

PRIVATE EQUITY & EXIT PLANNING

A Mechanism to Unlock Shareholder Liquidity

The Goal for Today is To Understand...

- 1. How PEGs Select Investments**
- 2. How PEGs Value Those Businesses**
- 3. How to Identify Various Types of Transactions**
- 4. Case Studies**

Background and Contact Information:

- KLH Capital
 - *Tampa, FL*
- Amherst, NH native
- Sykes College of Business
 - *The University of Tampa*
- Sailing, fishing, skiing

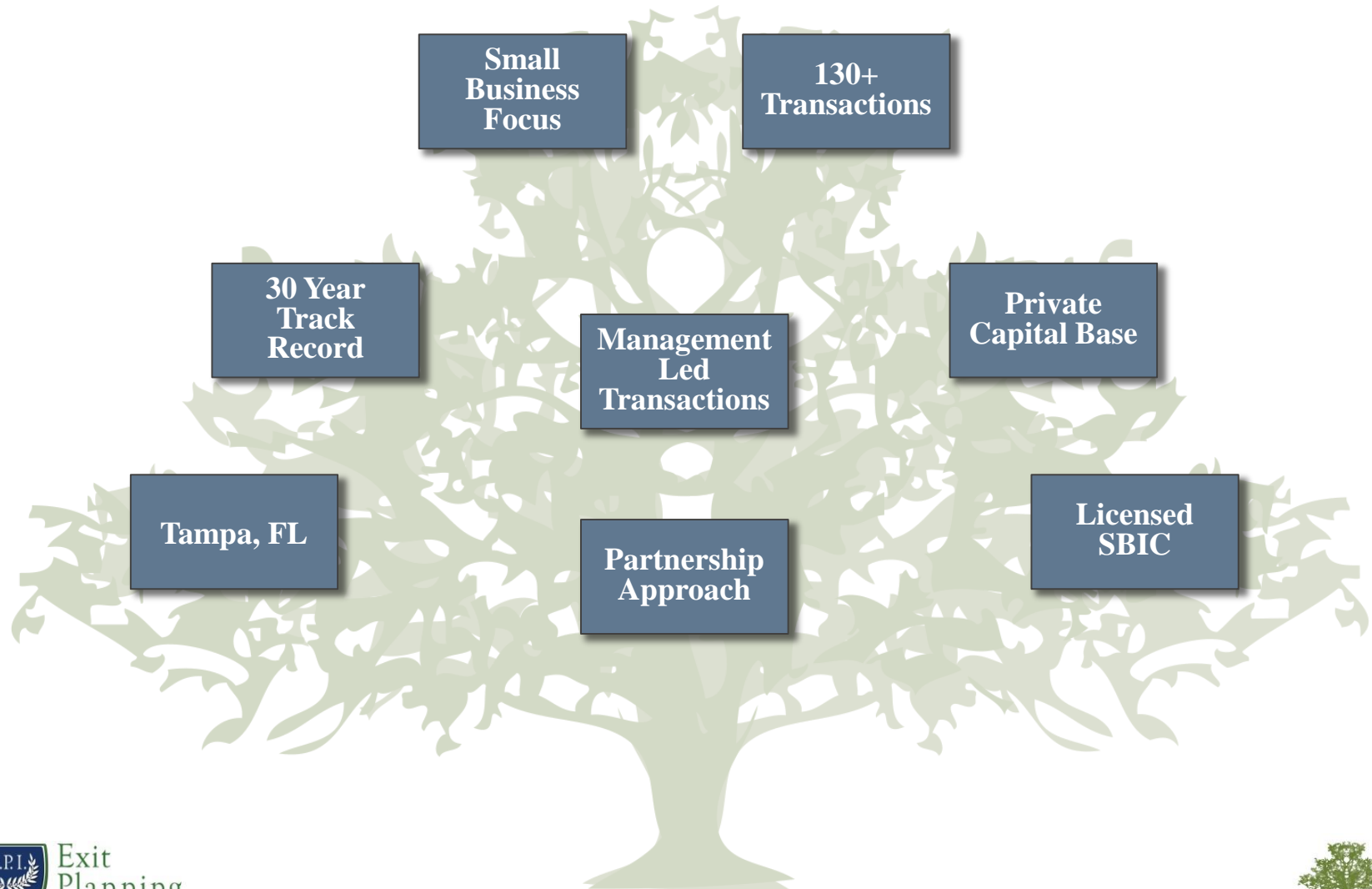


Kyle P. Madden

813-222-0160

kyle@klhcapital.com

Established Firm: Small Business Focus



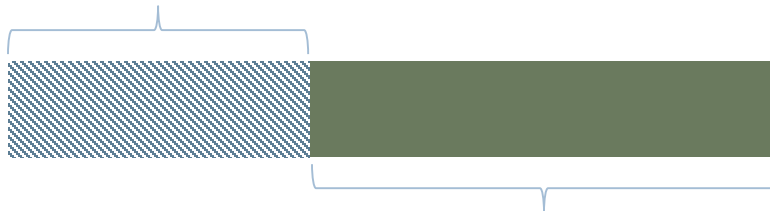
Partnership is the Foundation...

Core Tenets of a Partnership with KLH

- Management has control of day-to-day operations
- Management has meaningful equity in the business
- Management has an experienced financial partner to help grow the business
- Management has no personal guarantees or risk to personal assets

Post-Closing Ownership

Management Ownership
20% - 40%



KLH Ownership
60% - 80%

Primary Goal = Equity Growth

Equity
Value

Equity
Value



...of Our Relationship With Management

Value is created in a partnership by *combining* management's knowledge of their business and industry with our expertise in creating equity value

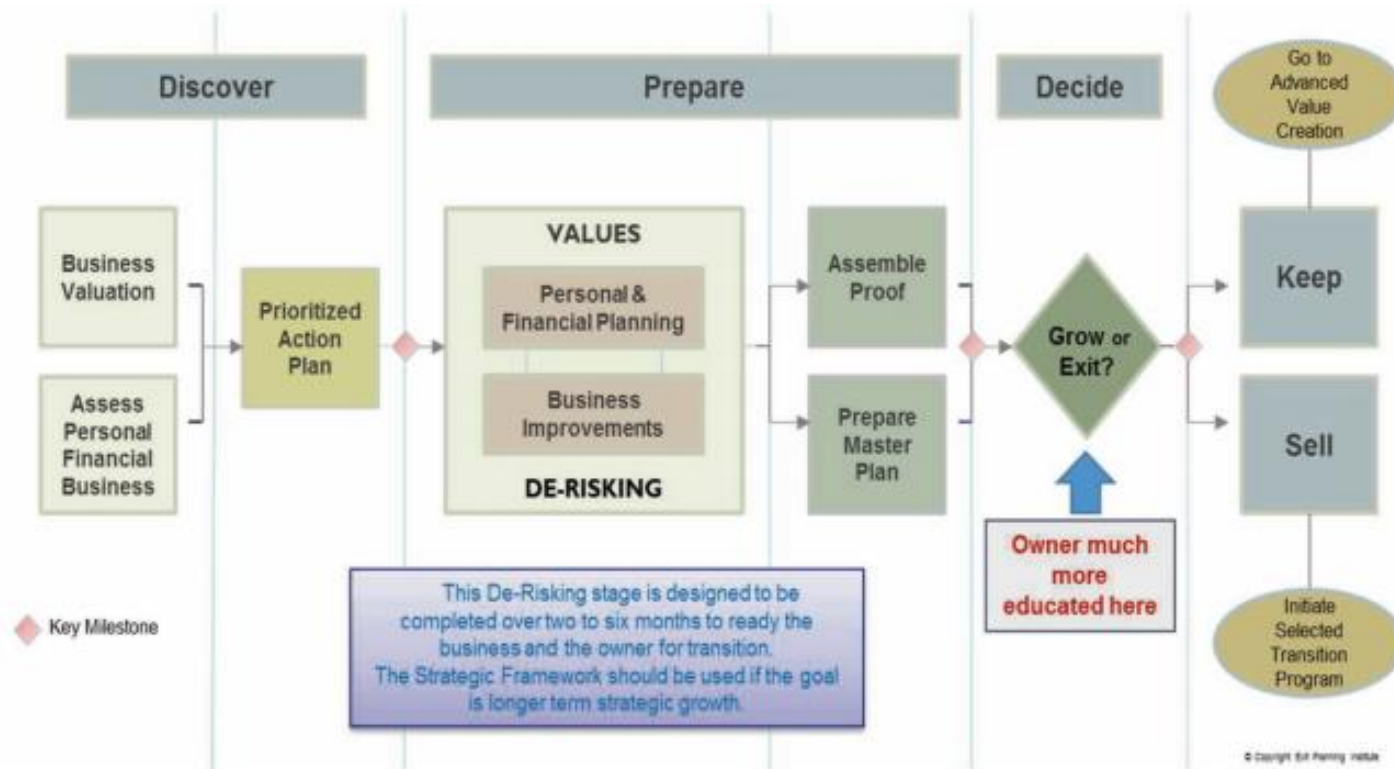
PROSPECTIVE COMPANY

- Set overall direction and strategy
- Manage day-to-day operations
- Hiring / firing of staff
- Identify potential acquisitions



