

**TAUREAU
GROUP**



MAXIMIZING VALUE IN YOUR BUSINESS

Tyler Carlson, Vice President

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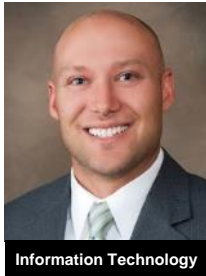
TAUREAU GROUP TEAM

TAUREAU GROUP



Business Owner

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MBA, CPA
Managing Director



Information Technology

Corey Vanderpoel
MBA
Managing Director



Mechanical Engineering

Tyler Carlson
MBA
Vice President



Commercial Banking

Michael Schroeder
MBA
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CPA
Associate



Commercial Banking

Thomas Venner
Analyst



Marketing

Tammy Halfmann
Executive Assistant

M&A Advisors serving clients on the sell- and buy-side with transaction values less than \$250 MM

Combined 80+ years of M&A experience

- Diverse and differentiated backgrounds beyond corporate finance
 - Accounting, tax and corporate finance expertise
 - Former business owner
 - MBA, commercial banking, engineering and IT backgrounds

Seller Advisory	Rev. range: \$5 MM - \$250 MM Location: Global
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Buyer Advisory	Rev. range: Any Location: Global
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Management Buyouts/ Family Transitions	Rev. range: Any Location: U.S.
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Calculations of Value	Rev. range: Any Location: Global
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Specialty Financing	Min. placement: \$1 MM Location: U.S.
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SESSION AGENDA

- Objective today is to offer my thoughts on the following:
 - Current market conditions
 - Keys to maximizing business value
 - Marketing process considerations
- Meant to be informal and questions are encouraged throughout

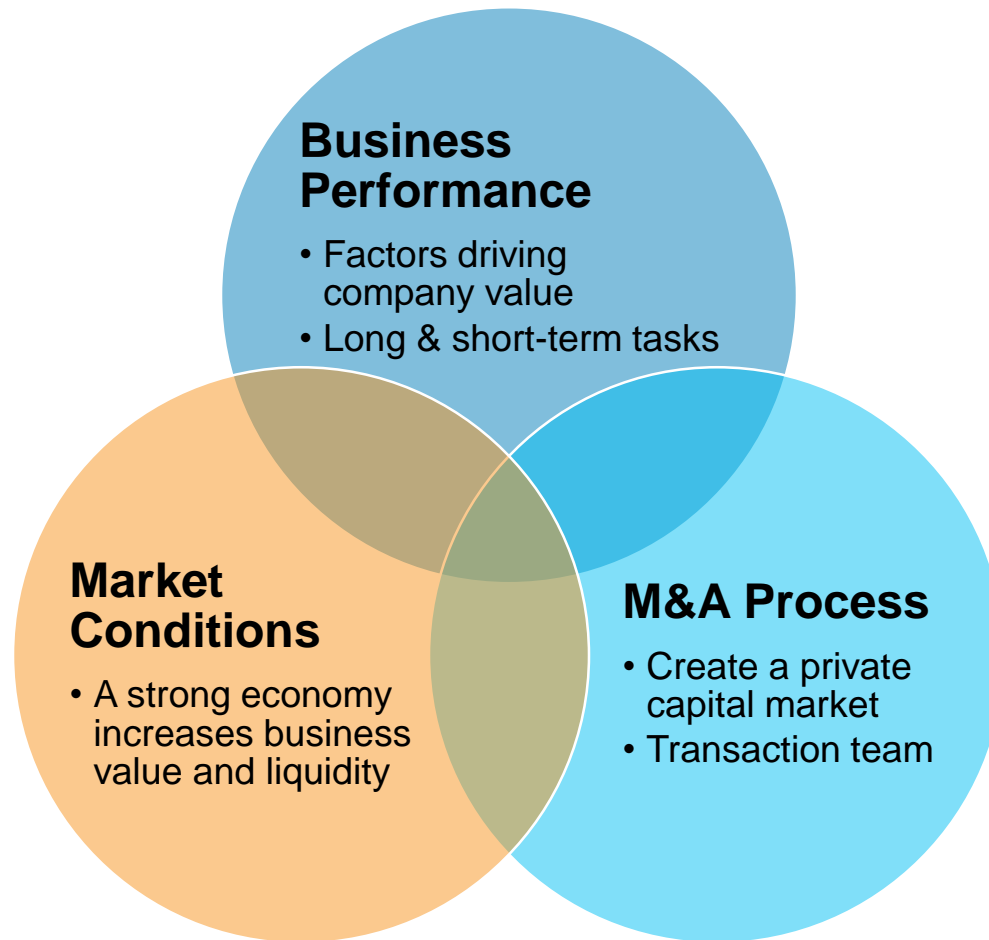
WHAT IS YOUR BUSINESS VALUE?

