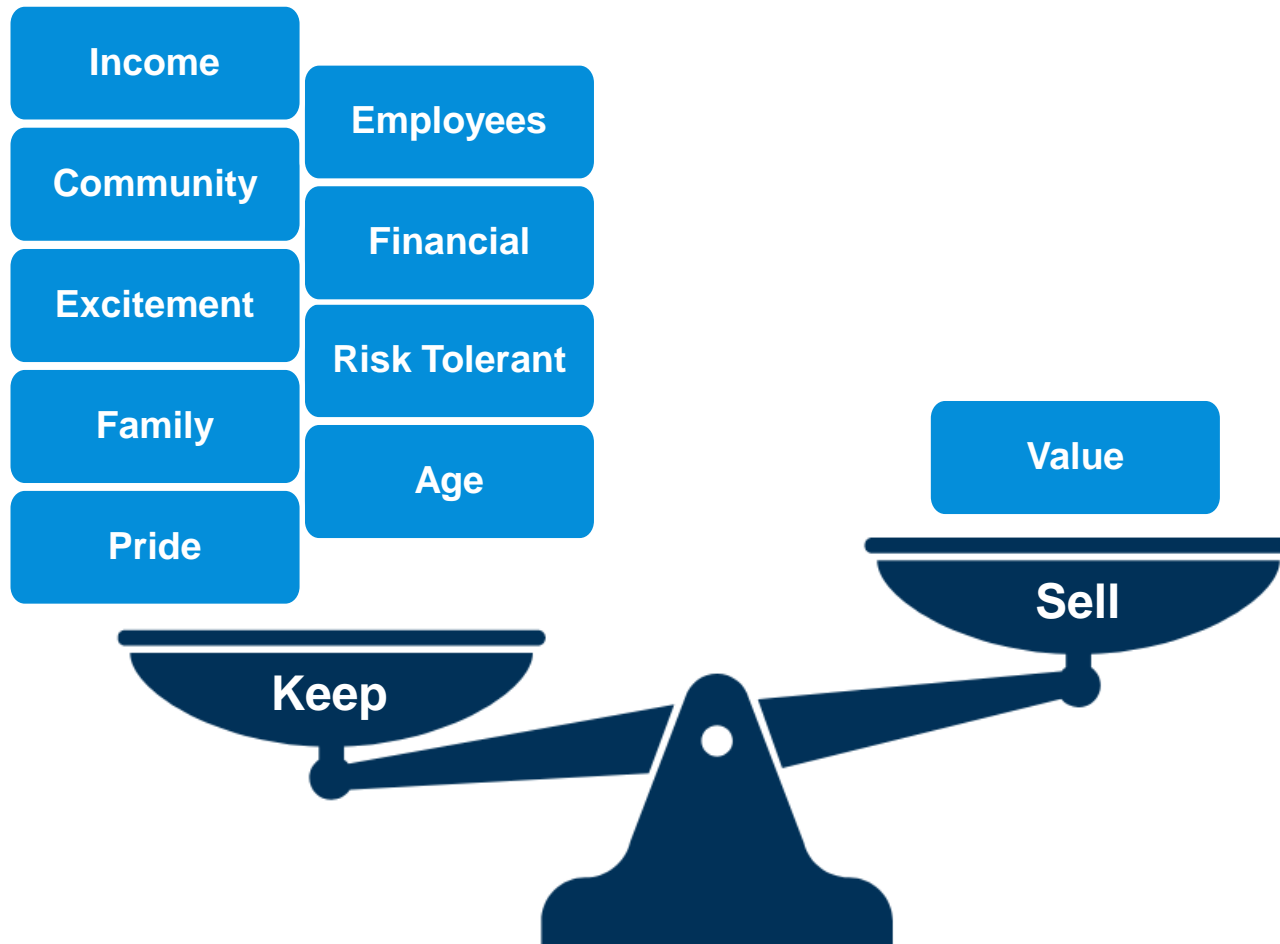
Source: PitchBook data
 *As of March 31, 2023

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.