- Support business needs
- Provide equity capital
- Secure 3rd party capital
- Evaluate, underwrite, and close acquisitions
- Market intelligence

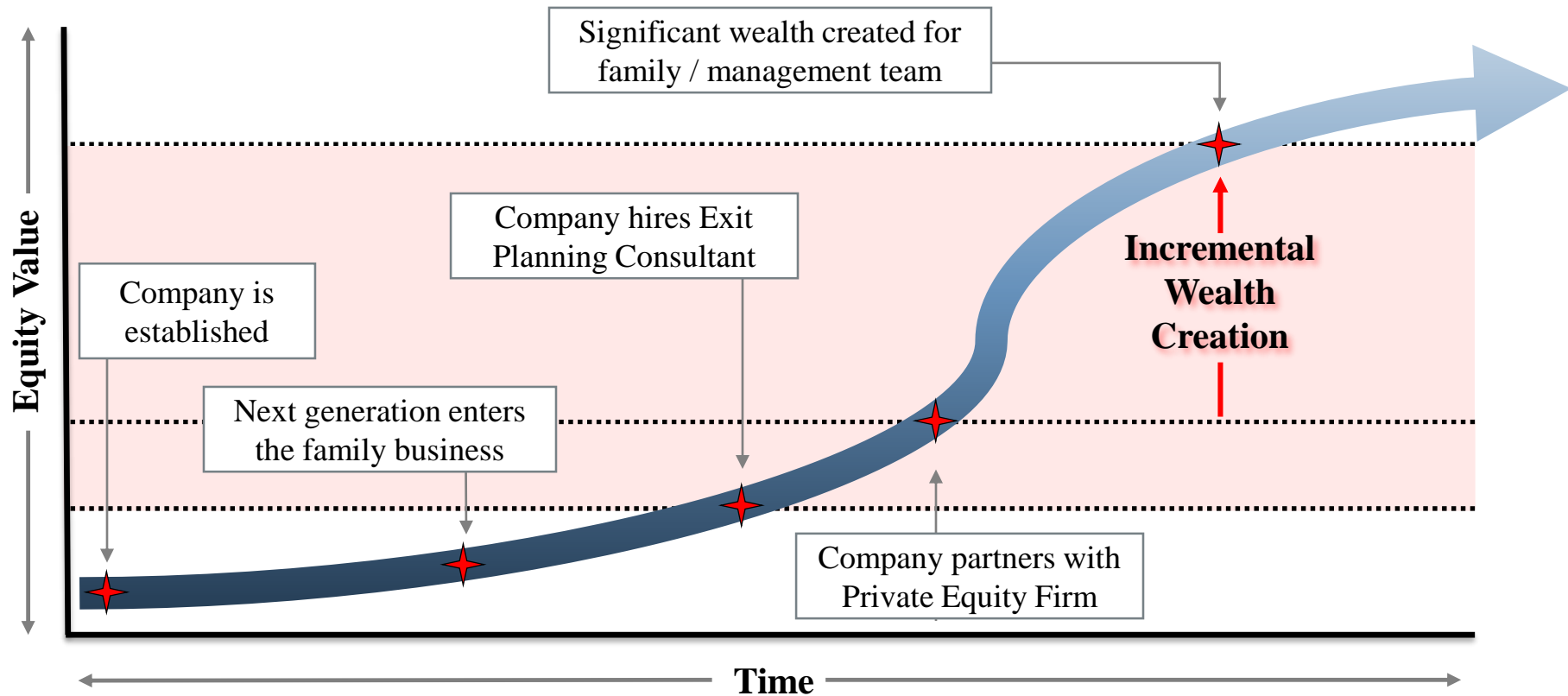
Value Acceleration Process



*Sourced from Exit Planning Institute

...Bringing on a private equity group can be a fundamental step towards achieving the highest possible gross proceeds over the long run.

Timeframe & The Big Picture:



...Bringing on a private equity firm can be a fundamental step towards achieving the highest possible gross proceeds over the long run.

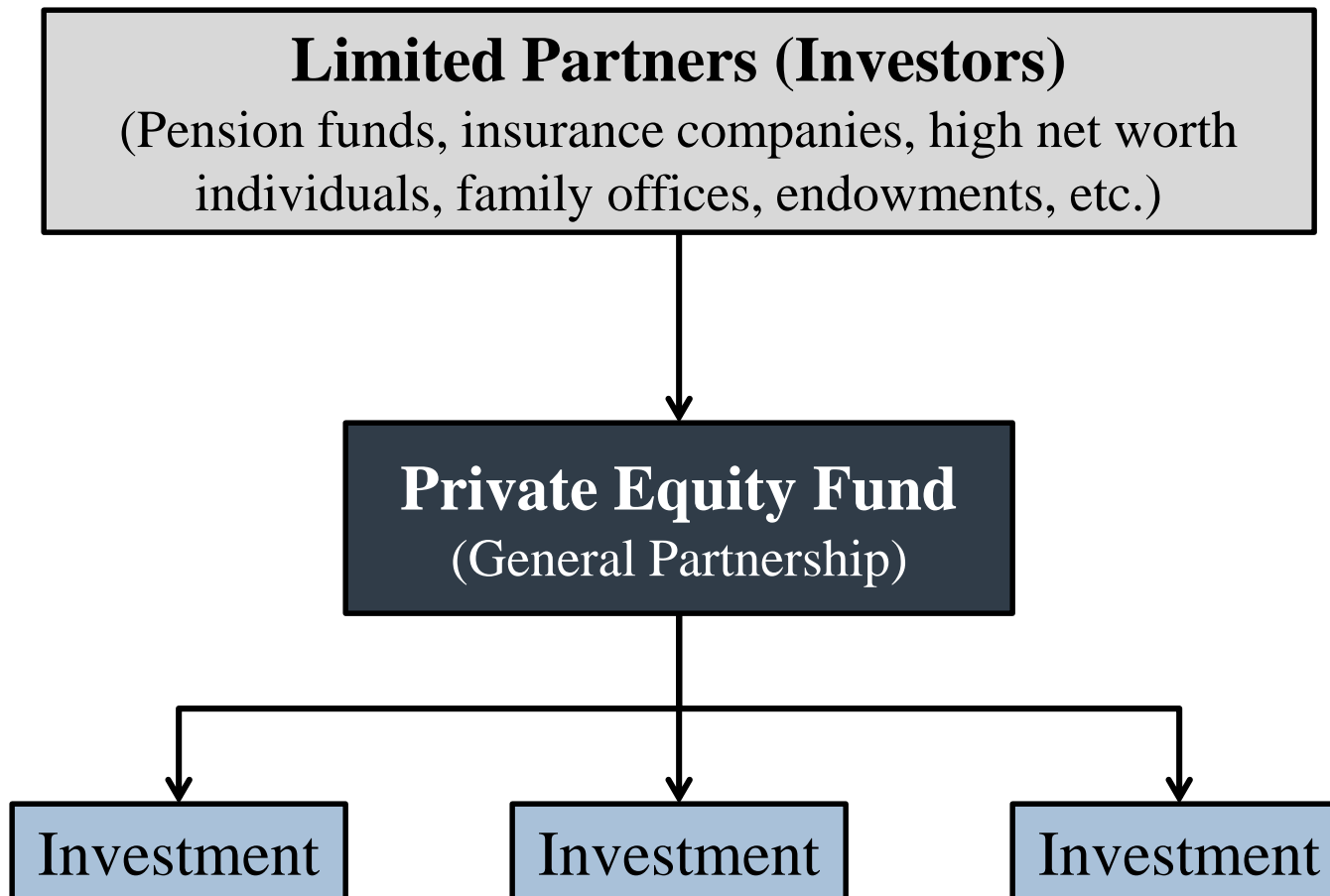
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How Do PEGs Select Investments?

**Firm's
Charter** + **Firm's
Partners** = **Investment
Criteria**

A Firm's "Charter" Is What PEGs...



