

Thursday, March 20, 2014 • 3 pm EST

ACG® Chicago

The Association for Corporate Growth

is proud to be working with



**MINORITY BUSINESS
DEVELOPMENT AGENCY**
U.S. DEPARTMENT OF COMMERCE

to

present

Strategic Growth Through Mergers & Acquisitions

ACG Chicago Mission

ACG Chicago is the premier network of leading authorities on corporate growth.

ACG Chicago engages its members through unparalleled opportunities for networking, deal making, personal growth, and professional development.

ACG Chicago continues to expand its prominence by developing a relevant brand in the business community, by growing and promoting its diverse membership, by presenting strong educational programs in person and electronically, and through unique access to industry leaders, financing and expertise.

ACG Chicago

1,000 experienced professionals in the largest regional network of professionals and 14,000 global leaders electronically connected to 58 regions around the globe.

Targeted networks covering the umbrella of growth.

The Essential Network, ACGChicago.com, hosts events news and documents, online data, directories, private committee rooms, and group discussions.

Online and emailed content from programs, newsletters and more

40-50 events per year from the nationally recognized ACG Capital Connection® drawing 1100-1200 to more focused smaller events to simply fun social evenings.

Over 100 dedicated volunteers and staff building on 46 years and looking for new ways to add value.

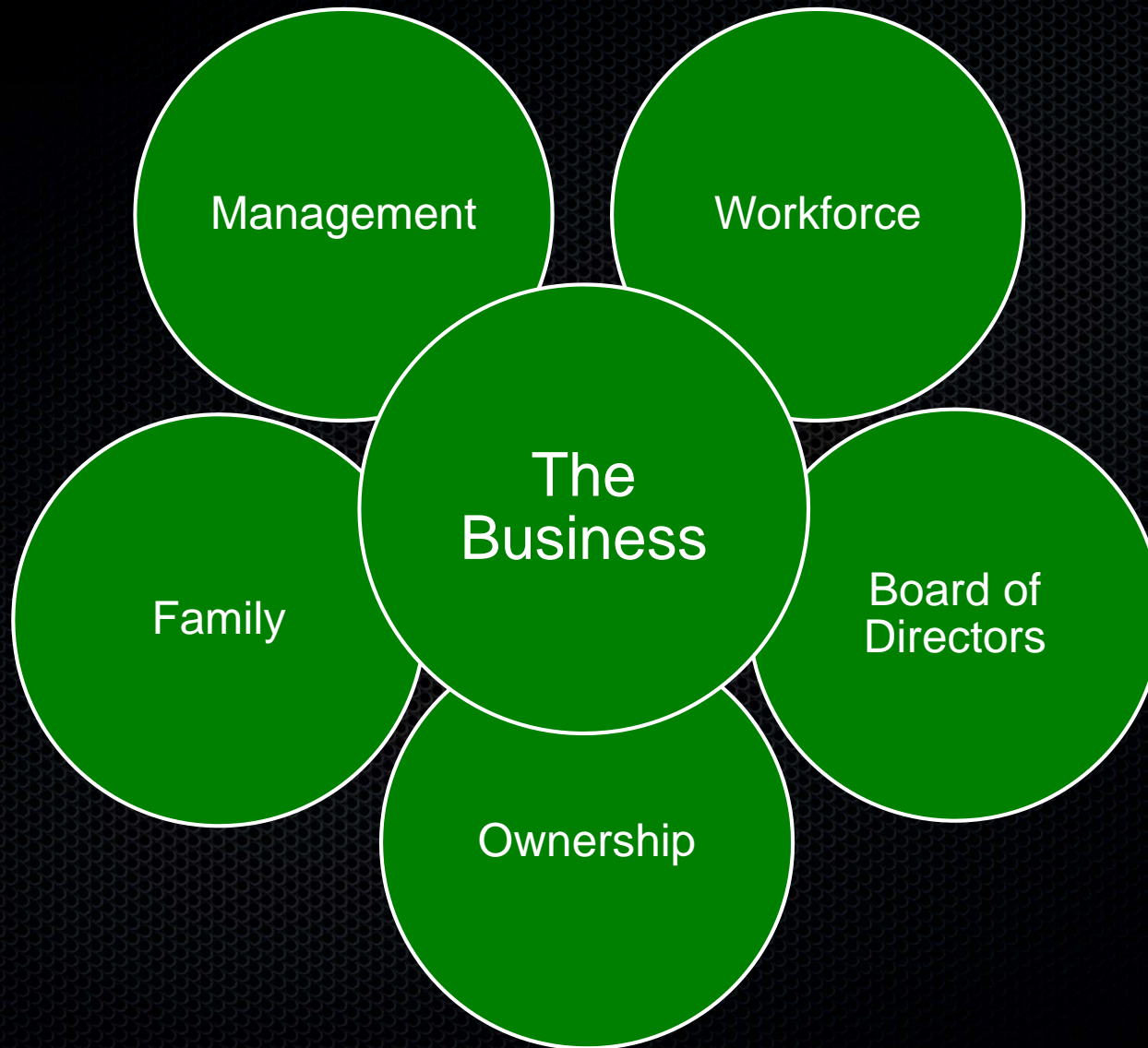


John Bintz, Valuation Research Corporation (ACG Chicago Director)
Venita Fields, Smith Whiley & Company (ACG Chicago Treasurer)
Craig Miller, ACG Chicago, Inc. (ACG Chicago CEO)
Suzie Saxman, Seyfarth Shaw LLP (ACG Chicago Executive VP)
Tom Turmell, TMT Capital Partners, LLC (ACG Chicago President)