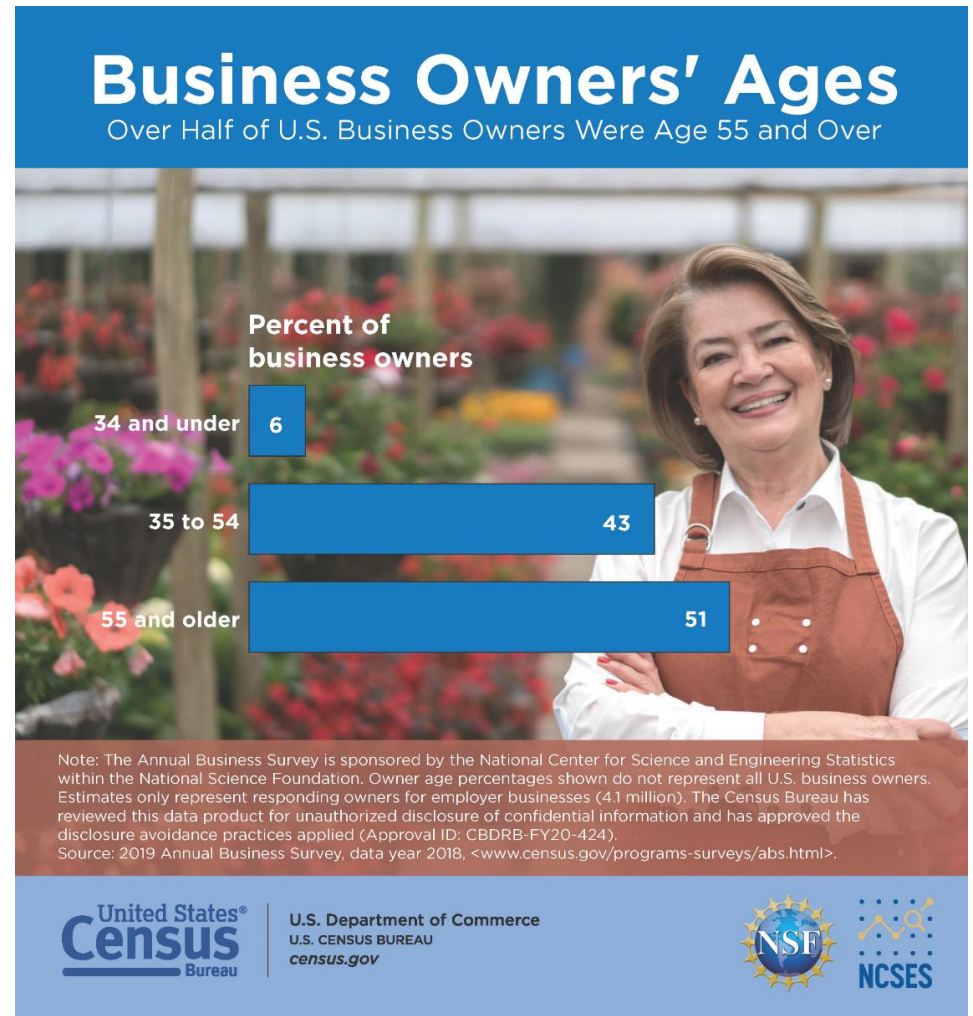
Why do Owners Sell?

The balance of owning a business...