...Tell Their LP's What They Do

Company Maturity

Startup

Stable/Mature



Operational Involvement

Hands on

Hands off



Size Investments

\$0

\$1bln+



Motivations

Current income

Equity appreciation



Charter + Partners = Investment Criteria

Stage of Development	Mature, growing businesses with a history of profitability that need capital for growth, expansion, working capital, or buyouts
Company Size	Revenue of \$10.0 to \$100.0 million with EBITDA of \$2.0+ million
Management	Desire to assume meaningful ownership stakes
Transaction Types	<ul style="list-style-type: none"> ▪ Buyouts ▪ MBO/MBI ▪ Family Successions ▪ Recapitalizations ▪ Corporate Divestitures ▪ Growth Capital
Targeted Sectors	<ul style="list-style-type: none"> ▪ Niche manufacturing ▪ Value-added distribution ▪ Specialty services
Geography	Nationwide

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Finance Theory Says That Value Is...

$$\text{NPV} = -\text{Principal} + \sum_{i=1}^n \frac{\text{payment}_i}{(1 + \text{rate})^i}$$

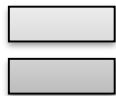
...But The Real World Values EBITDA

EBITDA

Earnings Before
Interest, Taxes,
Depreciation &
Amortization



Multiple

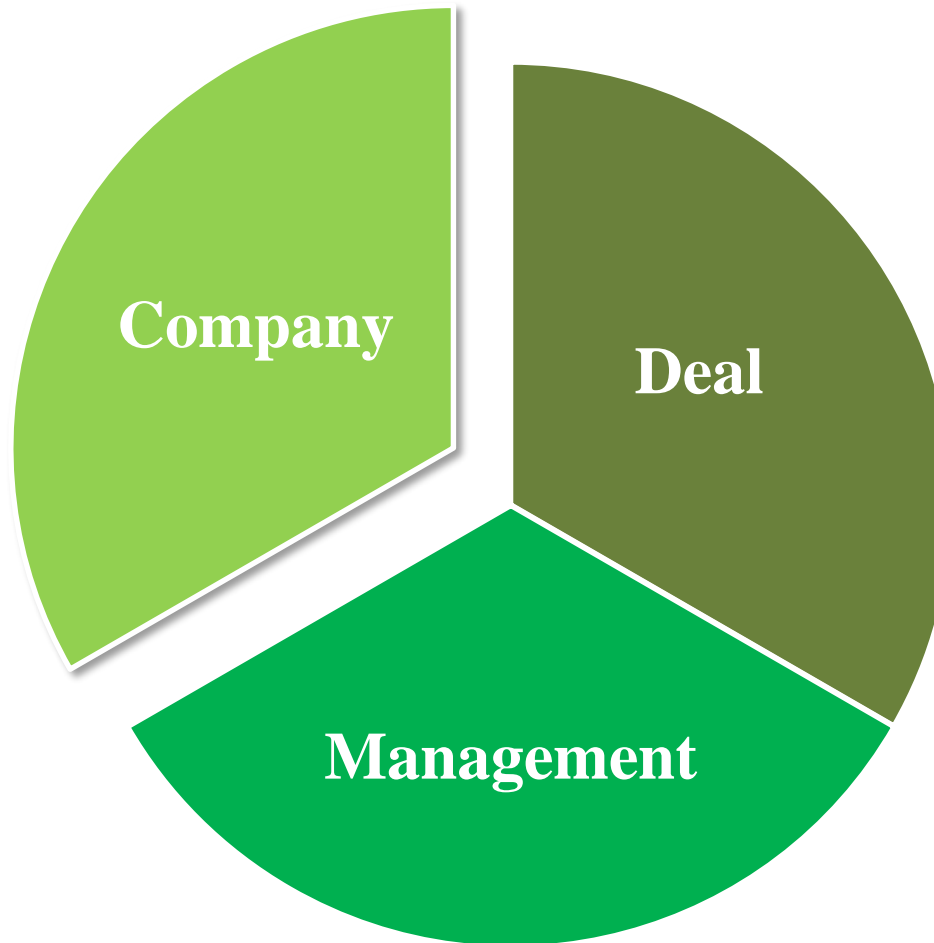


Valuation

Three Legs to a Stool



Let's Talk About “The Company”



The Company

Key Items



Company

- What is the business model?
 - *Service, distribution, manufacturing*
- How does it make money?
 - *Sustainability*
- Where are growth opportunities?
 - *Money, people, technology*
- Where are risks & weaknesses?
 - *Money, people, technology*

Business Models - *Service*

Investment Merits

- Offerings that drive regular servicing / visits
- Sticky relationships with customers
- Unique offerings and competition
- Customers dependent on service

Pillars of Growth

- Access, recruit, and retain labor
- Balance backlog against capital expenditure needs
- Build infrastructure to manage larger territories
- Develop new customer markets

Business Models - *Distribution*

Investment Merits

- Established, long-term customers
- Integration with stakeholders
- Proprietary / consumable products
- Exclusive territory rights
- Proprietary sourcing relationships

Pillars of Growth

- Develop new geographic markets
- Add service-based revenue streams
- Resolve real estate and/or warehouse issues
- Improve MIS and inventory management systems

Business Models - *Manufacturing*

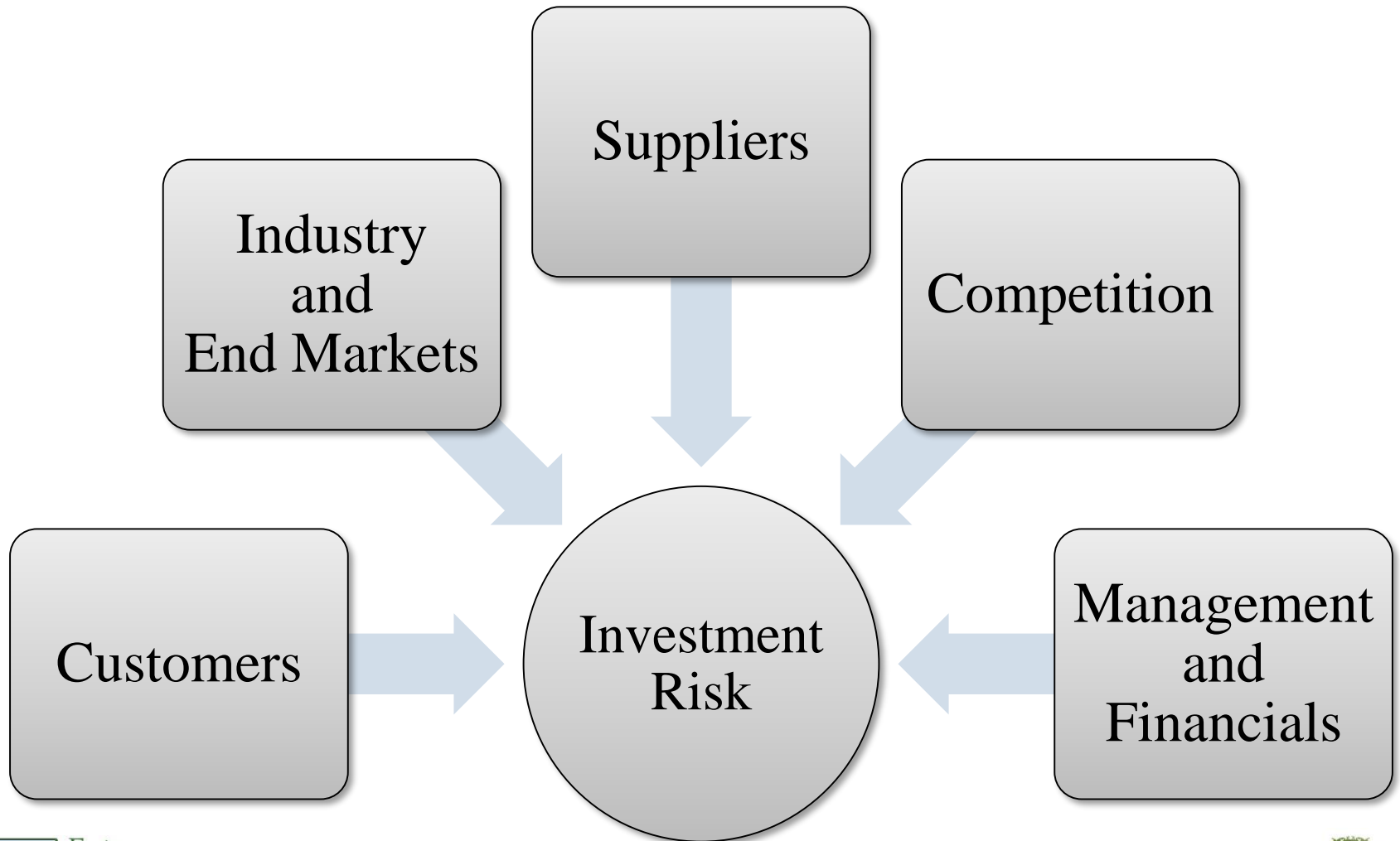
Investment Merits

- Proprietary products
- Resistant to overseas production / outsourcing
- Non-discretionary components
- Consumable or maintenance and repair related

