LOWER MIDDLE-MARKET
MERGERS & ACQUISITIONS ADVISORS

The Shaughnessy Group

The private company sale process and the role of a the M&A advisor

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About us

- Boutique M&A advisory firm catering to the needs of selling privately owned lower-middle market companies
- Primary services:
  - Mergers; sell-side advisors and
  - Acquisitions; buy-side advisors
- Global capabilities; English & Chinese
- Entrepreneurial; “eat what you kill” culture to ensure financial alignment of risk and rewards with our entrepreneurial clients

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Lower-middle market company focused

The highly fragmented and underserved lower–middle market firmographics 80% of the middle market

- Revenue: **> $3M**, most over $10M, average $34M
- Employees**: < 500**, most under 250
- EBITA: **> $500K**
- Ownership: **Private,** 83% privately owned
- Principal shareholders: **aged > 50**

<u>Ignored by large investment banks</u>

- Enterprise value to small
- Not a lot of big fees to be made

<u>Not well served by a business broker</u>

- Business too sophisticated for the listing process

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Value proposition

- Our clients seek an M&A advisors who posses
  - Understanding of lower-middle market
  - Access to foreign & strategic buyers
  - Real-time knowledge of supply, demand and financial valuation
  - Ability to add incremental value beyond financial valuation
  - Aligned to their need to execute their transaction
- Strive to build deep domain expertise and capabilities
  - Exhaustive mapping of the lower middle market
  - Data base of > 4,000 private equity, venture capital buyers
  - World class best of breed digital infrastructure
  - Evolving with the sector (we fish where the fish are…)

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What does our typical sell side M&A client want?

- The highest possible valuation…
- Most favorable terms…
- Assurance of closing…
- In the shortest amount of time…
- With the tightest measures of confidentiality.

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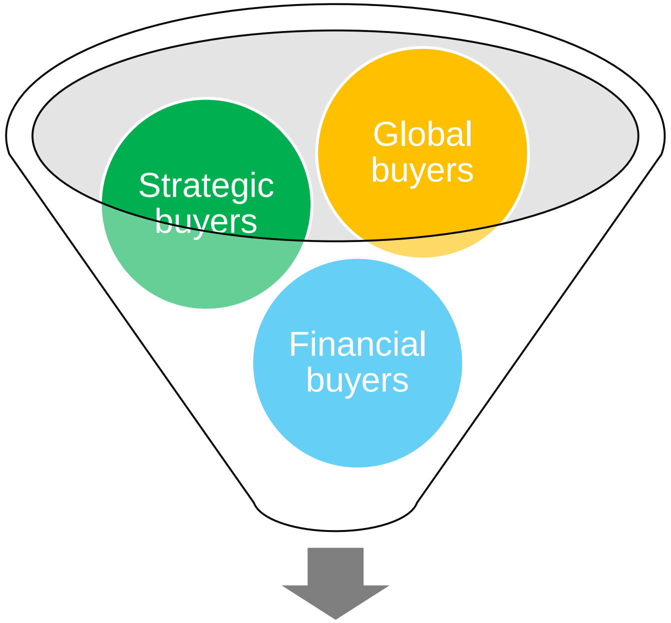
Creating market demand where no such mechanism exists



Multiple expressions of interest

Vs.