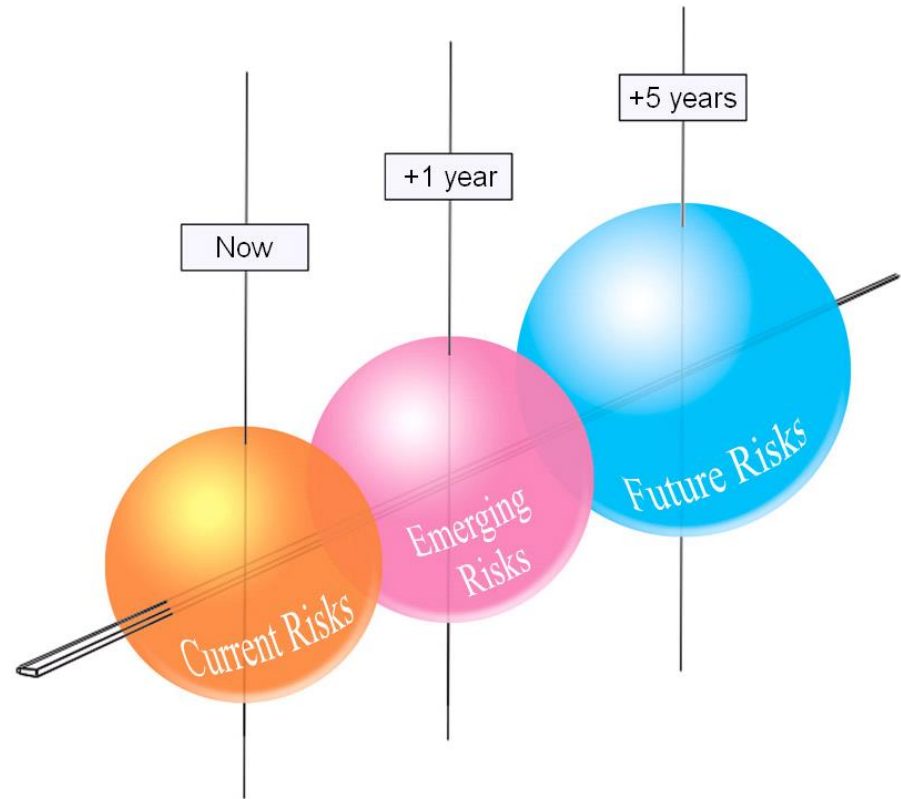
Why Owners Sell: Age

- 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



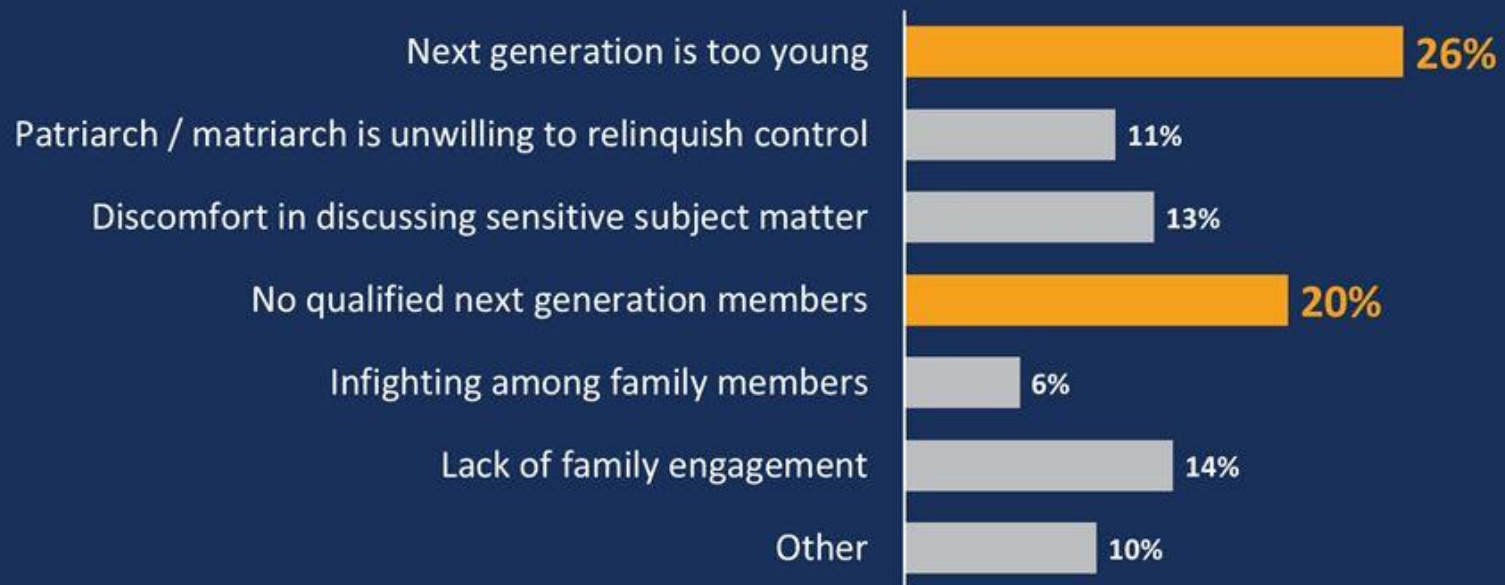
Why Owners Sell: Family

- 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

- Working Capital Needs
- Asset Diversification
- Liquidity
- Brag Factor
- Tax Concerns
- Premium Prices Now