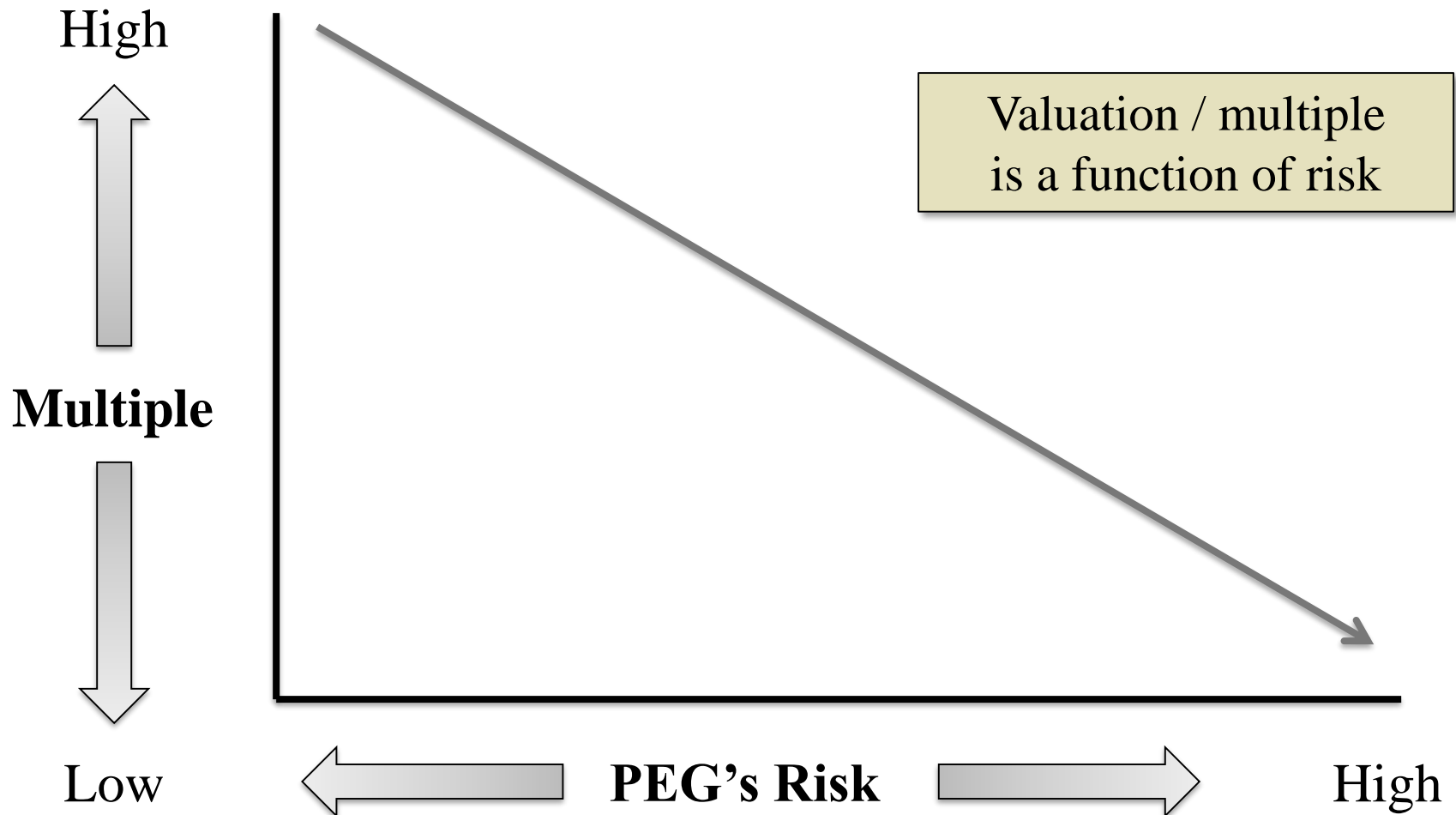
Pillars of Growth

- Capital budgeting process
- Lean manufacturing techniques
- Improve capacity throughput
- Create and protect intellectual property
- Open new end markets

How to Evaluate Risk?

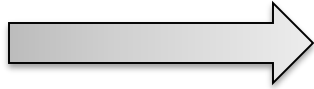


How to Evaluate Risk?



Customers

< 4.0x



4.0x – 6.0x



6.0x+

- | | | |
|---|--|---|
| <ul style="list-style-type: none">▪ Top 3 customers > 90% of revenue▪ MSA with PO's▪ Local mom/pops are only customers▪ Owner takes all the phone calls from customer▪ Lumpy/project revenue | <ul style="list-style-type: none">▪ Top 10 customers < 50% of revenue▪ Annual contracts▪ Middle market/regional businesses▪ Dedicated salesman on the team▪ Mix of one-time/recurring revenue | <ul style="list-style-type: none">▪ No customer more than 5% of revenue▪ Multi-year contracts▪ Blue chip multi-nationals▪ Full sales team that manage customers▪ Small, recurring purchases |
|---|--|---|

Industry and End Markets

< 4.0x



4.0x – 6.0x



6.0x+

- | <u>< 4.0x</u> | <u>4.0x – 6.0x</u> | <u>6.0x+</u> |
|---|--|--|
| <ul style="list-style-type: none">▪ Completely discretionary▪ Small market size that is shrinking▪ Boom or bust▪ Heavy government pressures / regulation that constrain the business | <ul style="list-style-type: none">▪ Should / need to have your solution▪ Low market growth▪ Cyclical business; correlated to GDP▪ Heavy government pressures / regulation that promote the business | <ul style="list-style-type: none">▪ Product / service is “non discretionary”▪ Large market; growing rapidly▪ Steady business; grew through the recession▪ Little government involvement |

Suppliers

< 4.0x



4.0x – 6.0x



6.0x+

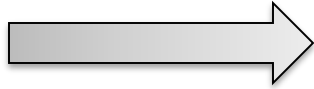
- Top 3 suppliers > 90% of revenue
- No contracts
- Core operations outsourced to supplier
- Suppliers can sell directly to your customer base

- Top 10 supplier < 50% of revenue
- Annual contracts
- Painful to switch suppliers, but not a death blow
- Occasional / hybrid competition

- No supplier more than 5% of revenue
- Multi-year supply agreements with exclusivity
- Easy to bring in new suppliers
- Exclusivity / non-compete as part of contract

Competition

< 4.0x



4.0x – 6.0x



6.0x+

- High commodity products with low margins
- Thousands of competitors; no differentiation
- Easy for new competitors to emerge and copy what you are doing

- Limited alternatives to your products with average margins
- Balanced market share across the industry
- New entrants would require significant investment to compete

- Proprietary products with high margins
- Market leader with few competitors
- Significant capabilities that would be hard to recreate

Management & Financials

< 4.0x



4.0x – 6.0x



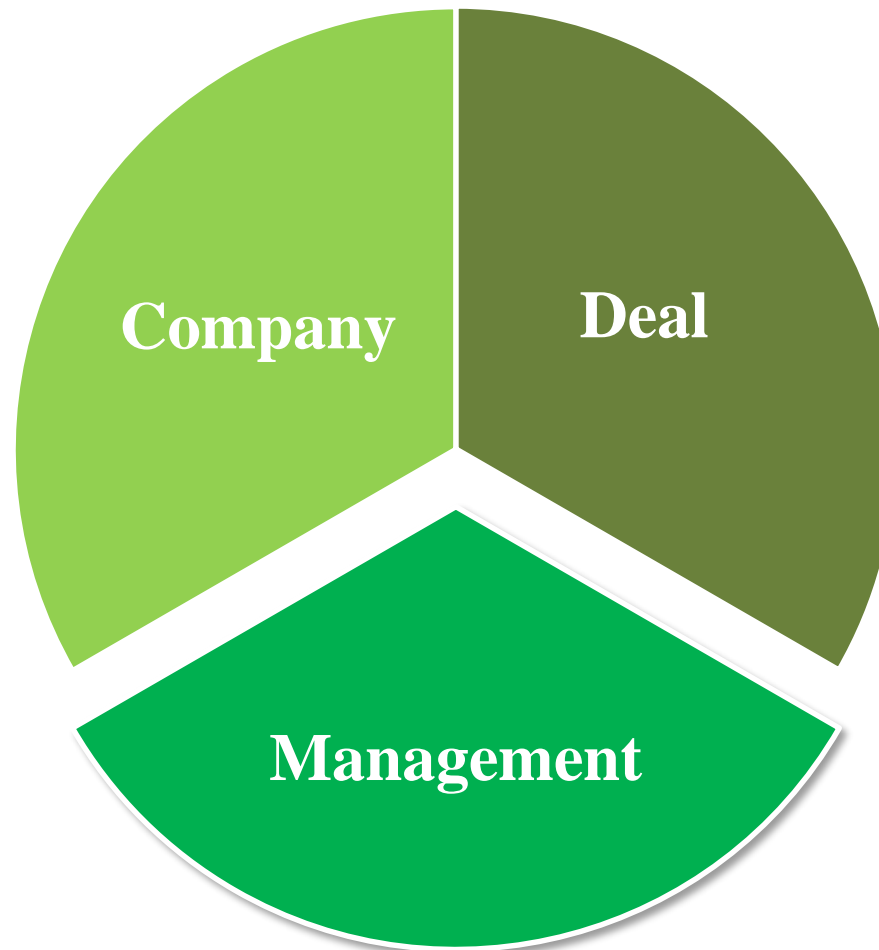
6.0x+

- Little to no accounting systems
- No CPA involvement
- One man operation or no management team depth
- No professional accounting staff

- Limited information systems
- Compiled or reviewed financials
- One or two person senior management team
- Controller on staff

- Sophisticated information systems
- Audited financials
- Well-rounded management team
- Full-time CPA/CFO on staff

Let's Talk About “The Management”