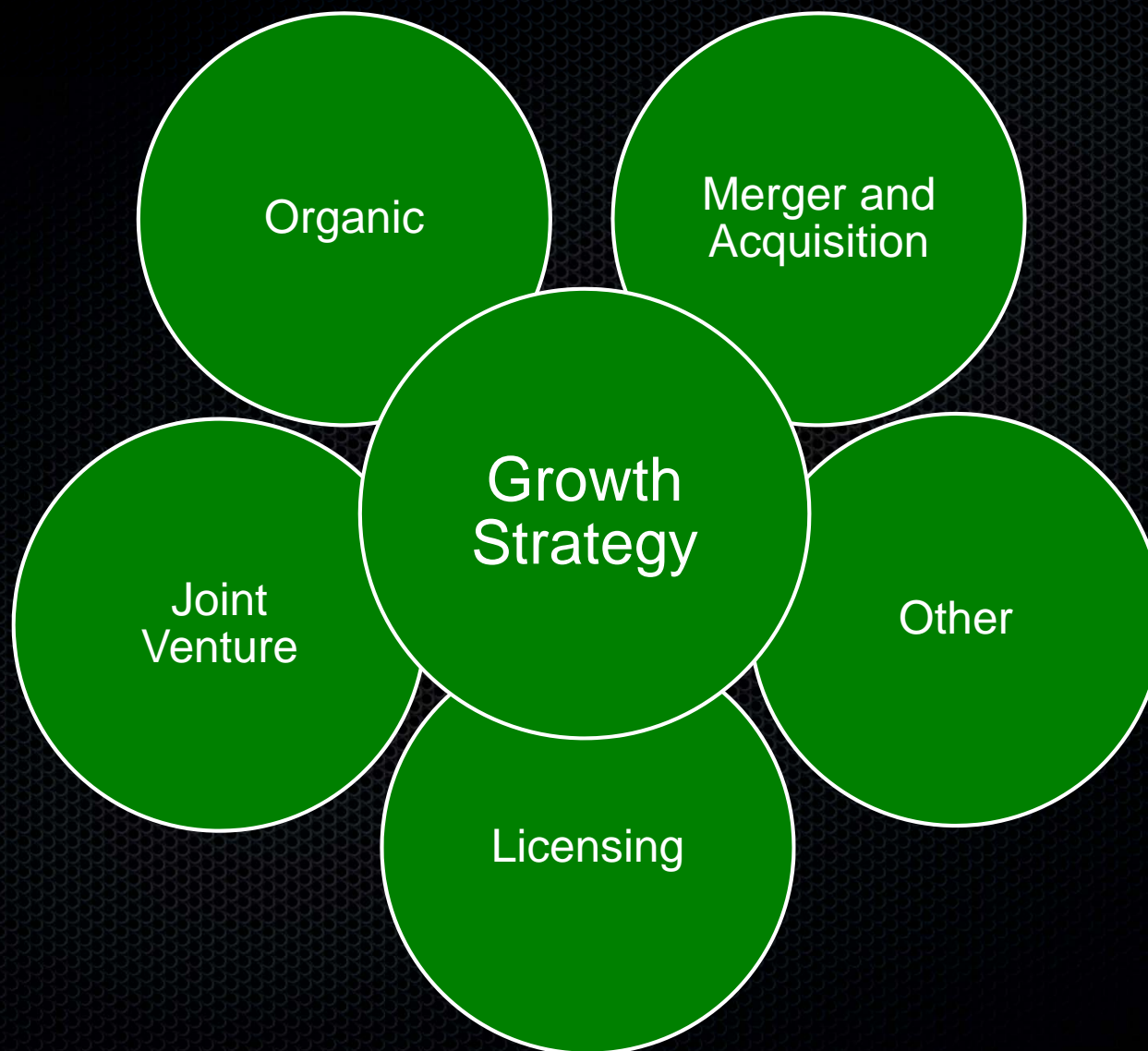
Evaluating Growth Initiatives

- Personal Goals
- Business Objectives
- Strategic Alignment with
Personal / Business Goals and Objectives
- Company Strengths and Weaknesses
 - Competitive Positioning
 - Resources

Communities of Influence



Corporate Growth Alternatives



Buy vs. Build Analysis

What am I buying?

Product characteristics, market access, people, technology, barrier to entry, etc.

At what cost?

Time, access to capital, greenfield risks, integration risks, balance sheet considerations, etc.

With what affect on the organization?

Management, culture, structure, processes, financial, morale, regulatory, etc.

Self-Assessment

Understand the needs/capabilities/talent required.

Sourcing Targets • Negotiating • Executing

Understand the internal capabilities. Do you have the team?

Operations Management

Financial Reporting Systems

A Separate Team to Focus on the Acquisition

Understand others needed to undertake the M&A process.

Seasoned M&A Counsel (not your family attorney)

Accounting Firm (Understands the nuances, accounting & tax)

Seasoned Investment Banker (Understands the current market)

Financing the transaction

Capital structure considerations
Types of debt and equity capital
Effect of capital structure on valuation

Current market
