

September 24, 2024

# PERSPECTIVE

A man in a blue suit is looking out from a high-rise building, with a view of the Earth from space in the background. The man is positioned in the center of the word 'PERSPECTIVE', looking out from the 'S' and 'P'.

**CHANGES EVERYTHING.**

2024 FEI Eastern Wisconsin Chapter Meeting

**WIPFLI**







**Colin Johnson**

Managing Director of Investment Banking

## Presenters

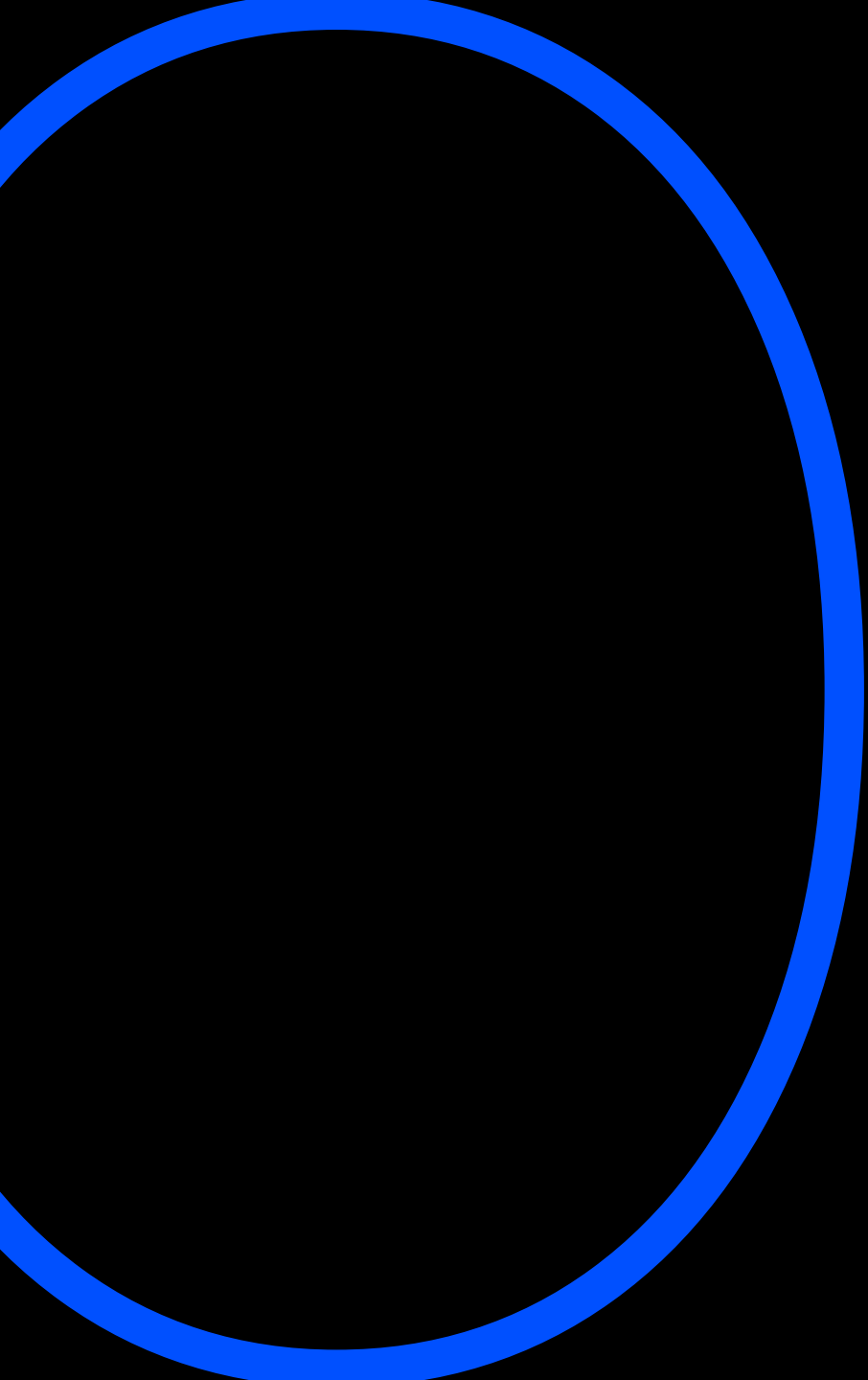


**Paul Ouweneel**

Partner

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# Defining Your Options

# Business Owners Have Three Primary Options

**1**

Continue  
Operating

**2**

Transition  
Internally

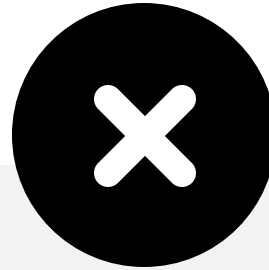
**3**

External  
Sale or  
Partnership

## Continue Operating



- ✓ Maintain Control
- ✓ No change in company culture and legacy is preserved
- ✓ Growth can enhance value



- ✗ Can limit access to growth capital
- ✗ Minimal Liquidity
- ✗ Retain 100% of business and macro risk

### Key Considerations:

- 1) Where is your company at in its lifecycle?
- 2) What is going on in the industry?
- 3) Are there near-term opportunities or operational improvements that can be made?
- 4) How will you grow?





## Transition Internally



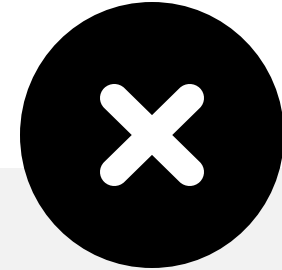
Maintains ownership within family or employee base



Quicker process



Minimize risk of culture disruption



Valuation is often materially below market



Payments are typically made over a period of time (5-10 years)



Can create financial burden for the company and limit access to growth capital

### Key Considerations:

- 1) Are you open to a long-term payout?
- 2) Do you have the management team capable of ownership and driving the business forward?
- 3) Can the business maintain its competitive position without growth capital?

# External Sale



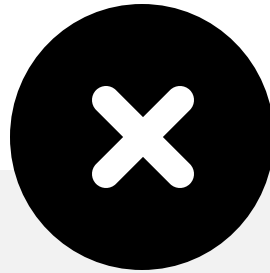
Liquidity event at market valuations



Reduce shareholder business and macro risk



Accelerate the growth of the company - complimentary partner and access to growth capital



Control/governance ceded to buyer



Culture risk if the right partner is not found



Taxing sale process without a guaranteed transaction

## Key Considerations:

- 1) Can a third-party sale accelerate the company's growth trajectory?
- 2) Is the M&A market within your industry active?
- 3) Do you have key employees that are ready for more responsibility/opportunity?