“A company is worth what someone is prepared to pay...”

- Value is a range and the target is constantly moving
- Rule of 2: given an appropriate number of buyers, oftentimes the highest offer is two times the lowest offer
- Every buyer will value your business differently



KEY FACTORS TO MAXIMIZING VALUE



CURRENT M&A INVESTMENT MULTIPLES

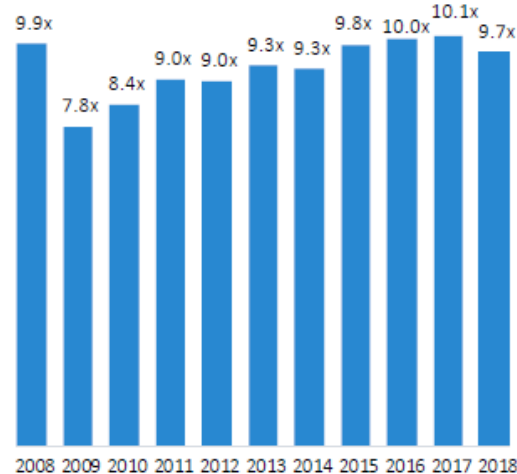
An abundance of capital continues to support a strong M&A market. In addition, larger sponsors are reaching down market for tuck-ins, which is driving high EBITDA multiples.

Total Enterprise Value (TEV)/EBITDA

TEV	'03-13	'14	'15	'16	'17	YTD'18	Total
10-25	5.5	5.5	5.9	5.8	6.3	5.8	5.6
25-50	6.1	6.4	6.6	6.4	6.6	6.8	6.3
50-100	6.7	7.6	7.8	7.2	8.2	8.9	7.1
100-250	7.2	7.5	9.0	8.9	9.1	8.5	7.9
Total	6.1	6.4	6.7	6.7	7.3	7.1	6.4

Multiples remain aloft

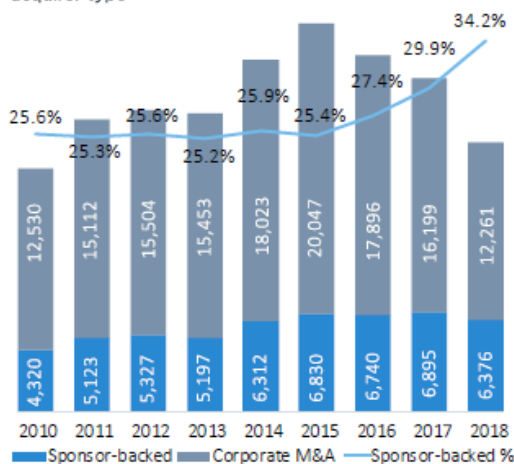
Median North American M&A EV/EBITDA multiples



Source: PitchBook

PE firms grow proportion of deal activity

North American and European M&A activity (#) by acquirer type



Source: PitchBook

M&A QUARTERLY | DECEMBER 2018



MARKET SUMMARY

- Q3 2018 averaged 7.3x TEV/EBITDA, unchanged from the previous quarter and in line with mid-2017 multiples.
- The two industries showing the highest EBITDA multiples during Q3 2018 were technology and health care services at 9.8x and 7.5x, respectively. EBITDA multiples for all manufacturing companies averaged 6.8x, which is 0.7x above historical averages.
- On average, larger buyouts receive a premium to their EBITDA multiples. The spread on size premiums for larger-sized deals between \$50 million and \$250 million compared to deals between \$10 million and \$50 million was 3.3x YTD through Q3 2018, which is above the average historical level of 2.2x.
- Platform buyouts averaged a higher EBITDA multiple than add-ons during Q3 2018, which was 7.3x compared to 6.8x, respectively.
- Buyers continued to reward businesses having above-average financials (TTM revenue growth and EBITDA margins above 10%, or one above 12% and the other 8%) during Q3 2018. These businesses averaged 7.7x versus 6.3x for all others, which is in line with 2017.
- Debt utilization ticked down in Q3 2018 with senior debt/EBITDA multiples across all industries at 2.8x, compared to 3.2x – 3.6x over the prior five quarters.
- Average equity contributions increased to 46.8% in Q3 2018 while equity contributions for the year have remained remarkably consistent in the 44-45% range over the past three years.