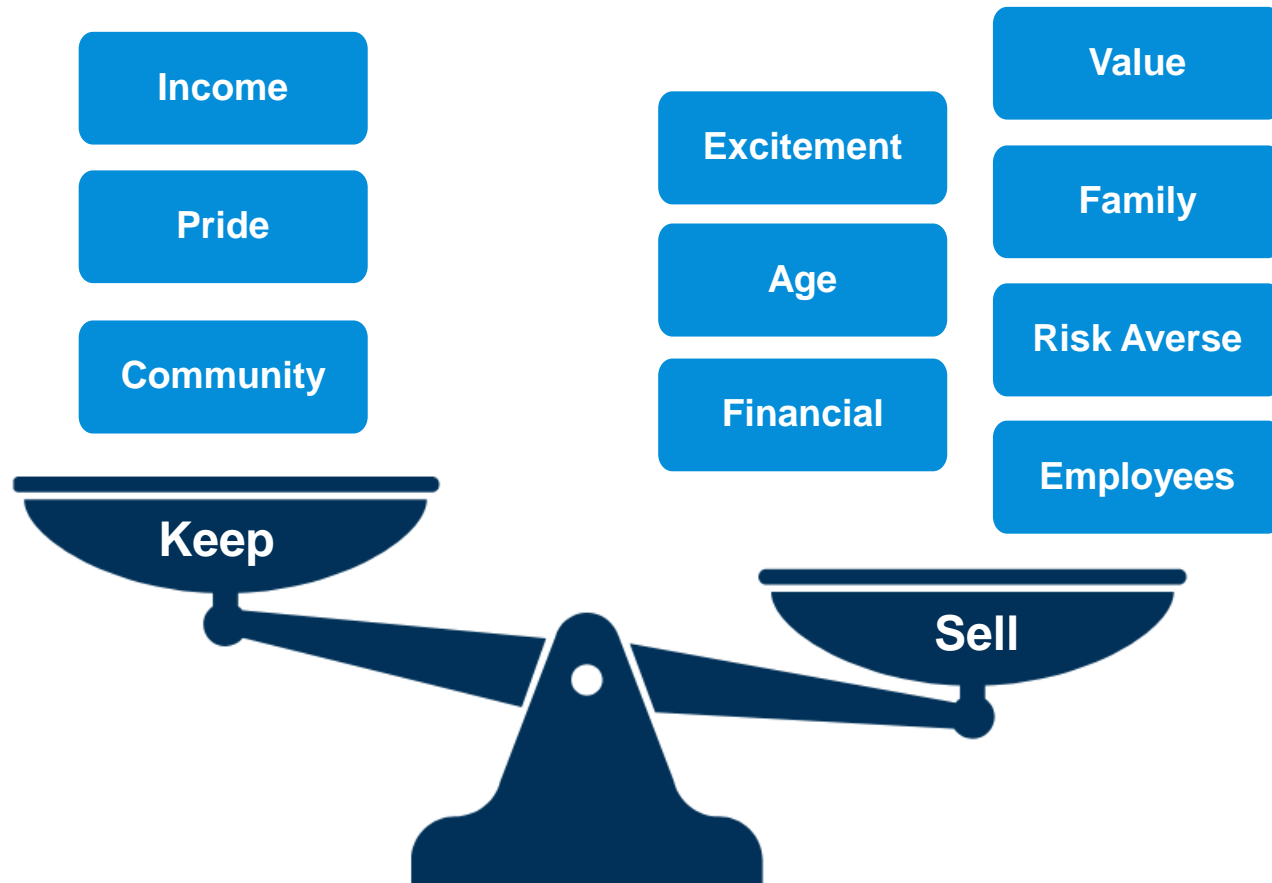


Why Owners Sell: Excitement

- 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”?

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

= 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

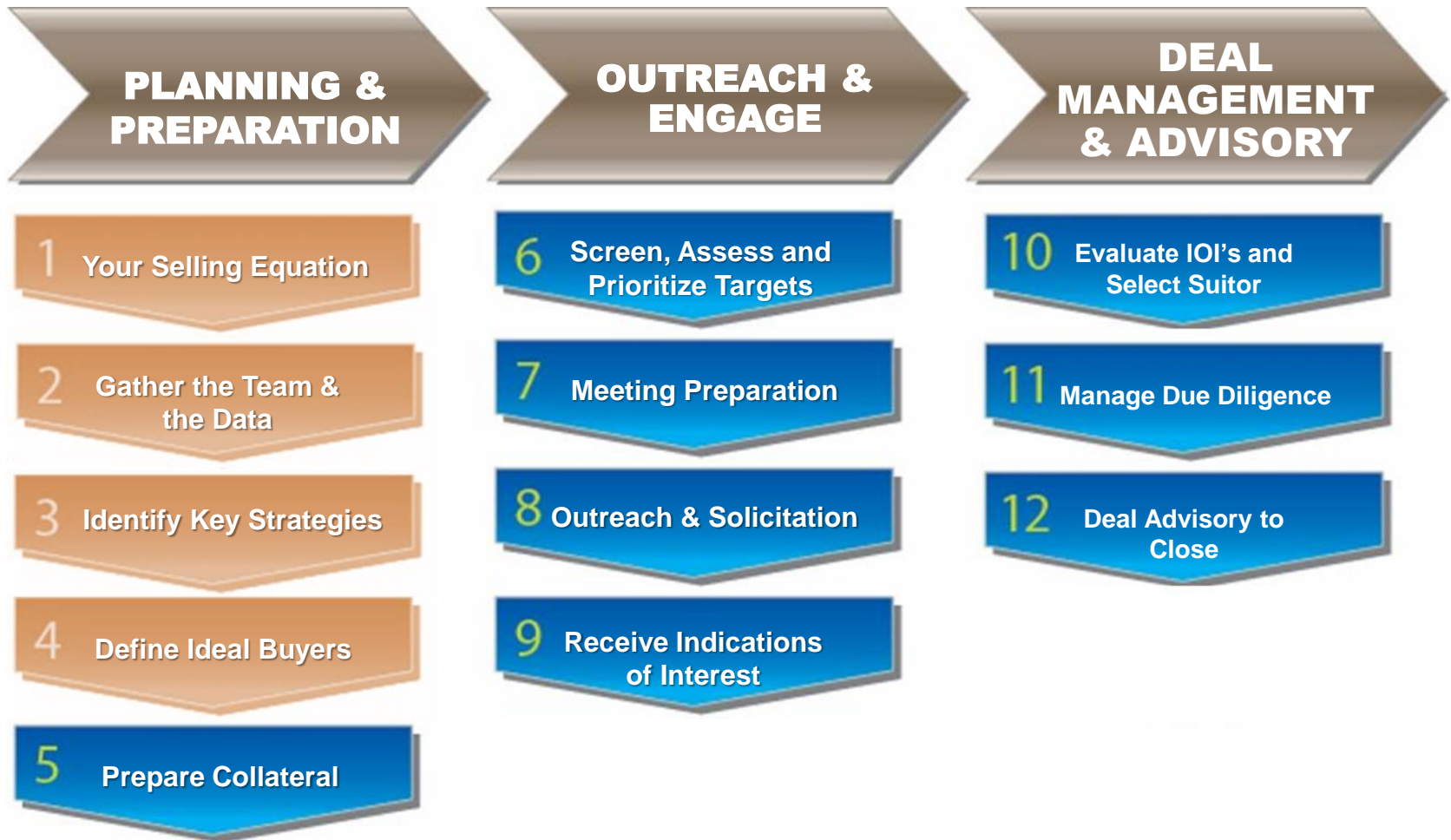
- Formulate decision criteria
 - **Who can meet the requirements laid out in Your Selling Equation?**
 - Can a family transition meet your requirements?
 - Can a transition to members of management?
 - Can a transition to employees through an ESOP?
 - Can a third party via a sale?