**Determining the  
Optimal Path  
forward**



## **Determining the Optimal Path Forward**

- Identify and prioritize stakeholder goals
- Consider key factors that inform appropriate timing
- Develop a strategic plan
- Identify opportunities for improvement
- Build a deal / advisory team

# Identifying and Prioritizing Stakeholder Goals





# Identifying and Prioritizing Stakeholder Goals

Potential  
goals to  
consider

- ✓ Diversify personal portfolio risk
- ✓ Charitable goals
- ✓ Liquidity
- ✓ Cultural fit for employees
- ✓ Lifestyle change
- ✓ Address competitive threat
- ✓ Capitalize on strategic opportunity

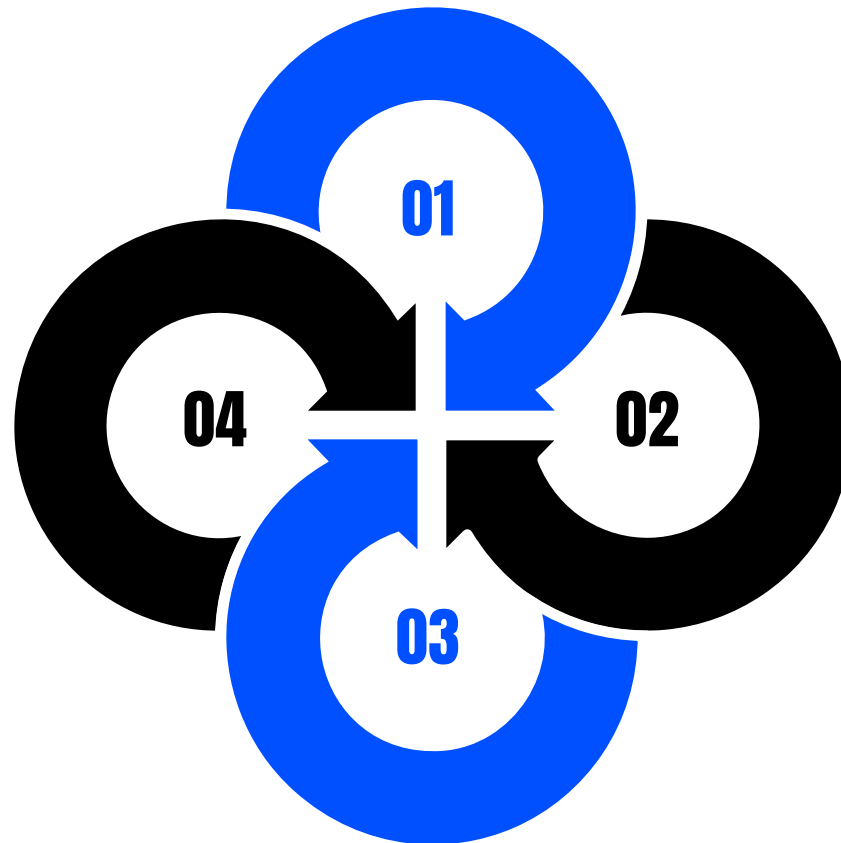
# Key Factors that Influence Timing of an External Sale Process

## Macroeconomic Cycle

- What global factors may impact your business?
- What political risk factors are you facing?
- How is the broader economy performing?

## Taxes

- Are tax laws changing?
- Is there a favorable tax treatment for either outcome?



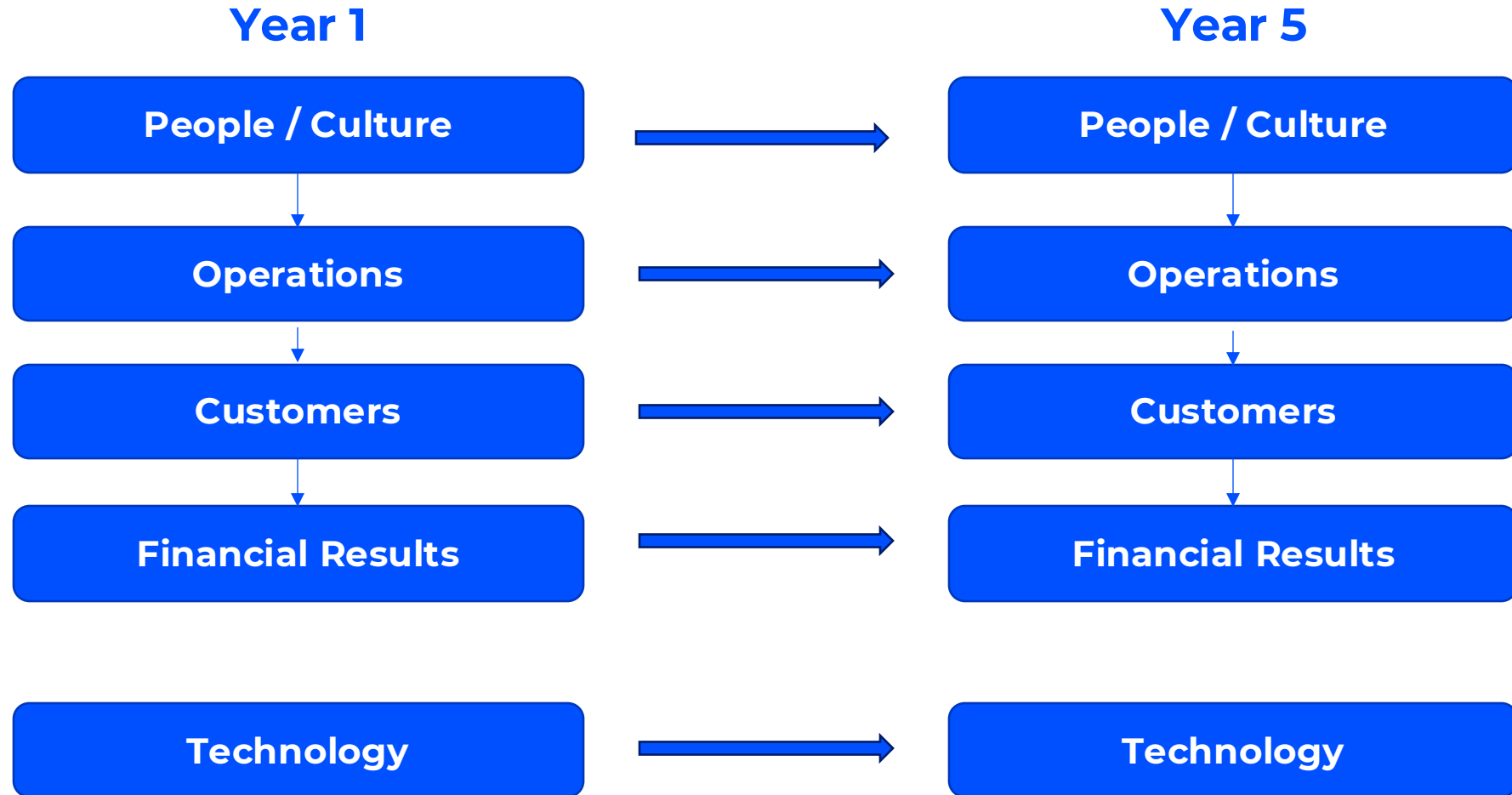
## Microeconomic Cycle

- What is going on in your industry?
- How is your business performing?
- What is the future outlook?
- Where are you at personally?