WHAT'S NEW AT TAUREAU GROUP

- September** – Engaged by an electrical services company on consideration of potential sale.
- September** – Engaged by Moore Engineering to pursue acquisition opportunities in the engineering or architectural services industries with revenues between \$2 million – \$15 million.
- October** – Presented to nearly 200 attendees in the Fox Valley at our annual M&A Forum: Fact or Fiction. Taking the Mystery out of M&A.
- October** – Completed the sale of Camera Corner Connecting Point to Arlington Computer Products LLC.
- October** – Completed the sale of Pak-Rite, Ltd. to a Nasdaq-listed company.
- November** – Engaged by a metal manufacturing company for consideration of potential sale.
- November** – Continue to seek add-on acquisition opportunities for buy-side clients in the plastics manufacturing and niche technology/automation industries.

FEATURED ARTICLE

- Tips for Evaluating a Buyer's Letter of Intent.** Go to: taureaugroup.com/buyer-10

Full-service investment banking services:

- Company sales and corporate divestitures
- Acquisitions
- Recapitalizations
- Management buyouts
- Exit planning
- Business valuations (market value)
- Specialty financing

Talk to one of our Taureau Group professionals:

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MARKET STATISTICS

Total Enterprise Value (TEV)/EBITDA

TEV	'03-13	'14	'15	'16	'17	YTD'18	Total
10-25	5.5	5.5	5.9	5.8	6.3	5.8	5.6
25-50	6.1	6.4	6.6	6.4	6.6	6.8	6.3
50-100	6.7	7.6	7.8	7.2	8.2	8.9	7.1
100-250	7.2	7.5	9.0	8.9	9.1	8.5	7.9
Total	6.1	6.4	6.7	6.7	7.3	7.1	6.4

TEV/EBITDA—By industry category

Industry	'03-13	'14	'15	'16	'17	YTD'18	Total
Manufacturing	5.9	6.1	6.6	6.1	6.8	6.9	6.1
Business services	6.1	6.4	7.3	7.4	7.0	6.4	6.4
Health care services	6.8	7.2	7.8	7.6	8.1	7.5	7.2
Retail	6.4	6.0	5.5	7.0	7.6	6.7	6.5
Distribution	6.0	7.2	6.7	7.5	7.1	7.0	6.4
Media & telecom	7.2	NA	6.4	6.6	8.2	5.0	7.1
Technology	6.6	7.7	8.0	7.4	10.2	9.8	7.6
Other	5.8	6.6	5.6	6.9	6.5	6.0	6.0

Senior Debt/EBITDA—Splits by period

TEV	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
10-25	3.1	3.4	2.7	4.3	3.8	2.8	3.9	2.6
25-50	2.3	2.7	3.2	2.7	2.9	3.2	2.7	2.5
50-100	3.0	2.9	4.6	3.0	3.8	4.0	3.2	2.6
100-250	3.5	3.7	3.9	4.1	3.5	5.2	3.2	3.7
Total	2.9	3.0	3.6	3.4	3.3	3.2	3.2	2.8

Source: GF Data*

M&A activity remained robust in Q3 2018 with value totalling \$822.7 billion, marking the second consecutive quarter with more than \$800 billion in transaction value. Transaction multiples have stabilized since the record highs achieved in mid-2017.

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5 AREAS OF FOCUS – BUYER PERSPECTIVE

1.
Performance

2.
People

3.
Position

4.
Potential

5.
Problems

1. PERFORMANCE

Financial performance:

- Top-line growth over historical periods
- Ability to explain year-over-year variations
- Stable or improving margins
- How did the business perform during recession?

Relative performance:

- How did the business perform compared to industry peers and key competitors?

2. PEOPLE

Exiting the business:

- What key people are exiting the business?
 - Why?
 - What is leaving with them?
- An ability to demonstrate that processes and procedures are institutionalized versus a culture of tribal knowledge can help mitigate buyer concerns in this regard

Management team:

- How long has the management team been with the business?
 - In their expected post-close roles?
- Any investments that need to be made at the senior leadership level?
- Are the key people properly incented to stay?