Seller + Single potential buyer = Single protracted potential sale

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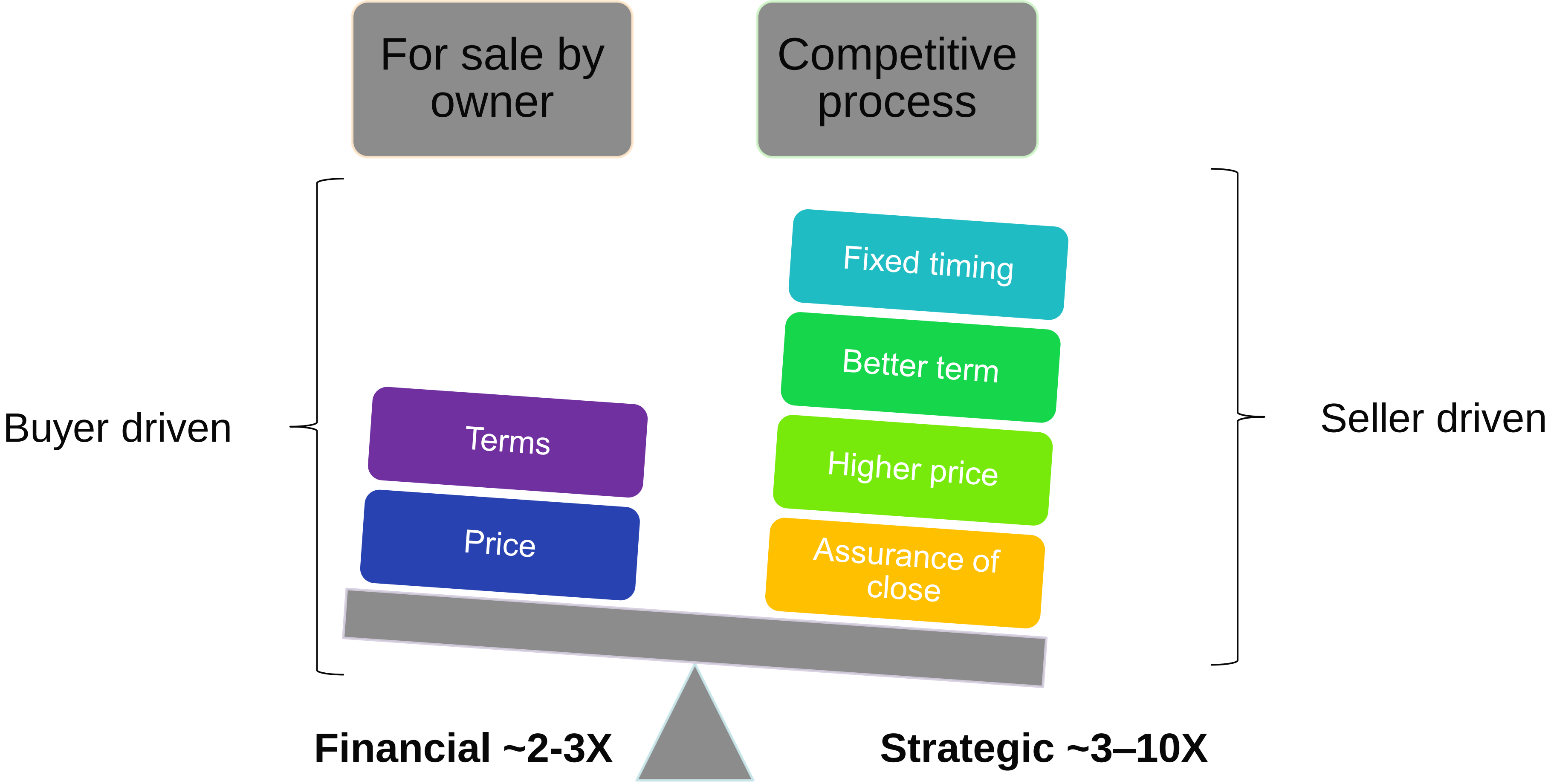
Our process creates seller leverage



The steps to a typical M&A process

- Advise client as to strategic alternatives / design process
- Establish expectations of value
- Prepare marketing materials
- Execute marketing program
- Preliminary due diligence
- Final bids, negotiation and buyer selection

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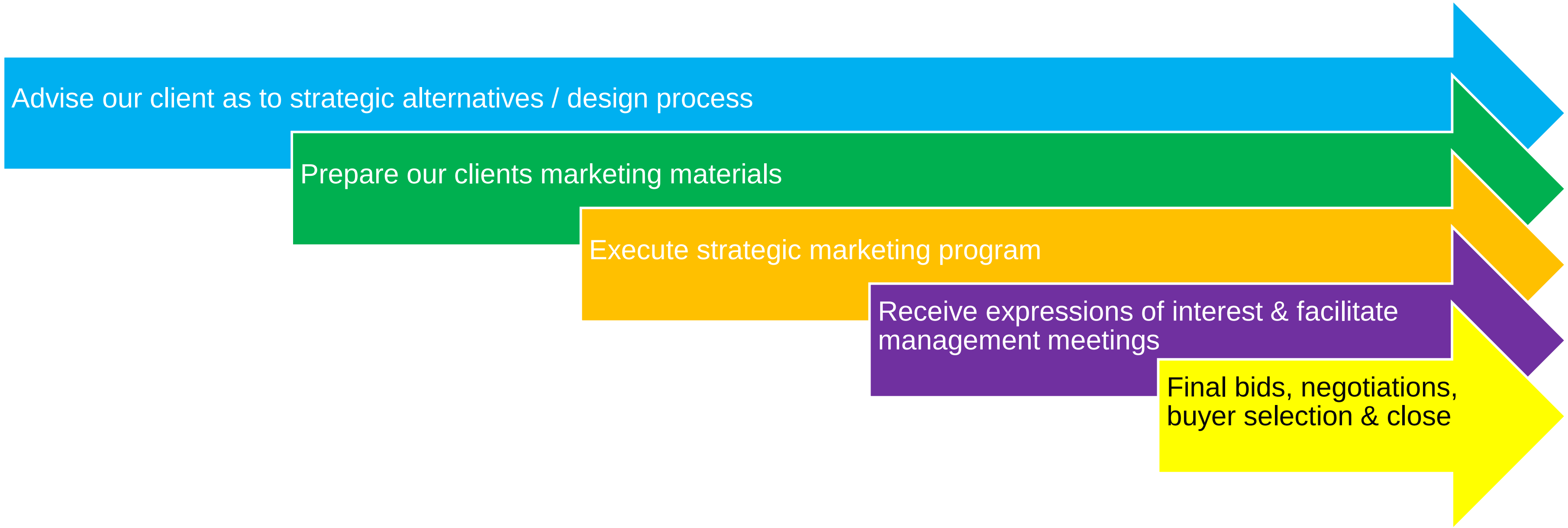
The steps to a typical sell-side process