## Legal

- Are there legal concerns that need to be addressed?
- Are there impending regulations that may impact your business?
- Pending IP

# Developing a Strategic Plan





# Compare strategic plan to Competitive Landscape

1

## Grow or Sell

- Do you have a clear line of sight to growth?
- What competitive threats do you face?
- Competitive business risk

2

## M&A Environment

- Levels of industry consolidation
- Risk of being “late to the party”

3

## Capital Requirements

- What capital is required to support growth needs?
- Shareholders' risk profile

## Identify Opportunity Areas for Improvement









**M&A  
Process**

# Process Timeline

|                             | Month 1 | Month 2 | Month 3 | Month 4 | Month 5 | Month 6 |
|-----------------------------|---------|---------|---------|---------|---------|---------|
| Deal Preparation Phase      | Active  | Active  |         |         |         |         |
| Marketing Phase             |         |         | Active  | Active  |         |         |
| Diligence/<br>Closing Phase |         |         |         |         | Active  | Active  |

# Deal Preparation Phase

## Seller Goals

Process structure driven by Seller's goals – buyer list included

## Build Deal Team

Well rounded deal team maximizes NET outcome to shareholders

## Pre-deal diligence

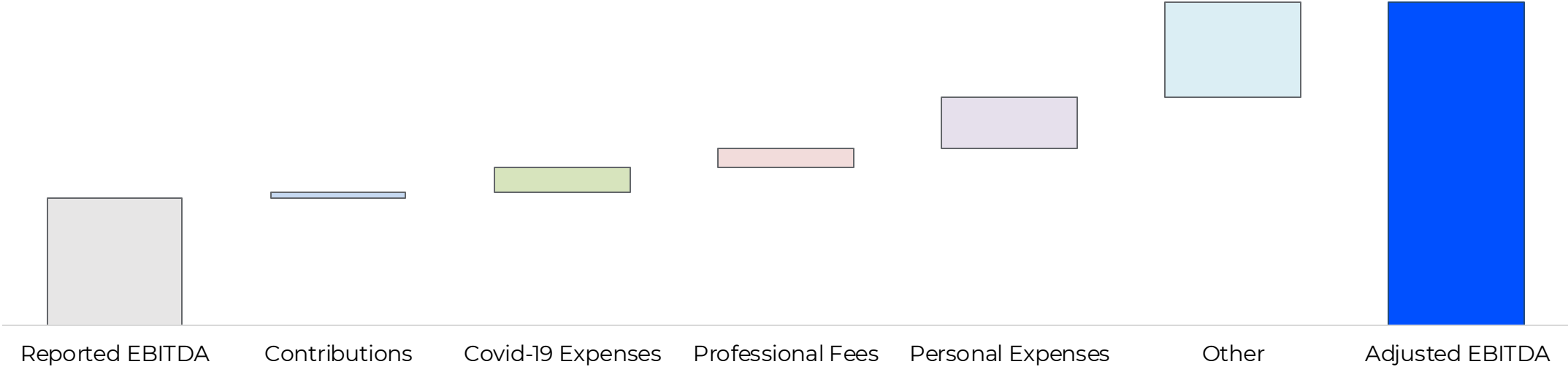
Working with the deal team to identify and address any perceived risks preemptively