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

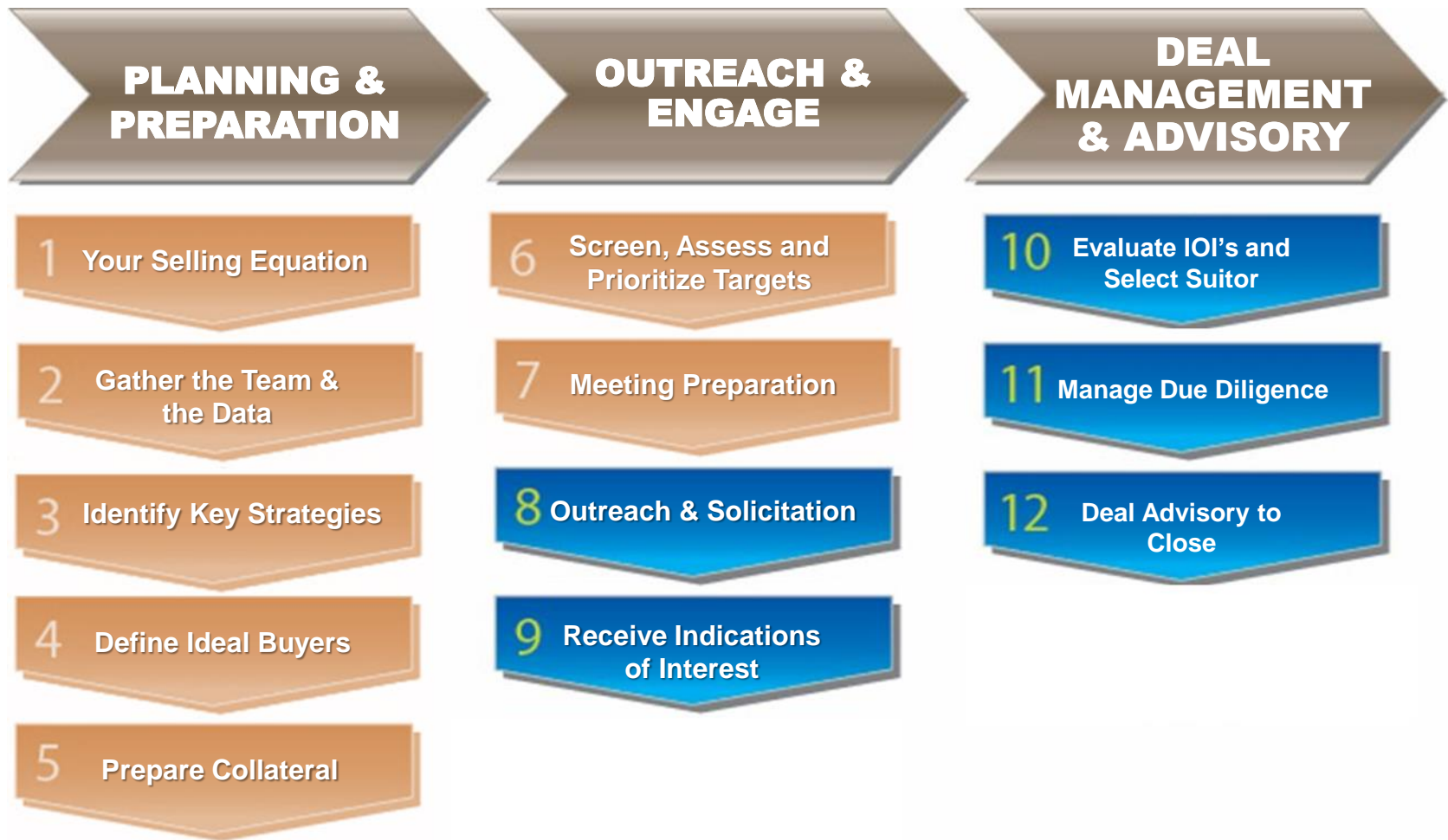
- For those contemplating a transition to family or employees:
 - You may have to “help” make a transaction happen in a variety of different ways
 - Brainstorm ways a transaction could be crafted that would meet your needs
 - Write down your ideas