The Management

Key Items

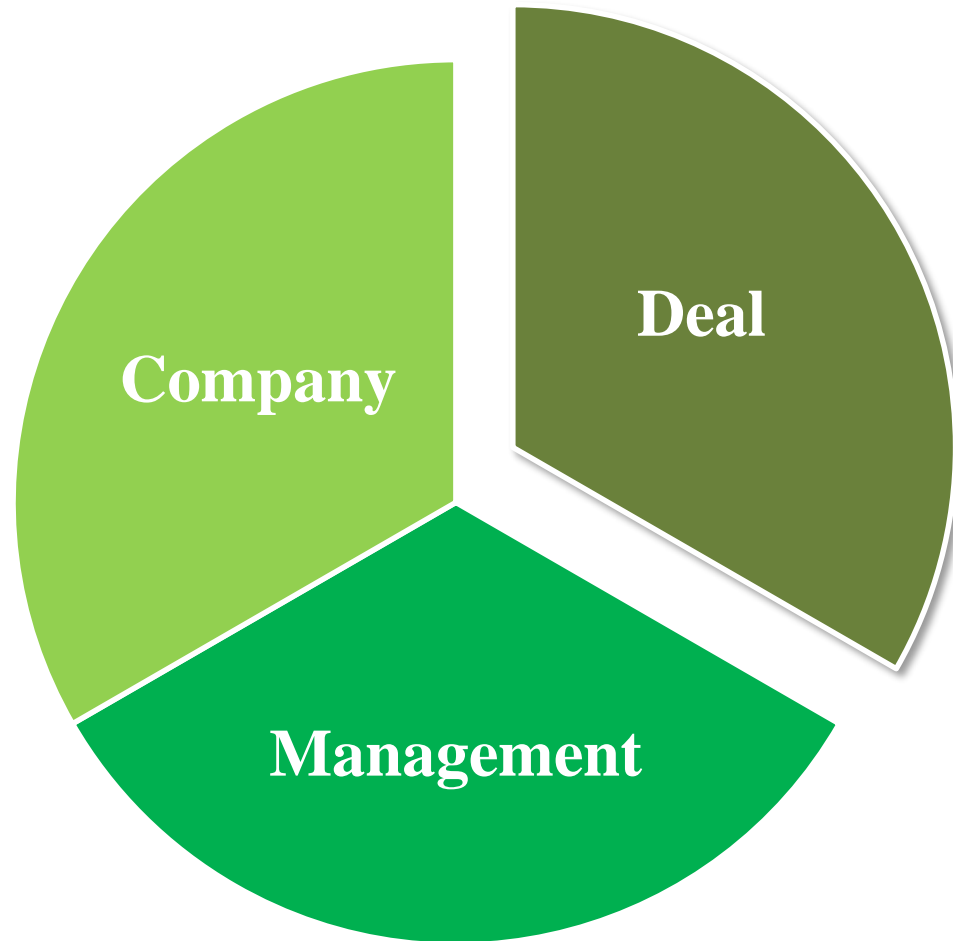
- Cultural fit
- What does “the bench” look like?
 - *Detailed organizational structure*
- Where are the gaps?
 - *What does it need? How to source?*
- What is the vision?
 - *Resources to get there?*
- Key non-owner managers?



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Let's Talk About “The Deal”



The Deal

Key Items

- “What’s the deal?”
 - *What’s the situation?*
- Seller’s goals & objectives
 - *Pain points*
- Valuation expectations



Deal

Understanding Your Deal is the First Step

Retirement

Business owner wants to retire in 5 – 10 years, wants to maximize the value of his business over that time frame

Shareholder Buyout

Business owner needs to buyout minority partner and bring in capital to help him grow

Family Transfer

Patriarch of the family company wants to retire, but doesn't trust 2nd generation to run the company with all his net worth on the line

Management Buyout

Inactive business owner wants to sell the company to his management team

Understanding Your Deal is the First Step

The following highlight several alternatives a private investor can provide shareholders contemplating a transaction:

Equity Recapitalization

- Restructure the capitalization of the business to best position the company for future growth
- Provide liquidity or an exit for certain shareholders
- Restructure management incentives
- Provide necessary capital and resources to pursue organic and acquisition based growth

Strategic Exit

- Generate liquidity based on today's performance
 - Goal being cash maximization
- Option to retire immediately
- Employees lose operational control
- Family legacy at risk
- Business operates as division

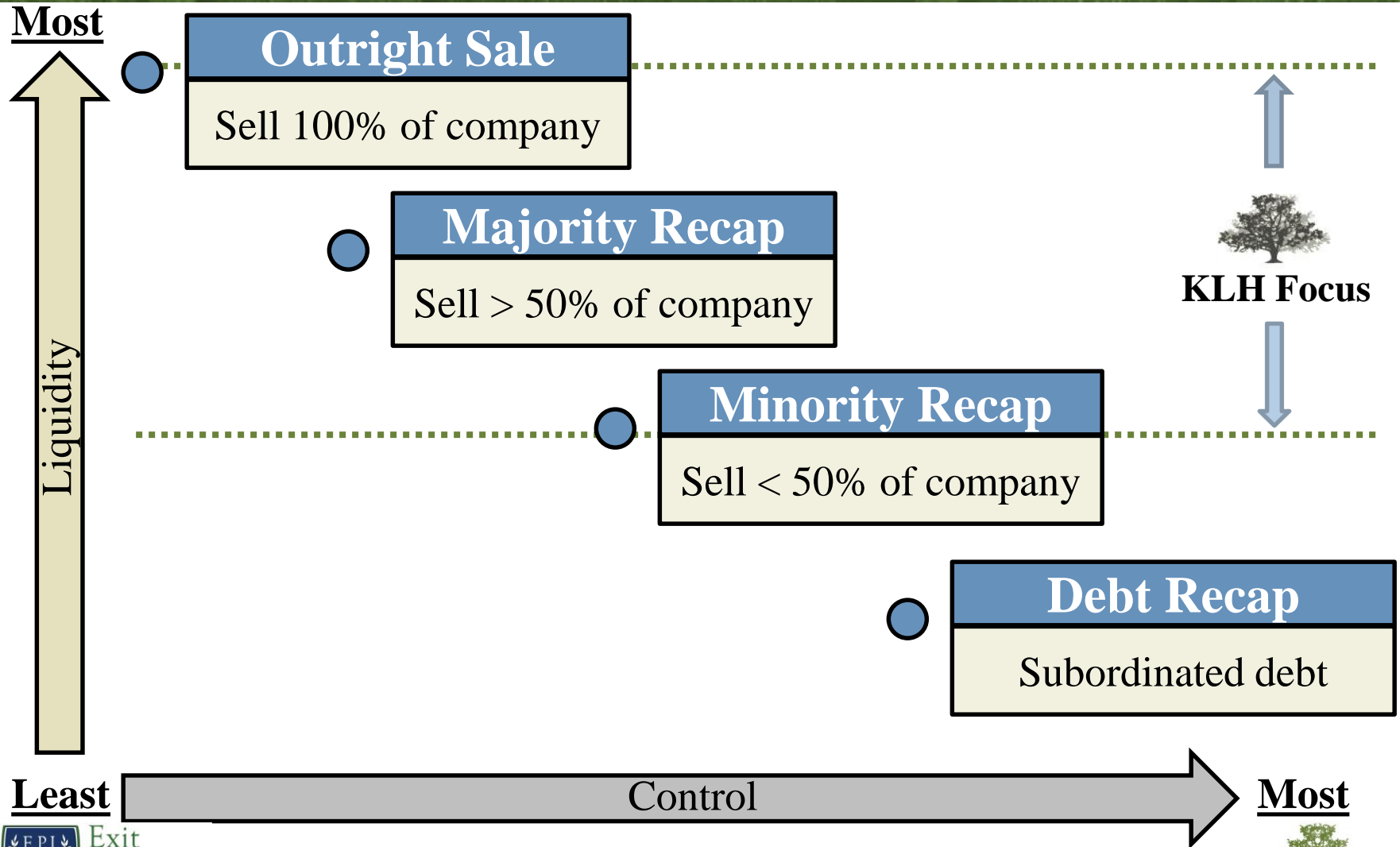
Management Buyout / Buy-in

- Generate liquidity and financial security
- Create equity incentive for management
- Transfer leadership and operational control to management
- Avoid undue tax burden

Family Succession

- Transfer wealth and/or equity ownership to the next generation
- Ensure continuity of culture and strategic direction of the business
- Generate liquidity and financial security
- Avoid undue tax burden

Fundamental M&A Options



Outright Sale

Most



Outright Sale

Sell 100% of company

Transaction Examples

- Corporate divestitures
- Owner retirements
- Management buy-ins

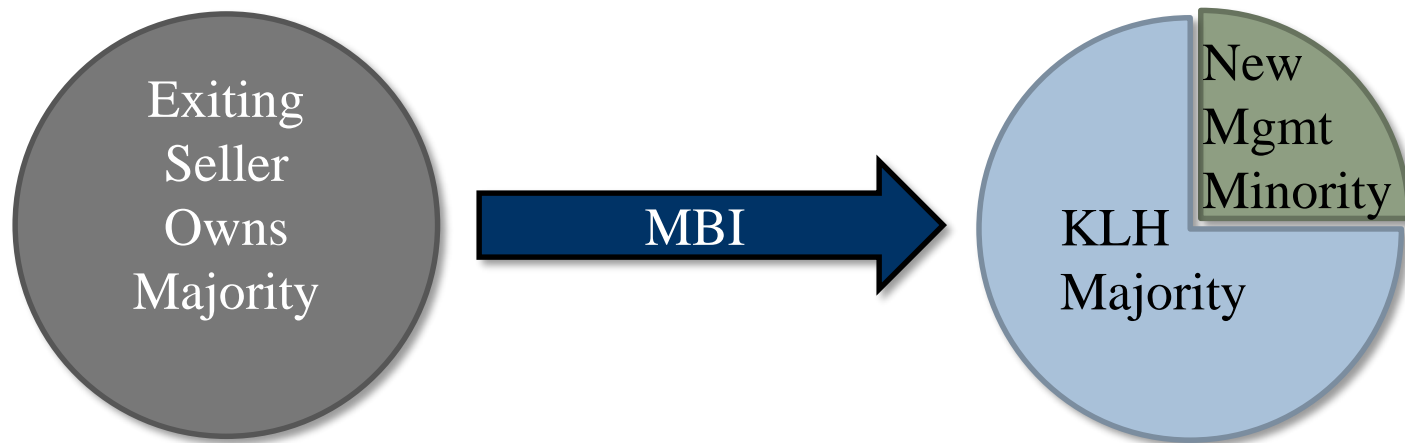
Least

Control

Most

Management Buy-in

- Sponsor backs new management team to acquire business from exiting shareholder
 - Incentivize new management team to grow business
 - Provide liquidity event for exiting shareholders