- On average, M&A processes take 7 – 18 months to execute
- Over 1,000 hours invested by our firm

Advise client as to strategic alternatives ~ 1 month

- What are the client's motivations?
  - Grow the company
  - Estate planning / retirement
  - Restructure ownership
  - Management buyout
  - Replace shareholders who want out
- Timing considerations
- Tax planning
- Accounting requirements (are financials audited?)
- Establish preliminary project timetable

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Typical options contemplated by a business owner / shareholders

- Strategic sale
- Strategic recapitalization
- Strategic merger with PE/VC-backed company
- VC/PE raise - standalone scenario
- VC/PE raise - buy-and-build scenario

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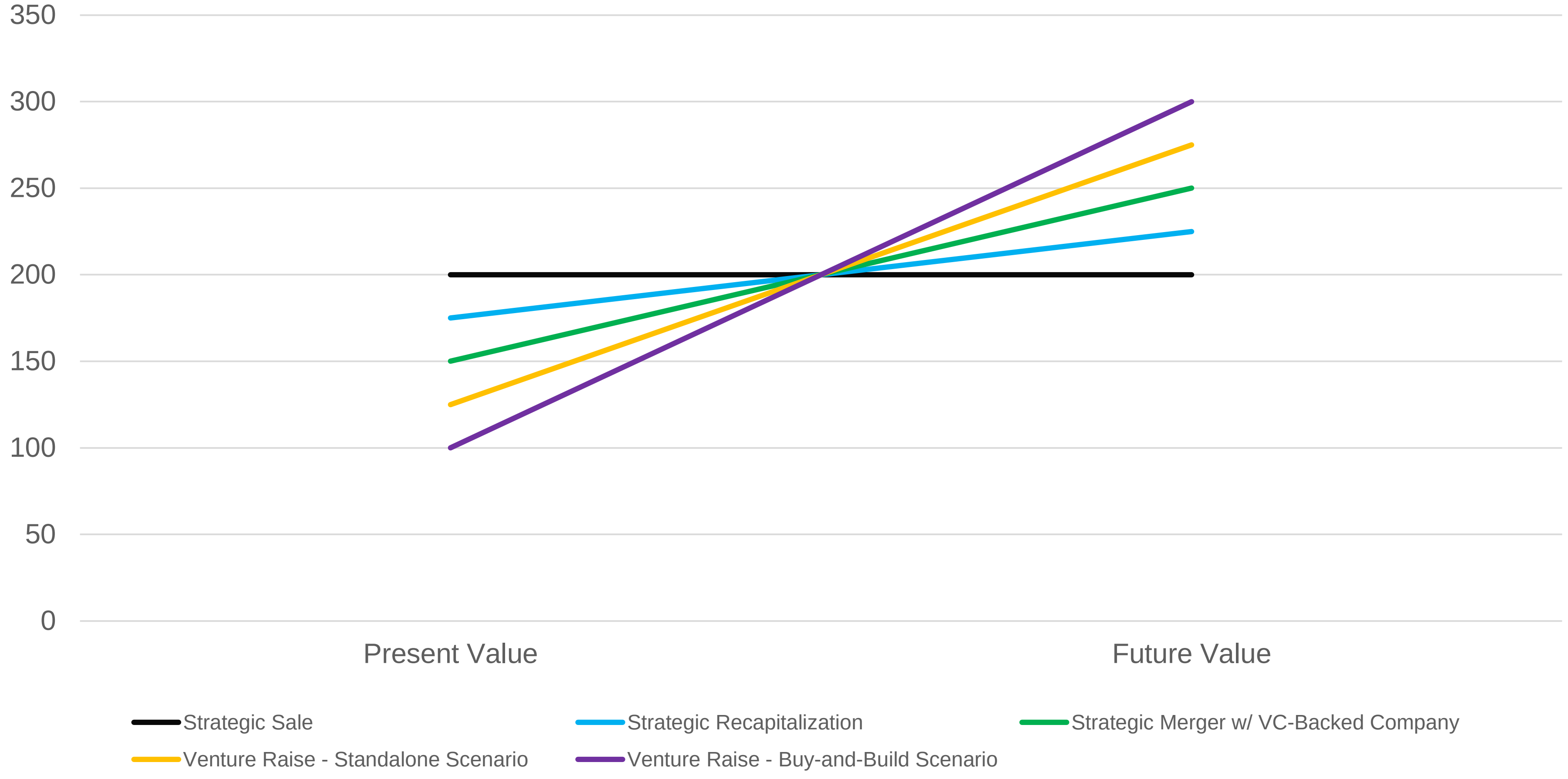
Value based on options selected by a business owner / shareholders