Sources and pricing

Capital sourcing process

CAPITAL PYRAMID

**Liquidation
Preference**

FIRST



LAST

**Risk /
Pricing**

LOW



HIGH



Senior Debt Pricing / Financing

Prime rate/ LIBOR Rate

The interest rate charged by banks to their most creditworthy
Currently: 3.25% / 0.55% (one year LIBOR rate)

Loan Pricing

Will range from Prime to Prime plus 3.50%, LIBOR plus 300-600 depending on lender's assessment of risk

Primary Variables

Cash Flow

Collateral (such as receivables, inventory,
plant, property & equip)

Understand the Lenders' Language

EBITDA – a critical formula

$$\text{EBITDA} = \text{Earnings (Net Income)} + \text{Interest} + \text{Taxes} + \text{Depreciation} + \text{Amortization}.$$

Other Terms

Cash Flow Lender • Asset-based Lender

Important Ratios

Sr. Debt / EBITDA • Total Debt / EBITDA

Understanding Subordinated Debt

AKA Jr. Debt or Mezzanine Debt (usually denotes equity component).

Possible Equity Participation (“Equity Kicker”)

Warrants to purchase equity • Conversion of debt into equity

Unique Aspects

More expensive than bank debt • Less expensive than equity
Serviced with Excess Cash Flow (after Senior Debt)
Payment in Kind (PIK) option for thin cash flow
Pricing: 11%-13% plus Equity Kicker (16%-18% overall)
Term: 3-8 years (matures after senior debt)