Company Description



Leading provider of sinkhole and soil remediation services to the residential, commercial, and industrial markets

Transaction Summary

- The owner was seeking to sell his equity stake and retire
- KLH Capital facilitated his exit and brought in a new CEO



Post-Investment Summary

- KLH Capital partnered with Kathleen Shanahan, the new CEO, to develop the business organically and through add-on acquisitions
- Initial efforts were made to capture additional market share within the state of Florida by adding operational crews
- The Company executed four strategic acquisitions throughout the United States to expand its presence into 31 additional states
- The Company's EBITDA has more than doubled during KLH Capital's three years of ownership

Corporate Divestiture

- Sponsor backs current or new management team to acquire division from parent company
 - Incentivize management team to grow new company
 - Refocus core business



QualaWash

Company Description



Nation's largest provider of tank truck, tote, ISO tank, and rail car cleaning services to the bulk transportation industry

Transaction Summary

- KLH Capital partnered with the existing President of the Company to buy the QualaWash division from the parent company in a corporate spin-off transaction



Post-Investment Summary

- Immediately post transaction, KLH Capital established independent billing, accounting, and operating systems and facilitated the hiring of new sales executives to grow the existing business
- After a year of partnership, KLH Capital and Management successfully acquired the nation's largest independent steel intermediate bulk container ("IBC") cleaning provider and also acquired its largest competitor, PSC Container Services, LLC
- These acquisitions more than tripled the size of the original business

Majority Recapitalization

Most



Majority Recap

Sell > 50% of company

Transaction Examples

- Recapitalizations
- Family successions
- MBOs

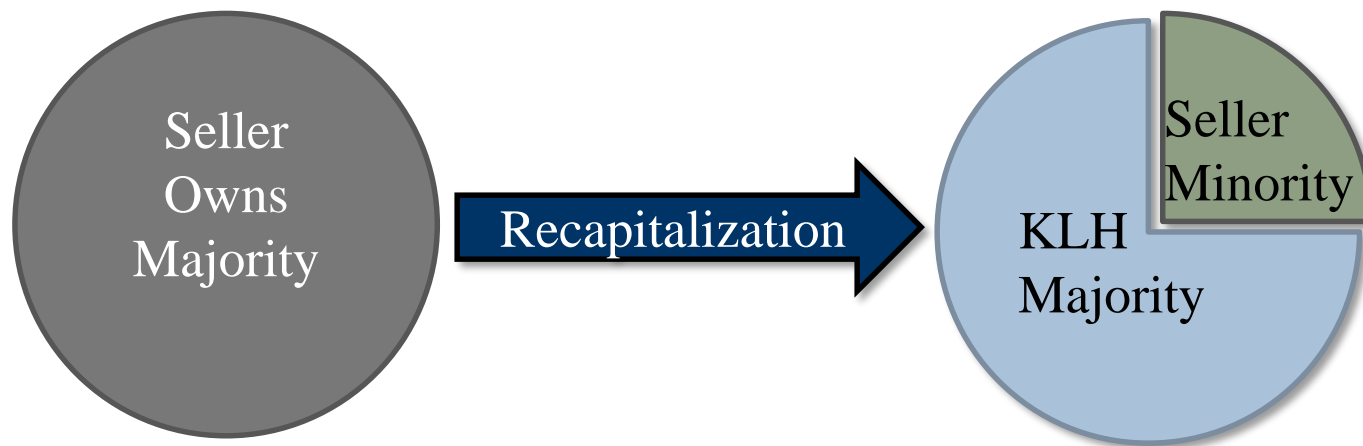
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Control

Most

Majority Recapitalization

- Sponsor acquires majority position in the company to provide diversification of shareholder(s) wealth
 - Current manager(s) retain ownership stake and continue growing the company with a “second bite of the apple” in mind
 - Opportune time to give ownership stakes to key employees



Mid-State Machine & Fabricating

Company Description



Provider of outsourced fabrication, maintenance, and field services to the mining, chemical, power, and general manufacturing industries

Transaction Summary

- The owner was seeking a liquidity event to plan for retirement and desired to bring on a growth-oriented financial partner
- The Company was able to give equity to an industry veteran who became President

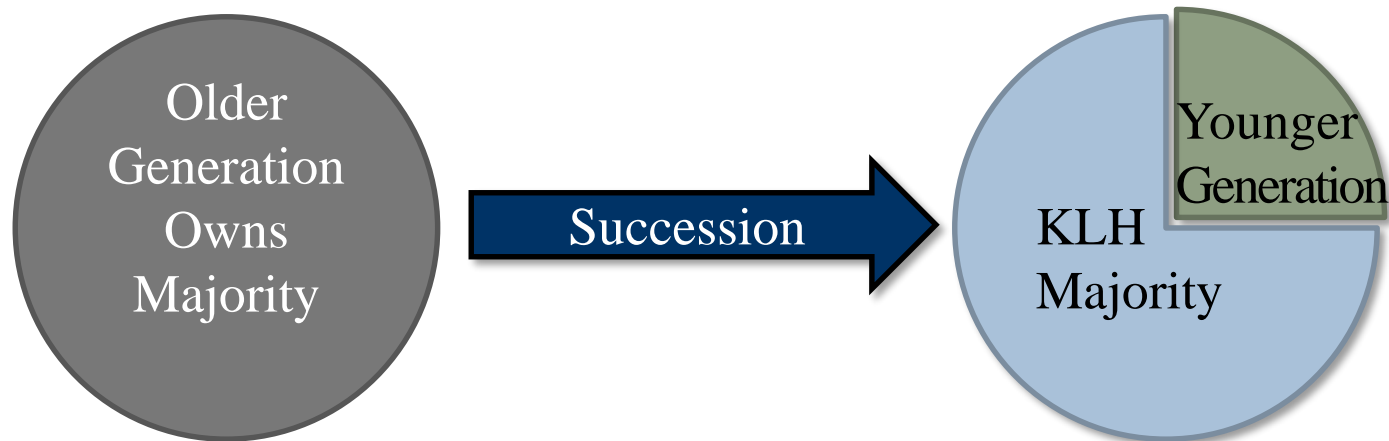


Post-Investment Summary

- Management partnered with KLH Capital to support their growth strategy and pursue select acquisitions
- Post transaction, the Company brought on a new CFO to implement a new IT infrastructure and to improve financial tracking
- Mid-State grew EBITDA by more than 90% in FY 2014

Family Succession

- Sponsor acquires older generation's shares to allow the younger generation management to continue operating the business
 - Provide liquidity event for exiting generation
 - Removes conflicts of interest between generations



Federal Resources

Company Description



Government contracting business specializing in force protection, emergency response, and marine products and services sectors

Transaction Summary

- Inactive shareholder owned 50% of the business and wanted to be bought out
- Through this ownership transition, Management was able to retain a significant equity position in the Company

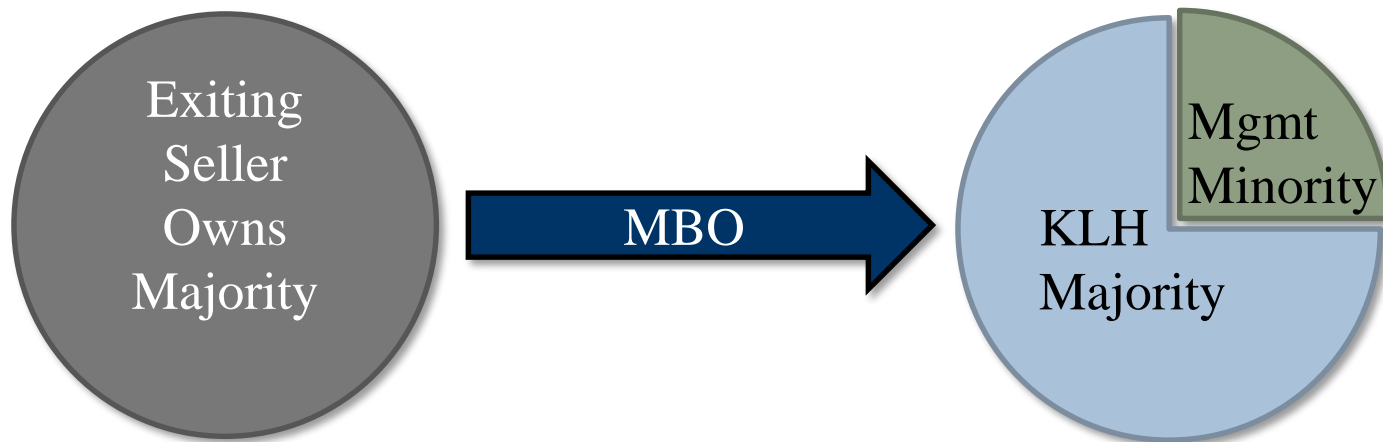


Post-Investment Summary

- KLH Capital partnered with Management to develop the business organically and through acquisitions
- Immediately post transaction, KLH Capital assisted with the implementation of new ERP and CRM systems and helped recruit and develop additional sales professionals
- FRS acquired Hazmat IQ, a leading provider of specialty hazardous material training to federal, state, and local first responders, in early 2013