3. POSITION

Capabilities and core competencies:

- Clearly defined differentiators and how those compare to top competitors

Defensible market position:

- Entrenched customer relationships
- Brand name recognition
- Superior products
- Product line diversification selling into multiple markets

4. POTENTIAL

Identified growth opportunities:

- Have a well-thought-out plan (don't just say you need to add salespeople)
- Your plan should first focus on organic areas of growth potential
- Work through a realistic set of projections and make sure it ties to your growth plan
- Identified acquisition targets are nice to have, but this shouldn't be entire growth plan

5. PROBLEMS

Address problems proactively:

- Every business has problems; they will come out during due diligence
- Addressing proactively and showing what you have done, or are doing, to minimize negative impacts is essential

Potential 'deal killers':

- Multi-employer pension plans
- Customer concentration
- Supplier concentration
- Commoditizing product offering
- Environmental issues with real estate

BUILDING VALUE

1 – 5 years before sale

- Show positive growth rates in sales and earnings
- Develop strong EBITDA margins (>10%)
- Develop recurring revenue streams
- Develop budgets and forecasts (and meet them)
- Diversify your customer base
- Produce a well-developed brand, reputation and supporting culture
- Empower your managers; eliminate excess dependence on key people (especially yourself)
- Resolve all disputes and litigation
- Review OSHA and environmental issues
- Engage WMEP for Profit Risk Assessment (PRA) Plus
 - <https://www.wmep.org/services/praplus-profit-risk-assessment/>

BUILDING VALUE

6 – 12 months before sale

- Clean up major contractual relationships with customers, suppliers, landlords, etc.; understand all your contracts with assignment clauses
- Update your marketing materials and website
- Organize accounting and tax records
- Gather and review all contracts and obligations of the corporation, especially customer contracts
- Clean up your facility—make it orderly
- Remove personal/unnecessary assets from entity
- Clean up and release out-of-date liens on assets
- Don't excessively spend money on growth capital expenditures

PREPARATION FOR SALE—DOS AND DON'TS

Do

- Organize the business—building, financials, employee files, contacts, etc.
- Get rid of all those owner “perks”
- Consider an intermediary EARLY to represent you in your business sale and choose them carefully...once in a lifetime complicated transaction

Don't

- Incur large capital expenditure that won't quickly be reflected in cash flow
- Purchase real estate you do not wish to keep (unless integral to business)
- Enter into unfavorable long-term commitments

SALE PROCESS CONSIDERATIONS

Auction vs. Negotiated sale:

- Understand your objectives (\$, stay in place, second bite, etc.)
- Options = Value (especially for companies that have challenges)
- Confidentiality concerns
- Management of parties
- Disruptions to the business (realized regardless of process)
- Definitely don't miss your projections...or else...

MAXIMIZING VALUE WITH A SALE PROCESS

BUYER IDENTIFICATION

- Determine best marketing process
- Identify all likely interested buyers
- Screen potential buyers to determine interest and qualifications

EXCEPTIONAL MARKETING EFFORT

- Identify and communicate key value drivers
- Develop high quality descriptive confidential information memorandum to market the business
- Proactively address marketing challenges
- Leverage relationships and customize message to each potential buyer
- Confidentially approach only approved potential acquirers
- Optimize time of approach to market and **MAXIMIZE OPTIONS**

TRUSTED ADVICE

- Lead team on process and strategy
- Provide creative structuring ideas
- Create negotiating advantages on behalf of the seller
- Provide “market read” on all phases of process
- Keep interested parties on a parallel path through a managed process

TAILORED, EFFICIENT M&A PROCESS

- Customize and coordinate process for maximum auction tension and leverage
- Minimize disruption to senior management and continuing operations
- Control timing, information flow and access
- Be the catalyst in driving the transaction to a conclusion

OPTIONS = VALUE (THE FUNNEL)

Value can equal:

- Price
- Post-transaction liability
- Comfort with buyer
- Employees
- Community
- Legacy



CONCLUSIONS

Take advantage of market conditions

- The best time to sell is likely not the time you want to sell

Build value in your business

- Look at value drivers
- Understand how your business looks from a buyer's perspective

Consider the sale process

- One party negotiation versus auction
- Hundreds of deal terms to negotiate...can be fatiguing
- Understand the value of an experienced investment banker

THANK YOU

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