Valuation Methods: Income Approach

The Income Approach – Value Drivers

| Years ended December 31, | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|----------|----------|----------|----------|----------|
| Total revenues | \$ 1,727 | \$ 1,857 | \$ 1,949 | \$ 2,027 | \$ 2,088 |
| % Growth | 10.0% | 7.5% | 5.0% | 4.0% | 3.0% |
| Operating expenses | 1,502 | 1,597 | 1,657 | 1,723 | 1,775 |
| % of revenues | 87.0% | 86.0% | 85.0% | 85.0% | 85.0% |
| Operating income / (loss) | 225 | 260 | 292 | 304 | 313 |
| % of revenues | 13.0% | 14.0% | 15.0% | 15.0% | 15.0% |
| Income tax expense | 90 | 104 | 117 | 122 | 125 |
| Net Income | 135 | 156 | 175 | 182 | 188 |
| Adjustments: | | | | | |
| Depreciation & amortization | 7 | 10 | 14 | 18 | 19 |
| Capital expenditures | (17) | (18) | (19) | (20) | (21) |
| Changes in working capital | (7) | (7) | (7) | (8) | (8) |
| Cash flow to be discounted | 118 | 141 | 163 | 172 | 178 |
| Discount period | 0.5 | 1.5 | 2.5 | 3.5 | 4.5 |
| Discount rate/factor | 0.9325 | 0.8109 | 0.7051 | 0.6131 | 0.5332 |
| Present value of cash flows | 110 | 114 | 115 | 106 | 95 |
| Total present value of cash flows | \$ 540 | | | | |
| Present value of residual value | 814 | | | | |
| Total invested capital | 1,354 | | | | |
| Less: Debt | (100) | | | | |
| Indicated marketable, minority equity value | \$ 1,254 | | | | |

Revenue Growth

Operating Margin

Mid-Year Convention

Capitalization Rate

Discount Rate

| Residual Value Calculation | |
|----------------------------|--------|
| Cash flow | 183 |
| Discount rate | 15.0% |
| LT growth rate | 3.0% |
| Capitalization rate | 12.0% |
| Residual value | 1,527 |
| Period | 0.5332 |
| PV of residual value | 814 |

Valuation Methods: Market Approach

The Market Approach – Public Multiples

Similar
Public
Company
Selection

| Company | Enterprise Value as a Multiple of | | |
|-------------------------------|-----------------------------------|--------|-------|
| | Revenues | EBITDA | EBIT |
| Arkansas Best Corp. | 0.50 | 4.2 | 6.5 |
| Celadon Group Inc. | 0.90 | 7.8 | 11.1 |
| Covenant Transportation Group | 0.50 | 6.2 | NM |
| Old Dominion Freight | 1.00 | 6.6 | 10.0 |
| Saia Inc. | 0.60 | 5.8 | 9.5 |
| Universal Truckload Services | 0.50 | 8.5 | 10.2 |
| High | 1.00 | 8.5 | 11.1 |
| Low | 0.50 | 4.2 | 6.5 |
| Average | 0.67 | 6.5 | 9.5 |
| Selected Multiple | 0.80 | 6.5 | 8.0 |
| Subject Financial Results | 1,570 | 203 | 188 |
| Indicated Enterprise Value | 1,256 | 1,322 | 1,507 |
| Less: Value of Debt | (100) | (100) | (100) |
| Indicated Common Equity Value | 1,156 | 1,222 | 1,407 |

Market
Multiples

Multiple
Selection:
Growth,
Margins and
Risk

Subject's
Financial
Results

Factors to be Considered in Performing a Valuation

Milestones achieved by the enterprise

State of the industry and economy

Board and management team

Marketplace and major competitors

Barriers to entry

Strategic relationships with major customers and suppliers

Cost structure and financial condition

Risk factors faced by the enterprise

What is due diligence?

Reasons for due diligence

Scope of due diligence

Organization of Materials & Information

Critical areas of due diligence:

Business

Financial

Legal

Why Do So Many Fail?

- ✓ Understand what you're buying
- ✓ Understand the value proposition (profits & revenues)
- ✓ Is there a cultural and organizational integration plan?
- ✓ What is sustainable?
- ✓ What resources are needed?
- ✓ Are the processes in place (mfg, R&D, sales, financial)
- ✓ Due diligence doesn't stop once the transaction closes

Questions & Answers on Strategic Growth Through Mergers & Acquisitions

For additional information on

Strategic Growth Through Mergers & Acquisitions

John Bintz, jbintz@valuationresearch.com
Venita Fields, venita.fields@smithwhiley.com
Craig Miller, CMiller@ACGChicago.com
Suzie Saxman, ssaxman@seyfarth.com
Tom Turmell, tturmell@tmtcapital.com

ACG Chicago • 200 West Monroe St., #1401, Chicago, IL 60606
877-224-6389 www.ACGChicago.com