Management Buyout

- Sponsor backs current management team to buy out current majority shareholders
 - Provide liquidity event for previous managers / owners
 - Creates upside incentives for new management team



ANS Distributing

Company Description



A national full-line distributor of petroleum handling equipment for petroleum marketers, wholesalers, and technicians

Transaction Summary

- The President of the business was seeking a liquidity event in order to retire
- KLH Capital facilitated a transaction that allowed Management to gain a large equity stake in the Company



Post-Investment Summary

- KLH Capital partnered with Management to develop the business organically and through acquisitions
- KLH Capital helped to secure a robust line of credit to ensure adequate working capital availability for implementing Management's growth initiatives
- Post transaction, the Company expanded its warehouse and office space and brought on new sales professionals including a Vice President of Sales and Marketing

Minority Recapitalization

Most



Transaction Examples

- Growth capital
- Working capital
- Debt refinancing



Minority Recap

Sell < 50% of company

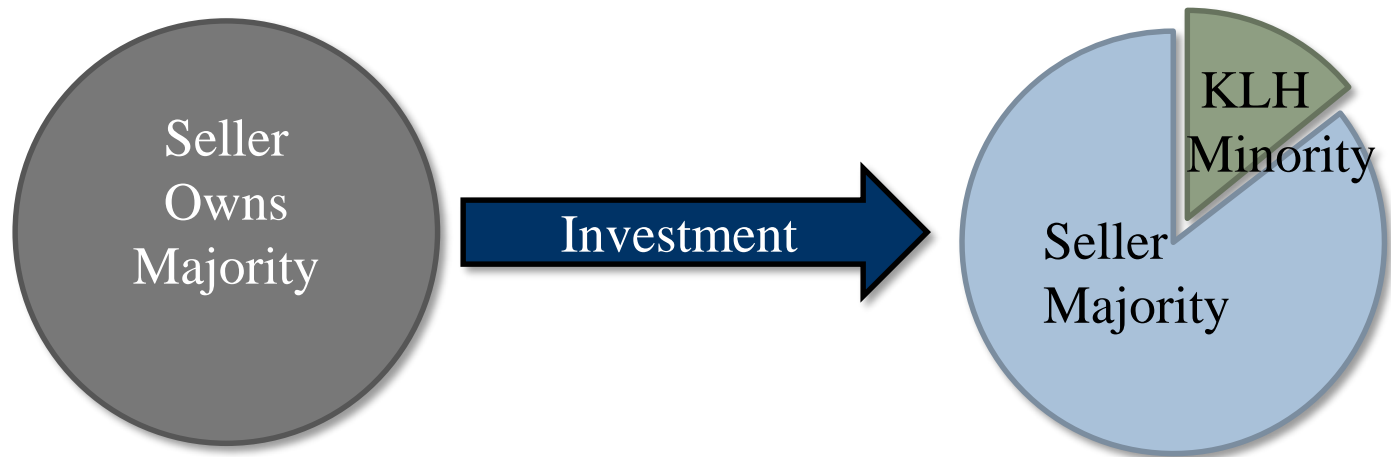
Least

Control

Most

Minority Recapitalization

- Sponsor acquires minority position in the company to support current management team
 - Invested dollars used for growth or to provide liquidity



CCM Wireless

Company Description



A leading, full turnkey provider of real estate and infrastructure services to the wireless industry

Transaction Summary

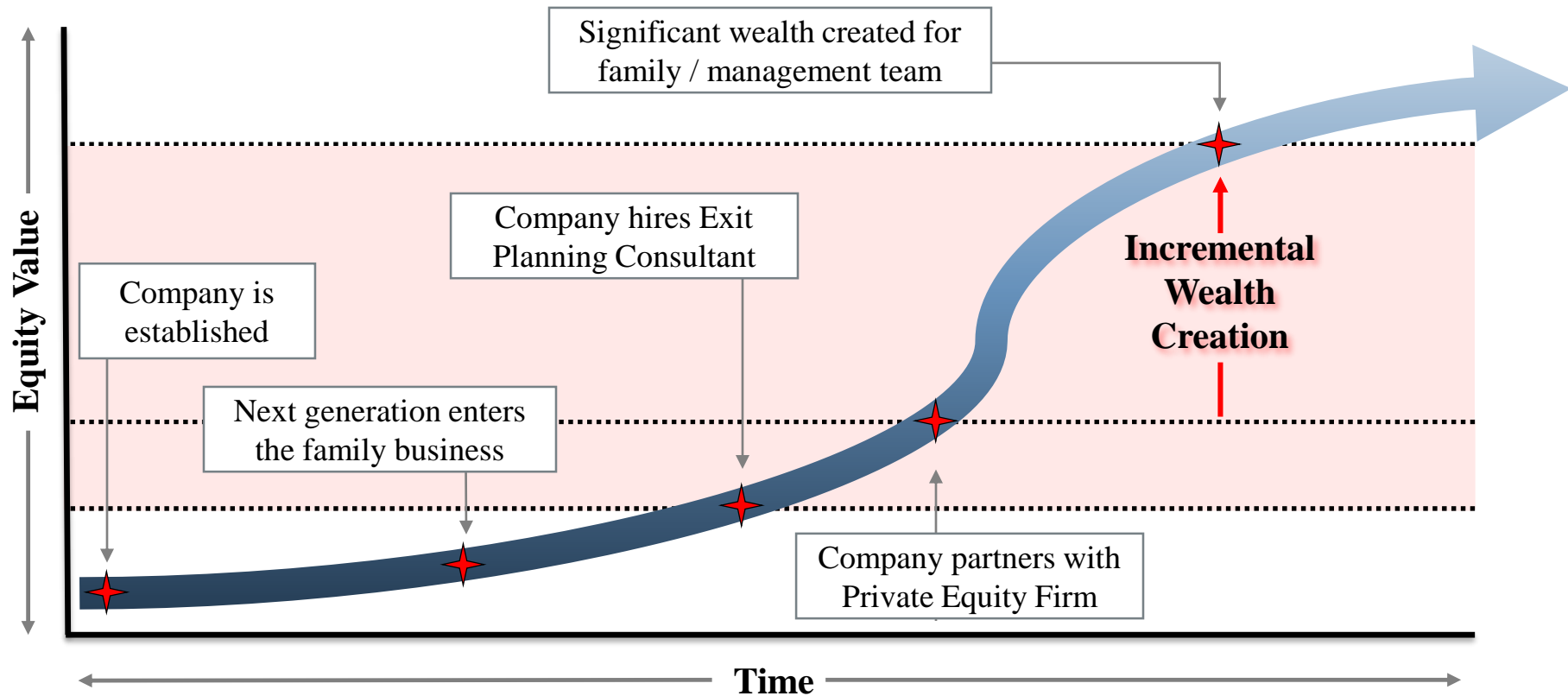
- KLH Capital helped to secure an expanded line of credit, supplied needed growth capital, and continues to provide operational expertise to help with the execution of Management's aggressive growth strategy