## Marketing Materials

Thorough marketing materials and projections reduce risk in a process

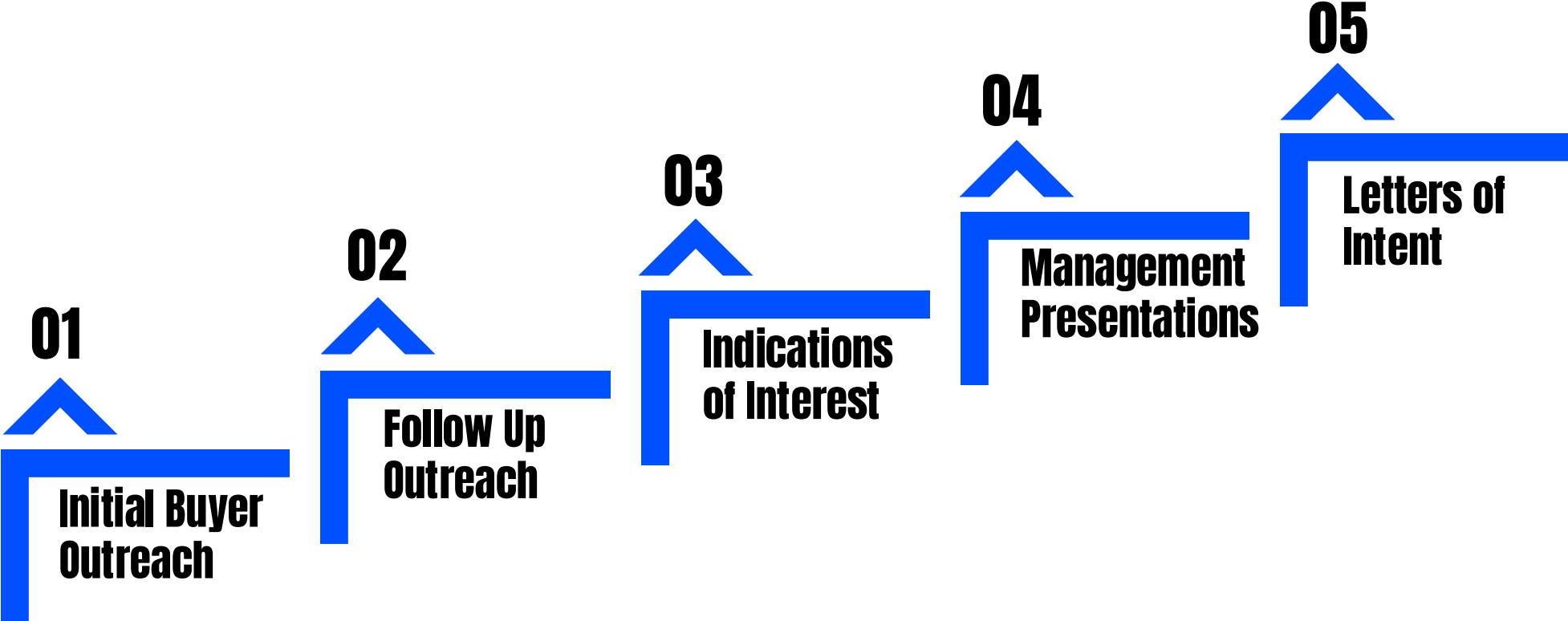
# Normalizing EBITDA

| Debt Forgiveness   | Charitable Contributions  | Nonrecurring Professional Fees  | Covid-19 Expenses   | Personal Expenses  | Related Party Transactions   |
|--|---|---|---|--|--|
| <ul style="list-style-type: none"> <li>• PPP related income</li> <li>• Nonrecurring in nature</li> </ul> | <ul style="list-style-type: none"> <li>• Discretionary in nature</li> <li>• Acquirer would not have to incur</li> </ul> | <ul style="list-style-type: none"> <li>• Nonrecurring in nature</li> <li>• Legal fees, consultants, etc...</li> </ul> | <ul style="list-style-type: none"> <li>• Nonrecurring in nature</li> <li>• One-time bonuses, PPE, etc...</li> </ul> | <ul style="list-style-type: none"> <li>• Discretionary in nature</li> <li>• Personal vehicles, cell phones, insurance, etc...</li> </ul> | <ul style="list-style-type: none"> <li>• If above/below a market rate, adjustments should be considered</li> </ul> |