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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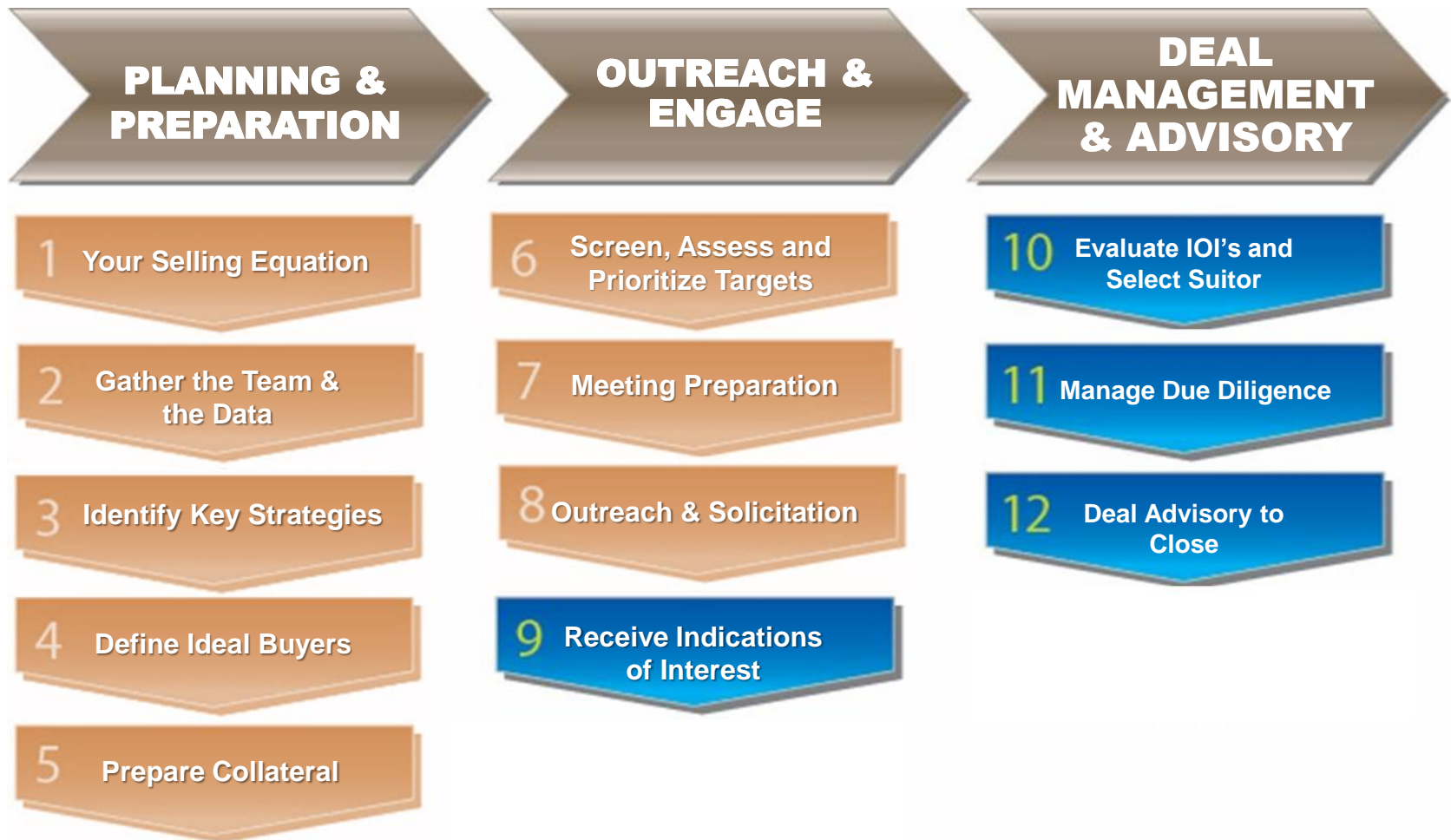
8: Outreach & Solicitation

