

A MANAGEMENT BUYOUT - AN OPPORTUNITY OF A LIFETIME

Management teams who desire to own the businesses they run often come to KLH Capital for our capital and strategic help when they see an opportunity to buy the business from the owner and convert their sweat equity into real equity ownership. For retiring owners, selling the company to key managers is an attractive way to monetize the value of their business, preserve its legacy, and give back to those folks who helped them succeed. However, buying a business isn't as simple as buying a house by taking out a mortgage

These transactions require significant amounts of capital, an amount that is often more than someone can save from their salary or risk in one investment. Likewise, finding a bank that will provide adequate financing is challenging. Buying a business requires an understanding of the financing options and complex buying process spanning four to six months of due diligence, financial analysis, negotiations, and legal agreements. But it can be done, typically with the help of professionals whose line of work is focused entirely on buying businesses.

KLH Capital "sponsors" or partners with management teams to fully fund the purchase of the company and navigate the intricate process required to successfully complete the transaction. As an equity partner in the company, KLH has a vested interest in seeing a smooth transition of ownership to the management team and provides ongoing support to help management achieve success.

Specifically, a private equity sponsored management buyout:

- Provides capital for key managers to fund the purchase of a business
- Allows owners to fully monetize the value of their ownership at the time of the sale
- Offers an alternative to a seller financed transaction
- Keeps the company culture and reputation intact
- Gives key managers an opportunity to create significant wealth
- Gives the new owners an experienced partner to support their transition and vision for the company

WHAT IS A MANAGEMENT BUYOUT OR "MBO"?

A management buyout is a transaction where one or more members of the management team who know the business well and are key parts of the company's operations buy the stock of their company from the owner/owners. Most management teams partner with

a private equity firm like KLH Capital to finance the purchase. KLH Capital arranges the entire capital package needed to fund the purchase, including the equity capital which comes from a dedicated fund managed by KLH Capital. At KLH Capital, it is important that substantial ownership is in the hands of the managers, our partners, who are driving value to ensure all interests are aligned.

WHAT ARE THE BENEFITS?

Opportunity to Create Generational Wealth

There are two ways to create wealth from a business – a paycheck and ownership. A paycheck, even with bonuses and commissions, is finite and often capped. Ownership is not. Ownership is the source of life changing wealth as is only capped by the value of the company's equity. As the company grows, the equity value increases exponentially and the shareholders create substantial personal wealth. A MBO allows key managers to become owners of the business where they are already responsible for driving value.

Control Your Own Destiny

As owners near retirement, they often stop making the investments required to continue growing. As the new owner of the business, you call the shots - you decide where investments should be made, how to expand your footprint, or which new services you should provide. You are responsible for setting the company's direction and growth trajectory. Our role is to support and facilitate your vision for the company.

The Company Stays Intact

When one company sells to another, cultures and processes merge and jobs are often affected. An internal sale to key managers ensures the company remains an independent entity that can continue supporting its customers, employing its people, and working towards its mission. Current owners who desire to "take care of their people" and keep their business intact can do so with a MBO because the transaction allows owners to pass ownership directly to key managers who are most capable of successfully taking the company forward.

A Partner to Support Your Goals

In a private equity backed management buyout, the company gains a new partner to help tackle initiatives and challenges. KLH Capital works side-by-side with management teams evaluating and prioritizing growth strategies, giving managers confidence in their decisions and investments. Whether it be implementing software systems, recruiting executives, making acquisitions, or responding to challenges, the company now has a vested, experienced partner to share the load. As partners, our interests are directly aligned, our successes and failures are shared, and we all participate in the equity appreciation we achieve together.

Access to Growth Capital

Capital investments are required to grow a business, and absent a financial partner, it is common for owners to fund growth through a combination of shareholder loans and personally guaranteed bank loans. Working with KLH Capital eliminates such personal financial responsibility and gives management access to more flexible forms of capital. KLH Capital has a dedicated fund to support growth equity investments, and with an institutional partner, the company can secure debt capital on more favorable terms. Our experience gives lenders greater confidence in the company and so many of the customary constraints such as heavy amortization schedules, growth restrictive covenants, and personal guarantees are removed.

How Do You Approach the Opportunity?

Most owners have thought about their retirement and how to monetize the value they have created, but few have committed to a specific plan. It's possible they have already considered a sale to management but struggled with its plausibility. We recommend you express your interest to the owner with grace and humility and explain how a private equity partnership could provide the capital and experience needed to successfully complete the sale.

What is the process?

Once the purchase price and terms are agreed upon, the sale takes roughly 60-90 days to close. Key tasks fall into three key activities: due diligence, financing, and transaction documentation. The process begins with due diligence, which involves engaging a number of third party advisors to assess the financial condition, market dynamics, competitive landscape, and legal condition of the company. Once that process is completed and we "know everything" about the business, KLH approaches its trusted lending sources to arrange any new debt financing needed to facilitate the transaction. Finally, when the lending partner(s) has been selected, the lawyers get to work and the documentation of the purchase and associated financing is papered and finalized.

What are the benefits to the current owner?

A private equity backed MBO allows the current owner to fully monetize the equity value in the business at the time of sale versus over time through seller financing so their proceeds are definitive and final and not dependent upon the company's future performance. Once educated on the benefits of a private equity partnership, many owners are excited to see the company's legacy continue in the hands of those who have been important contributors to its success.