Post-Investment Summary

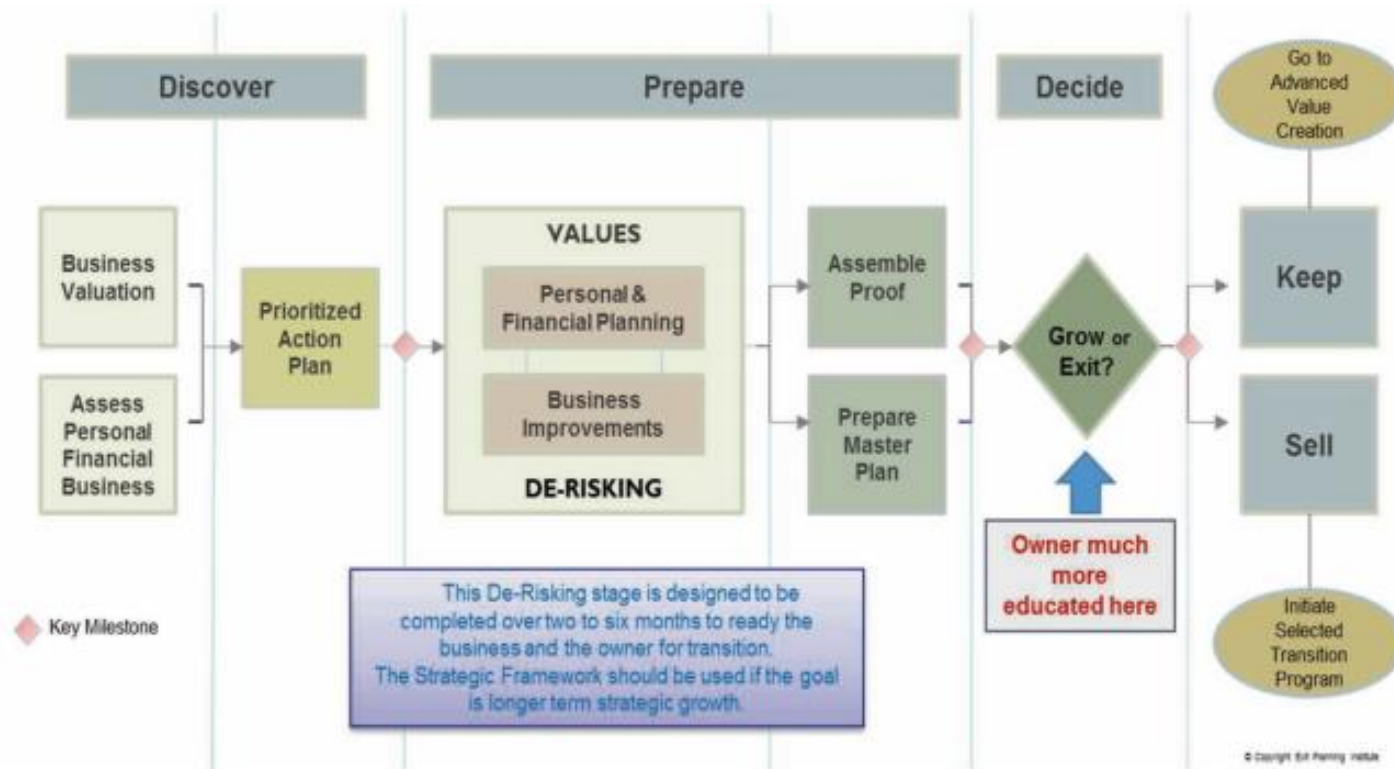
- Immediately post transaction, the Company expanded operations to new geographic areas in the Southern and Western United States
- CCM expects to continue its strong growth over the next year

Timeframe & The Big Picture:



...Bringing on a private equity group can be a fundamental step towards achieving the highest possible gross proceeds over the long run.

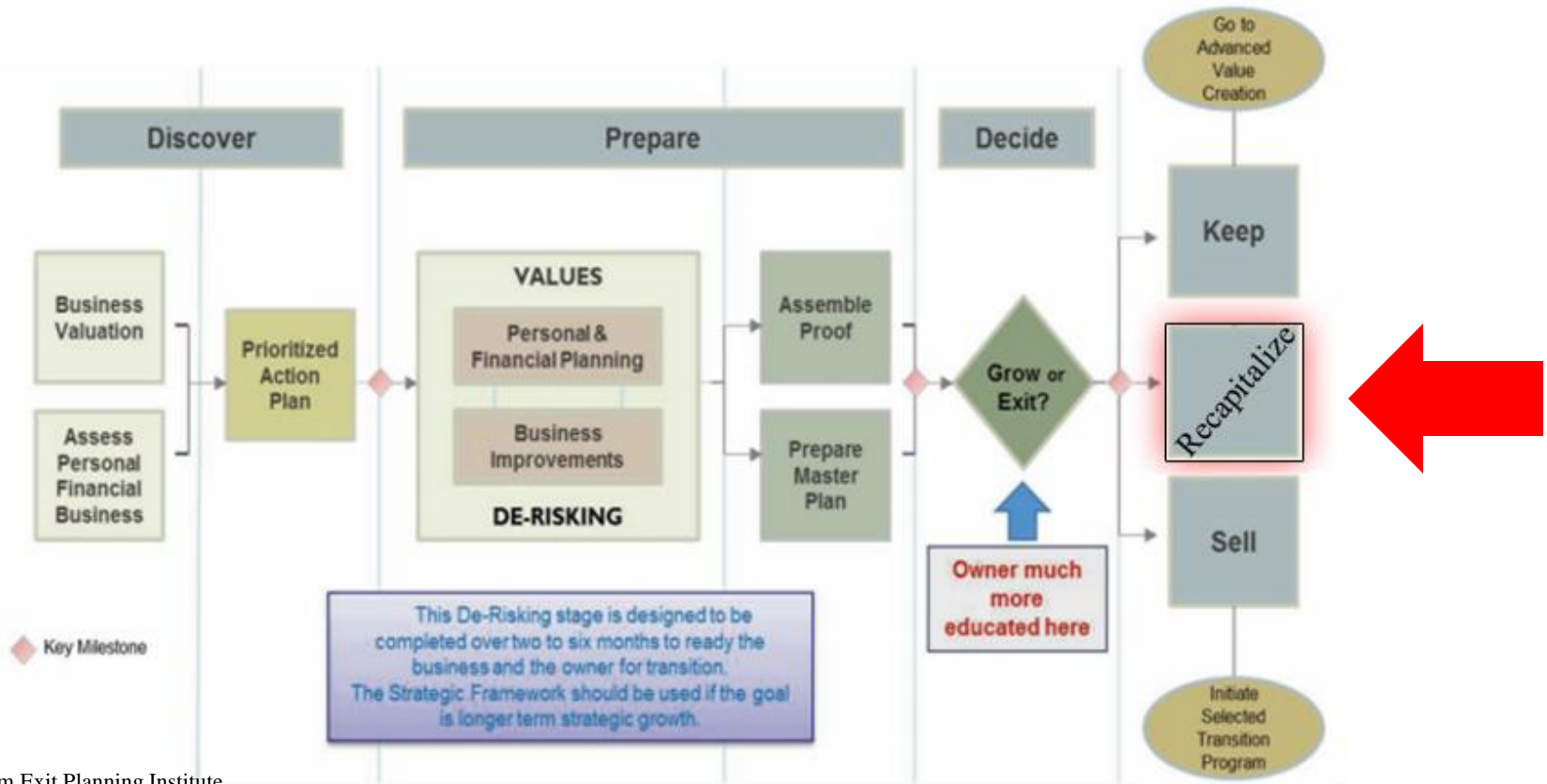
Value Acceleration Process



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Value Acceleration Process



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EPI Strategic Alliance Partner

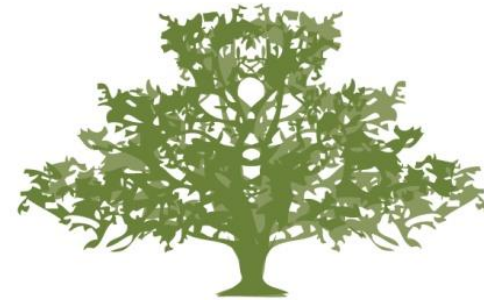
Referral Opportunity	Fees paid for successfully closed transactions
Thesis	KLH Capital is a private investment firm that provides capital to entrepreneurs and owners nationwide of growing distribution, service, and manufacturing businesses to facilitate recapitalizations, management buy-outs, management buy-ins, family successions, and other ownership transitions
Company Size	Revenue of \$10.0 to \$100.0 million with EBITDA of \$2.0+ million
Management	Desire to assume meaningful ownership stakes
Examples	<ul style="list-style-type: none">• Distribution 2011 ~<u>\$220,000</u>• Service 2013 ~<u>\$310,000</u>• Service / Distribution 2013 ~<u>\$510,000</u>

Example Roadmap to Closing

Activity	Week 0	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10
Sign Letter of Intent.....	■										
Draft Business Memorandum.....		■	■	■	■						
Financing Activities											
Contact Potential Lenders and Obtain Financing Proposals.....				■	■	■					
KLH Capital & Management Choose Lender.....						■	■				
Lender Drafts Loan Documents.....								■	■		
Covenants Set / Loan Documents Finalized.....										■	■
Due Diligence Activities											
Accountant Visits Company for Several Days, then Spends Several Days with Company Accountants.....				■	■	■					
Outside Accounting Firm Delivers Final Due Diligence Report.....									■	■	
KLH Capital Performs Background Check on Management.....						■	■				
KLH Capital & Management Speak with Top 5 Customers.....								■	■	■	
KLH Capital & Management Speak with Top 5 Vendors.....									■	■	
Legal Due Diligence Performed by Buyer's Attorney.....				■	■	■					
Environmental Consultant Visits and Examines the Company.....								■	■		
Transaction Documentation Activities											
First Draft of Transaction Documents and Agreements Delivered.....						■	■				
Transaction Documents and Agreements "Near Final".....										■	■
Preclosing and Closing.....											■

Q & A

Kyle P. Madden
601 Bayshore Blvd.
Suite 850
Tampa, FL 33606
813-222-0160
kyle@klhcapital.com



KLH CAPITAL

www.klhcapital.com