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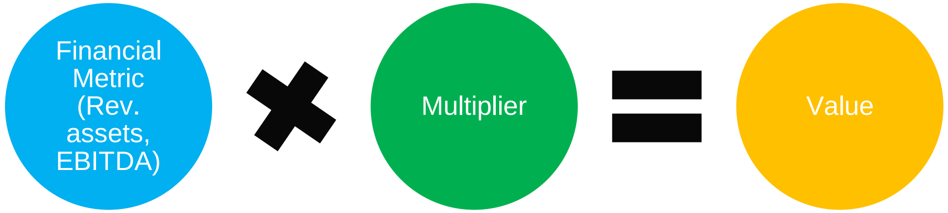
Preliminary valuation analysis establishing expectations

- Publicly-traded comparable
- Precedent M&A transactions
- Discounted cash flow analysis
- Leveraged buyout returns analysis
- EPS accretion / dilution analysis



It's not just about the multiple (recasts and credibility)

Perception of risk expected growth

Preliminary macro market analysis establishing deeper expectations

- Past publicly-traded comparable
- Precedent M&A transactions
- Competitive forces
- Technological forces
- Political regulatory forces
- Economic forces
- Societal forces

Prepare marketing materials ~ 1 month

Confidential information memorandum

- Highlight the key selling points
- Develop a theme to position the company
- Highly collaborative exercise with management
- Translation into Chinese

Financial projections are developed and refined

- Defensible projections built upon key financial metrics with historical evidence

Develop buyer / investor list

- Strategic fit
- Presumed level of interest
- Financing capabilities
- Likely view of value and potential synergies
- Ability to execute a timely transaction
- Confidentiality / competitive issues

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Execute marketing program ~ 1 - 2 months

- Teaser' is distributed to targeted buyers / investors
- Negotiate confidentiality agreements and distribute confidential memorandum
- Gather expressions of interest from buyers/investors
  - Preliminary Q&A with buyers / investors
- Prepare management presentation
  - Expand on key selling points in the confidential memorandum
  - Update buyers on any new developments and interim financial results
  - Showcase the management team

- Assemble "data room" materials
  - Accounting, financial and operational data
  - Property and equipment descriptions
  - Key supply and customer contracts (as appropriate)
  - Pertinent legal documents
  - Human resource information
- M&A legal counsel begins drafting sales and purchase agreement

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Preliminary due diligence ~ 1 month

- Indications of Interest requested – preliminary valuation expectations
- Small number of buyers selected to move forward

- Management presentation
- Potential buyers now have:
  - Access to data room
  - Ability to meet with key members of management
  - Option to tour facilities / operations
  - Follow up Q&A

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Final bids, negotiation and buyer selection ~ 1 - 2 months

- Receive final binding bids (Letter of Intent)
- Negotiate price and contract terms with finalist(s)
- ‘Bring-down’ due diligence
- Execute definitive agreement
- Coordinate legal, tax, accounting and disclosure issues
- Close / funds transfer

Case study:

Food and beverage company

COMPANY DESCRIPTION

Founded in 1996, our client company has been doing things differently to keep its food and beverage service business traditional. The original location in Vancouver. The company had since then grown to multiple locations around Vancouver, with a combination of franchised and corporately run locations. Our client company also provides wholesale beverages and deserts to businesses, restaurants and licensed drinking establishments.

TRANSACTION HIGHLIGHTS

- Client engaged Shaughnessy Group to assist the Company with assessing strategic alternatives, including raising growth capital and/or a potential sale of the Company

- Shaughnessy Group subsequently conducted a highly targeted sale process which included preparation of an information memorandum and detailed financial forecast model; Shaughnessy solicited interest from strategic and foreign acquirers with which fit synergistically

- Shaughnessy Group was able to bring in numerous, simultaneous offers, half of which came from international suitors

- After heavy negotiations, client chose to formalize a letter of Intent with a foreign acquirer in a similar business overseas at a valuation of 8.2x EBITDA; the transaction closed 49 days later

- Foreign Acquirer was able to add a reputable product line and establish a beach head platform in North America for subsequent growth

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HELPING LOWER MIDDLE MARKET
ENTREPRENEURS EXIT THEIR
MOST VALUED INVESTMENT

Contact our team for; a confidential, no-obligation conversation, to explore the value of your business in todays investment climate.

Free download: "Corporate Overview"
https://shaughnessy.group/resources

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