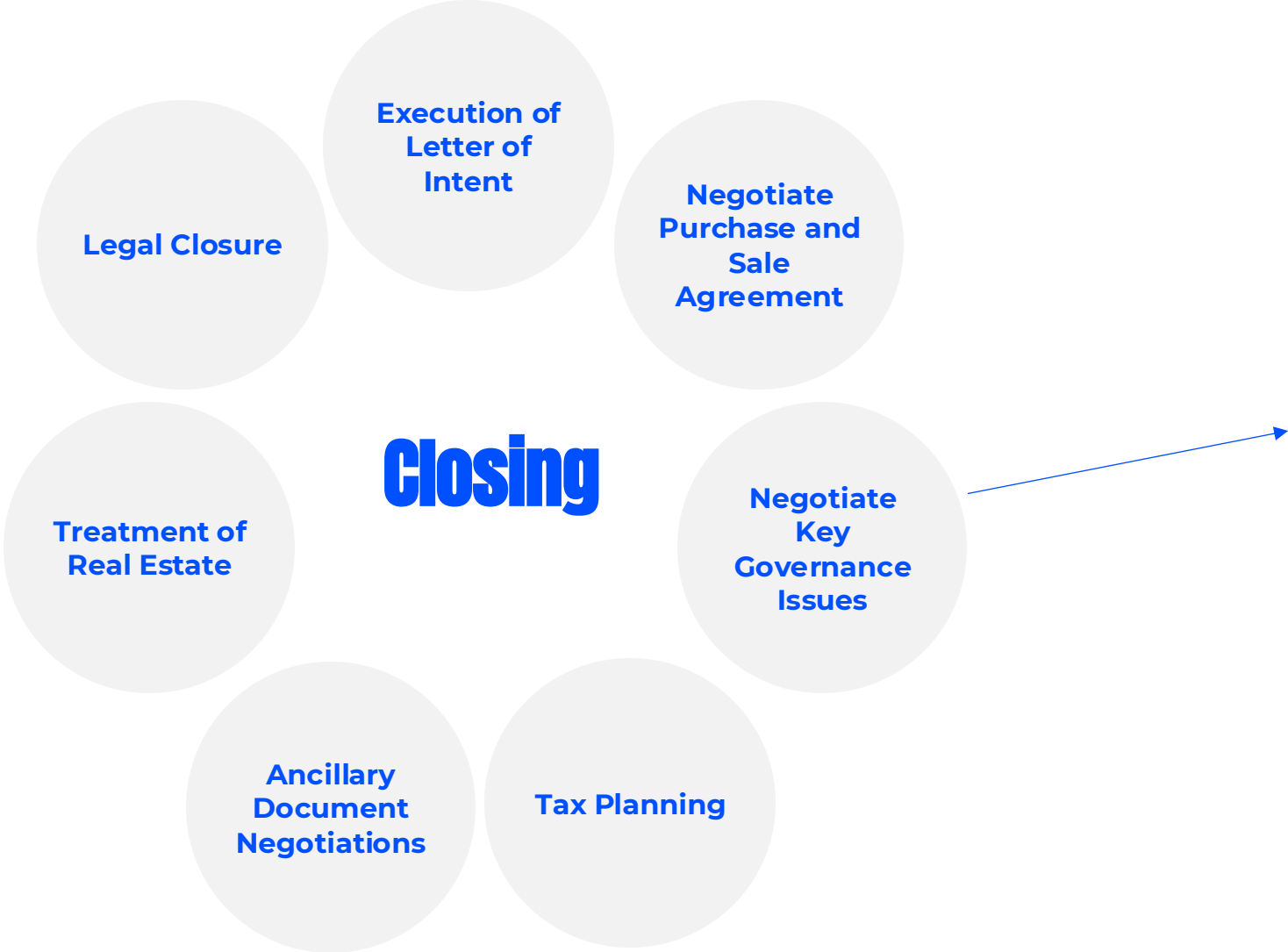




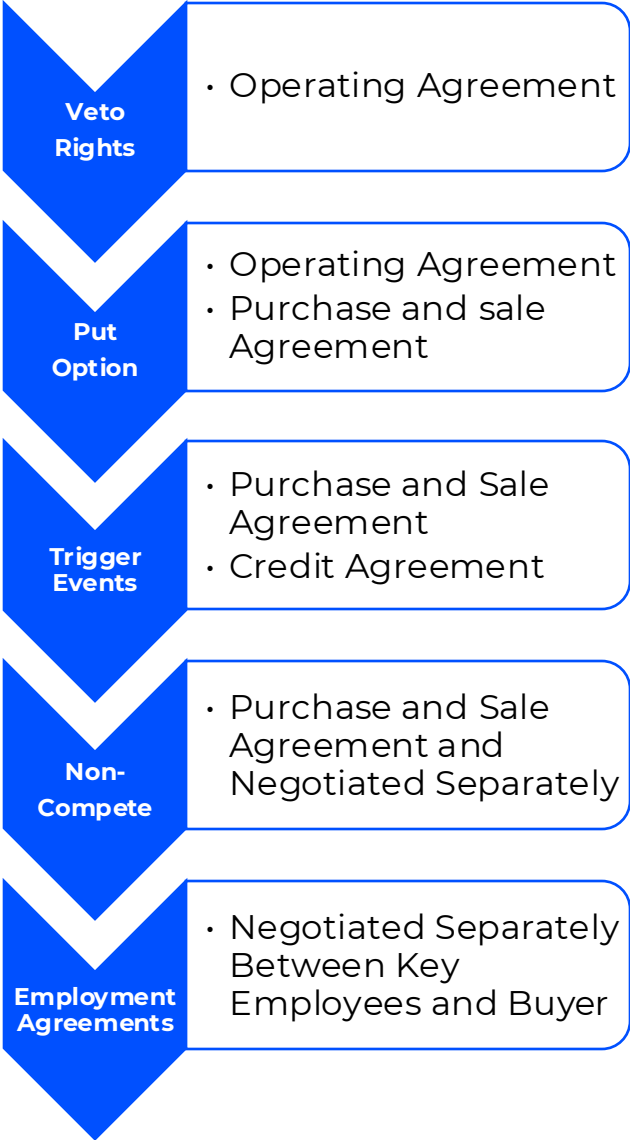
# Marketing Phase

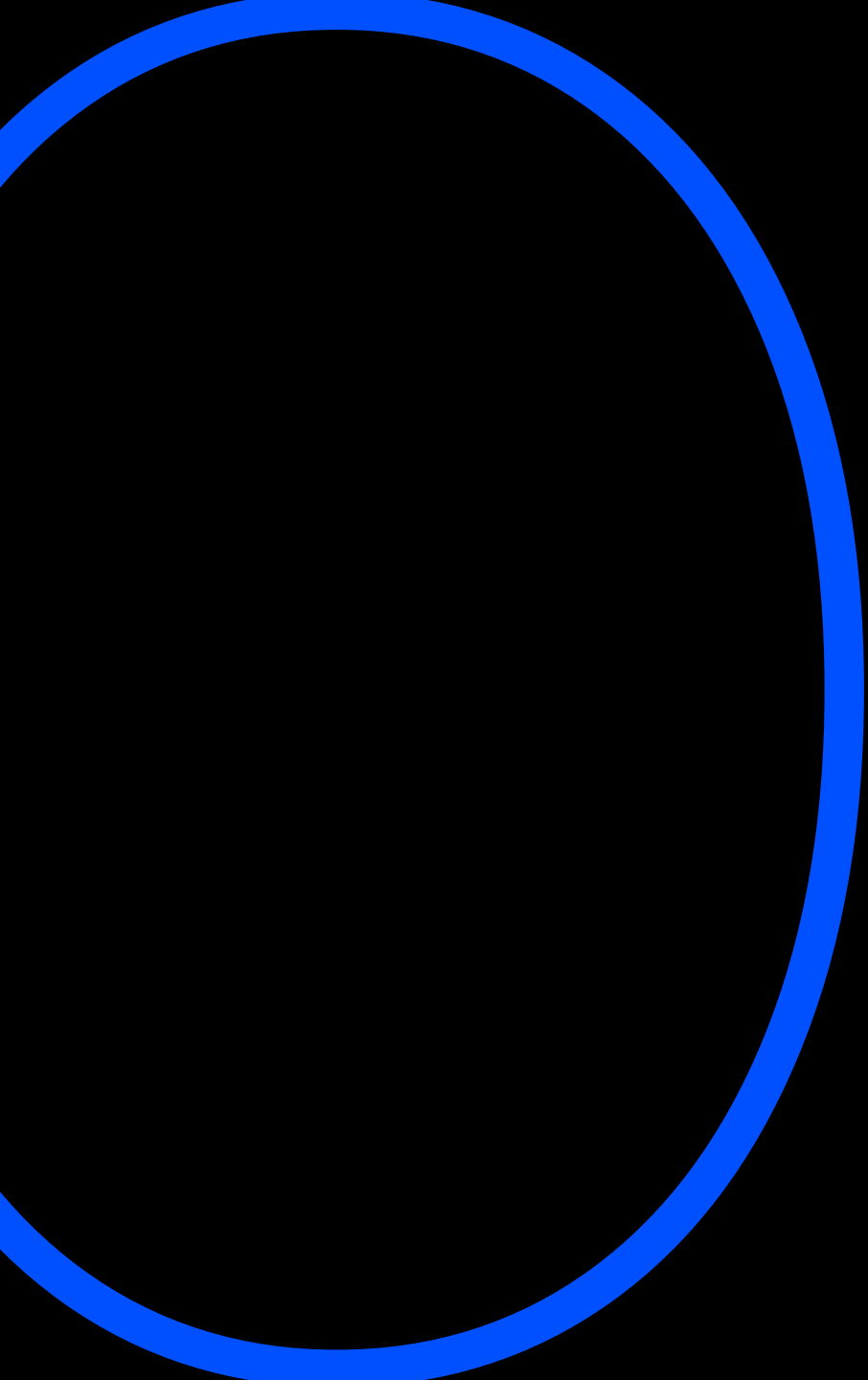


# Diligence / Closing Phase



## Key Governance Issues





**M&A  
Market  
Update**

```
graph TD; A((Current M&A Trends)) --- B[Resilient Debt Markets]; A --- C[Recovering Macro]; A --- D[Near Record Dry Powder]; A --- E[Deal Supply / Demographics]; A --- F[US Investment];
```