- 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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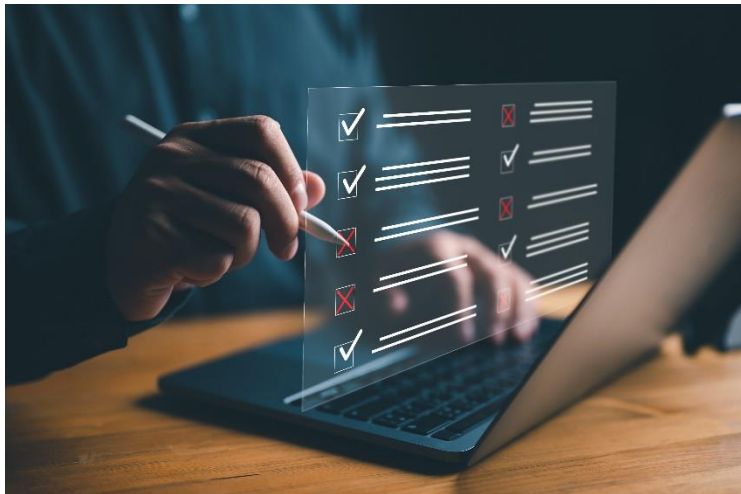
9: Receive Indications of Interest

- 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



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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

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12: Deal Advisory

- 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



The Capstone Roadmap to a Transaction



Take-Aways...

1. Regardless of the type of transaction contemplated, transactions are processes, not events.
2. Transactions take teams. Assemble a good one that executes a plan to achieve your objective.

“The secret of making progress is to get started”

Mark Twain



**Stay in
Touch.**



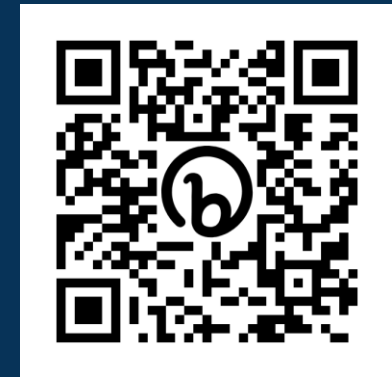
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