CASE STUDY

Atchafalaya Measurement, Inc. (AMI), based in Scott, LA, is a multi-basin oil and gas services company providing customized measurement systems to onshore and offshore drilling operations across the United States. By strategically targeting high-growth regions

of drilling activity and delivering premier service, AMI has experienced steady growth and an increasing recurring revenue stream.

As the founders of AMI prepared for retirement, they approached two key managers about their interest in buying the company. The young, energetic managers were ideally suited to take over as they had been increasingly responsible for the company's performance. An internal sale to management was an opportunity for the founders to reward its key leaders, retain longstanding employees, and create immediate liquidity for retirement. For the managers, the purchase was an extraordinary opportunity to turn their sweat equity into valuable equity ownership, so they presented a letter of intent to buy the business.

To complete the purchase, the managers needed to line up financing and soon learned that securing a loan on favorable terms would be challenging, especially if they did not plan to personally guarantee the loan. After considering their alternatives, a private equity backed buyout was deemed the most attractive option. The team was not merely looking for capital but a partner that could help make the company better. They wanted a collaborative partner that could help them strategically with internal efforts such as making capital budgeting decisions, prioritizing strategic growth initiatives, and implementing software to improve internal processes. More importantly, they needed a partner that would value their industry expertise and respect their vision for the business. After evaluating several firms, they selected KLH Capital to bring their transaction to fruition because of our breadth of experience, compatible culture, and generous equity ownership offer.

Since completing the purchase, KLH Capital has supported the management team in several initiatives including expansion into a new territory and one tuck-in acquisition. We also assisted the company in recruiting a controller and CFO as well as an industry veteran to join the company's board of directors. Finally, KLH guided management through the evaluation and implementation of new accounting and mobile field ticketing systems. Working together, we built upon the company's history and increased its value.

Key Takeaways:

- KLH provided the equity capital and arranged debt financing, avoiding the use of seller financing and personal guarantees
- Owners received payment upfront versus over time and diversified their risk immediately
- KLH offered management a 20% equity opportunity with the ability to earn significantly more equity as the business grows
- KLH's collaborative, respectful investment approach resonated with the team
- KLH brought on board in-depth experience and relationships, improving the growth and value profile for a subsequent monetization event
- KLH funded an internal sale, preserving the company legacy, customer relationships, and valued employees

SUMMARY

A private equity sponsored management buyout is an ideal option for business owners who are retiring and would like to see their company's legacy continue. It allows the owner to immediately and fully diversify their wealth outside of the company and it sets the management team up for a successful transition and future growth in which they will participate as equity owners – a true opportunity of a lifetime.

KLH believes that a company is only as strong as its management team. That's why we strive to partner with passionate, driven, and ethical management teams who want to maintain or acquire a significant equity position in their business. We offer significant ownership and equity incentives to the management team to wholly engage them in the company's future progress.

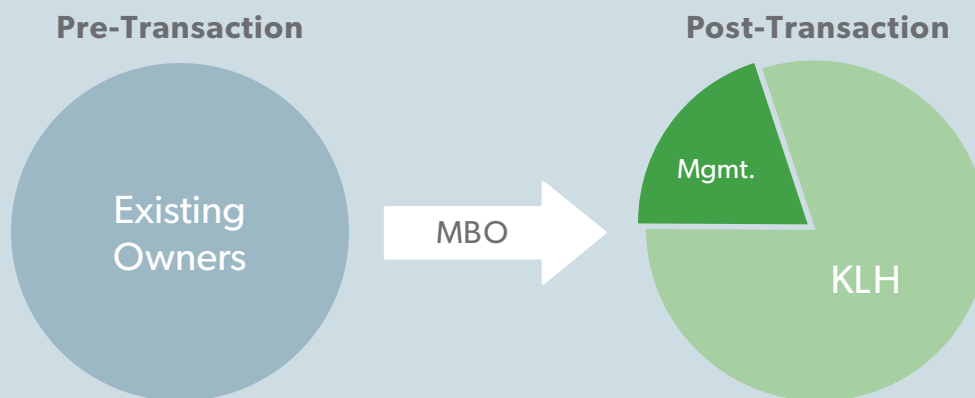
Case Study: Atchafalaya Measurement

Summary:

- Young, energetic management team
- Opportunity to buy the business but lacked personal balance sheet to fund the deal
- Desired financing from a partner that would not usurp their vision for the company

Investment Structure:

- KLH provided 100% of the equity and arranged debt financing
- Post deal, KLH owned 80% and management owned 20% of the company with the ability to earn significantly more as the business grows



ABOUT KLH CAPITAL

Founded in 2005, KLH Capital is a private equity firm serving management teams of lower middle-market companies in the specialty services, value-added distribution, and niche manufacturing industries. The firm makes majority and minority equity investments in U.S.-based businesses to support the company's growth plans, provide ownership opportunities for key managers, and allow owners to harvest the value in their businesses.

Our commitment goes beyond financial support as we believe in establishing a collaborative team of peers, all of whom have a hand in the company's progress. We believe that when we combine management's industry and operational expertise with our own, the company's full potential is unlocked and value is created.

Since its founding, KLH Capital has raised more than \$935 million of committed capital across five funds. For more on our investment approach, please visit our website: www.klhcapital.com.