**Current M&A Trends**

**Resilient Debt Markets**

**Recovering Macro**

**Near Record Dry Powder**

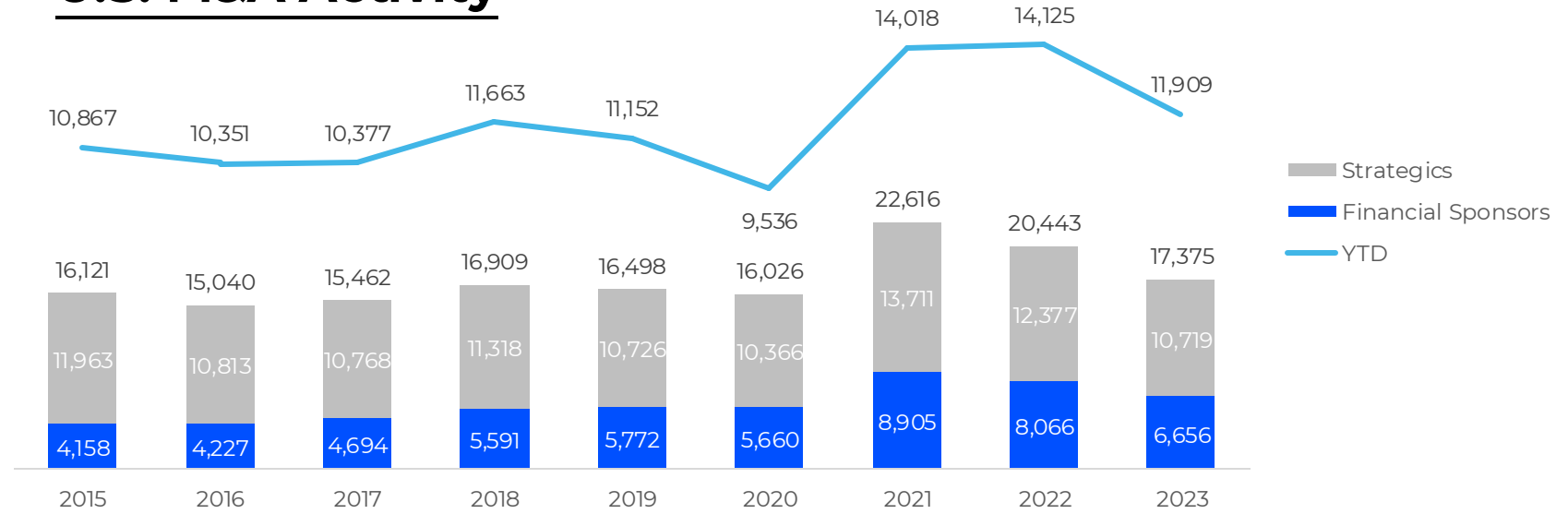
**Deal Supply / Demographics**

**US Investment**

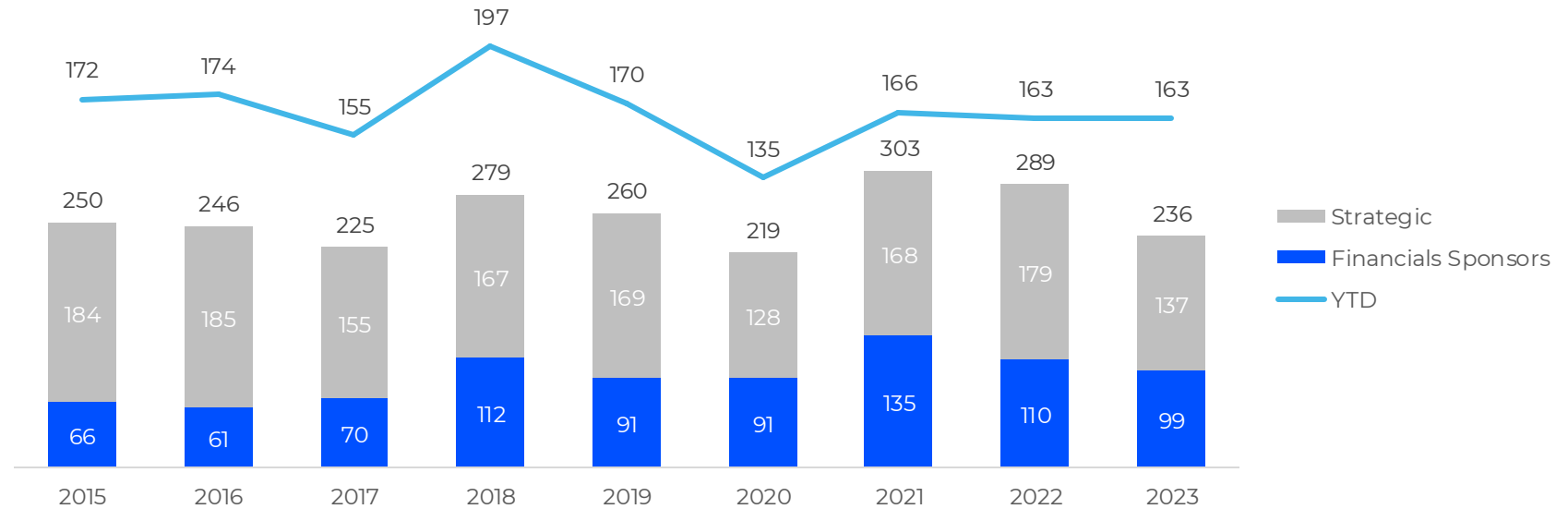




## U.S. M&A Activity



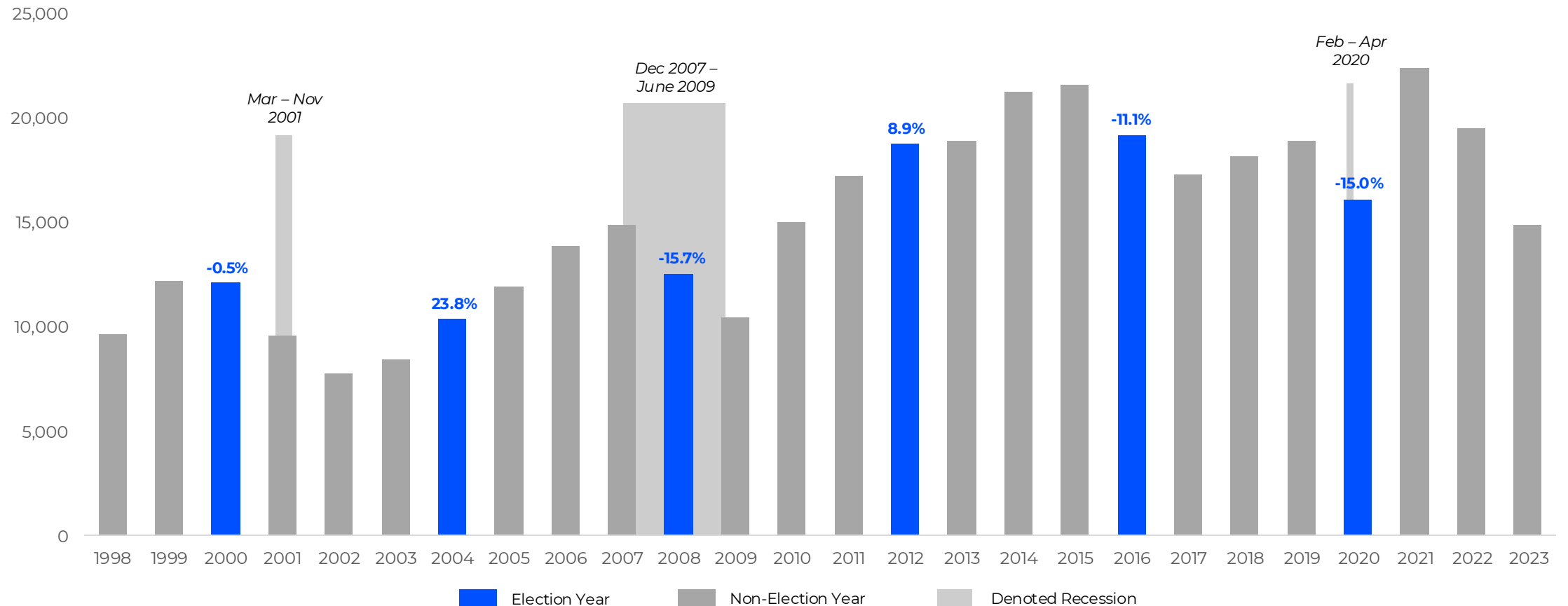
## Wisconsin M&A Activity



# M&A in an Election Year

Annual Growth in U.S. M&A Announcements<sup>(1)</sup>  
 Number of announced M&A transactions by U.S. acquirers, 1998 – 2023

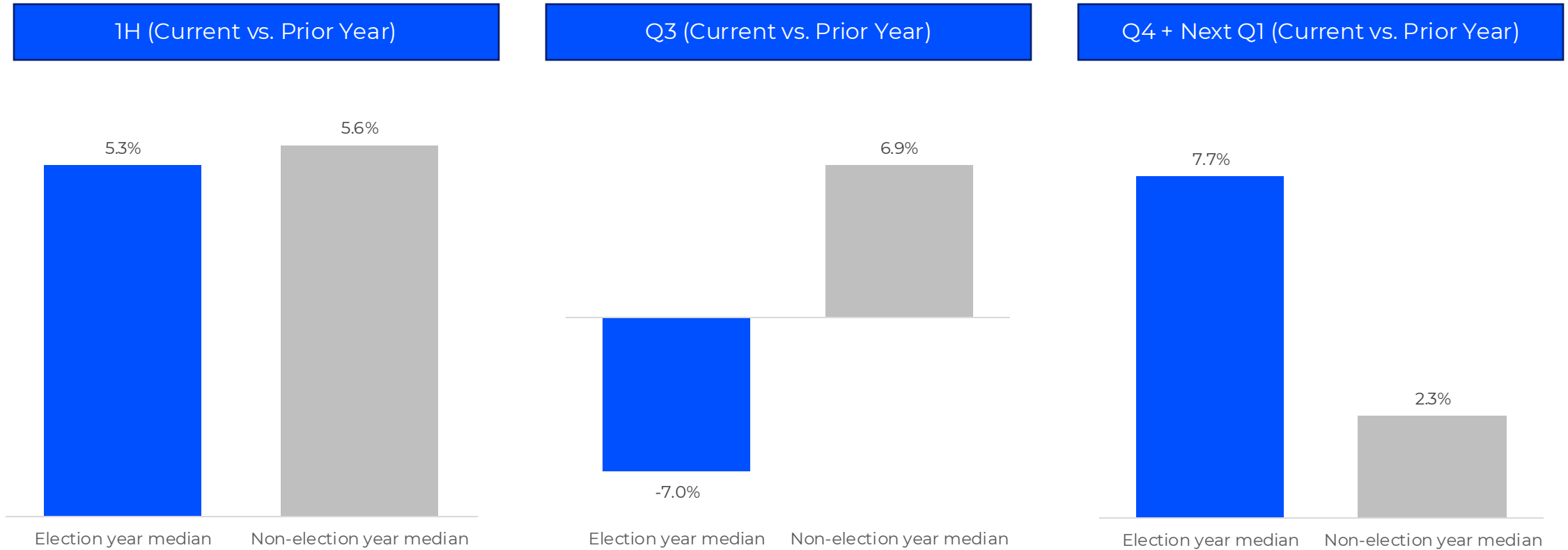
1998-2023 (excl. 2008) Overall YoY Average: +4.0% Election Year YOY Average: 1.2%



<sup>(1)</sup>Source: CapIQ. Data includes US M&A Transactions

# M&A in an Election Year

Evidence of a Short-Term Timing Effect on M&A Announcements During Q3 of an Election Year<sup>(1)</sup>  
*% Change in number of announced M&A transactions by U.S. acquirers, 1992 – 2022 (excl. 2008)*



# Quality Deals Commanding Premium Valuations

## Valuations Remain Strong

- Quality deals – defined as companies with attractive top-line and margin growth – continue to trade at significant premiums compared to other deals
- In 2023, quality deals transacted at an 28% premium to their counterparts
- There are fewer quality deals being brought to market as the incidence percentage is down when compared to any time period but those deals that come to market are achieving higher multiples given their scarcity

## Quality Premiums

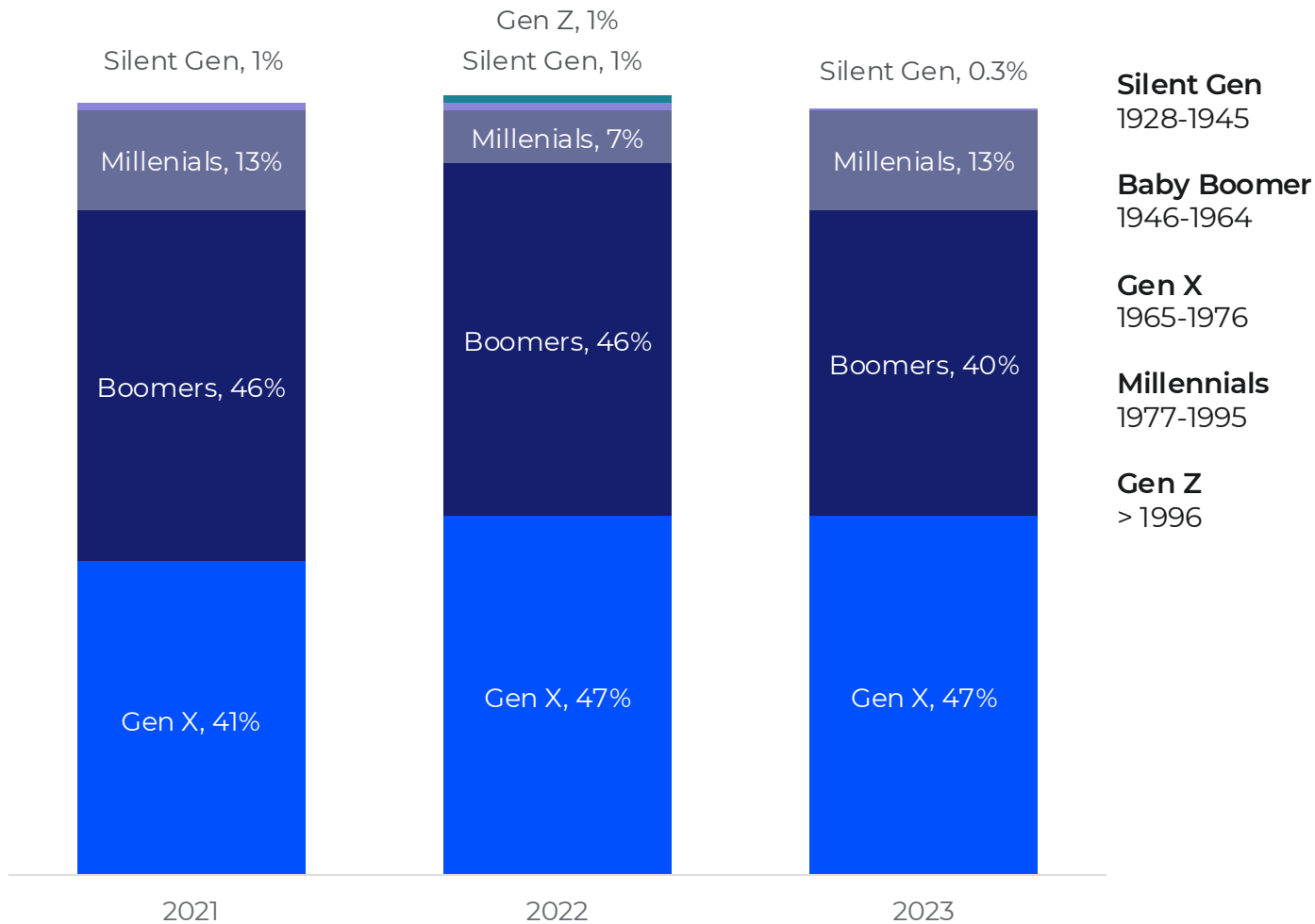
| Quality Deal Premiums    | 2019 | 2020 | 2021 | 2022 | 2023 |
|--------------------------|------|------|------|------|------|
| Above Average Financials | 6.8x | 7.7x | 8.2x | 7.9x | 8.2x |
| Other Buyouts            | 6.2x | 6.2x | 6.4x | 6.5x | 6.4x |
| Premium                  | 110% | 124% | 127% | 122% | 128% |
| Incidence                | 55%  | 55%  | 63%  | 66%  | 47%  |



# Transitioning Business Owners Will Drive Strong M&A Activity

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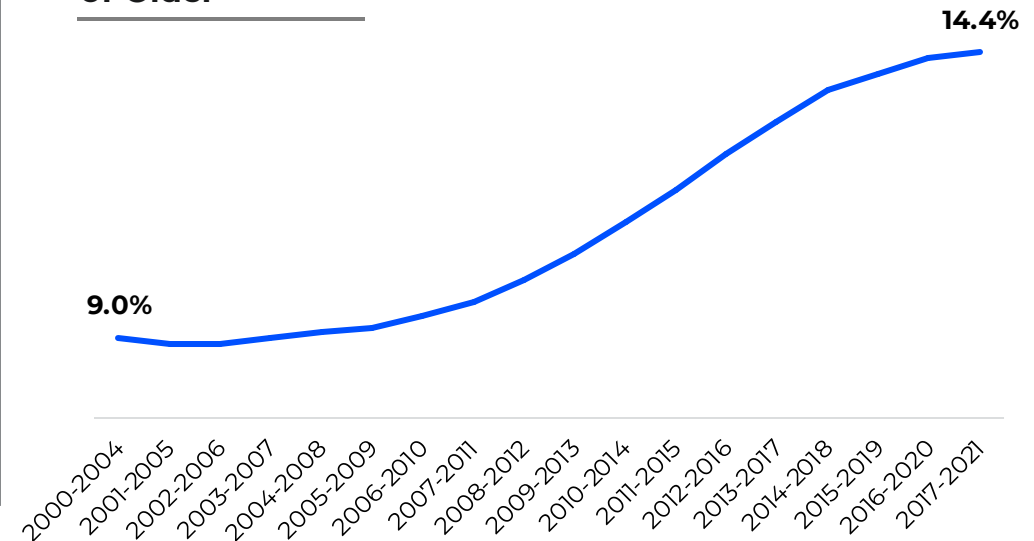
## Small Business Owner Age Demographics<sup>(1)</sup>



## Key Highlights<sup>(2,3)</sup>

- The vast majority of small businesses are owned by the Gen X and Baby Boomer Generation, accounting for an estimated 28.9 million small businesses
- According to the Exit Planning Institute, 70% of business owners believe succession and exit strategy planning is important, but only 15% of Baby Boomer business owners globally have a comprehensive business transition plan.

## Share of Self-Employed Americans 67 Years of Age or Older<sup>(4)</sup>



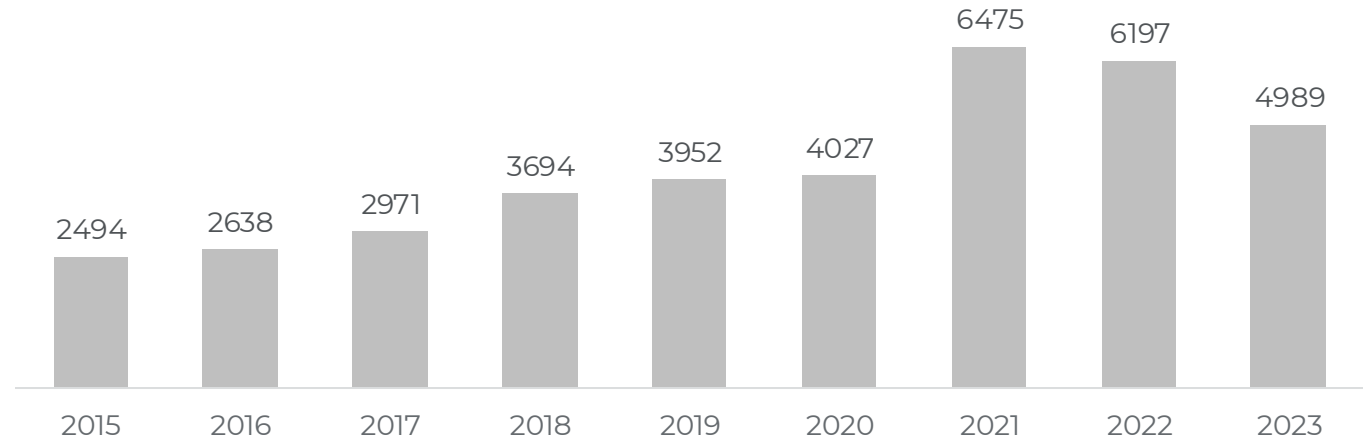
# Add-On Acquisition Activity Increases During Economic Uncertainty

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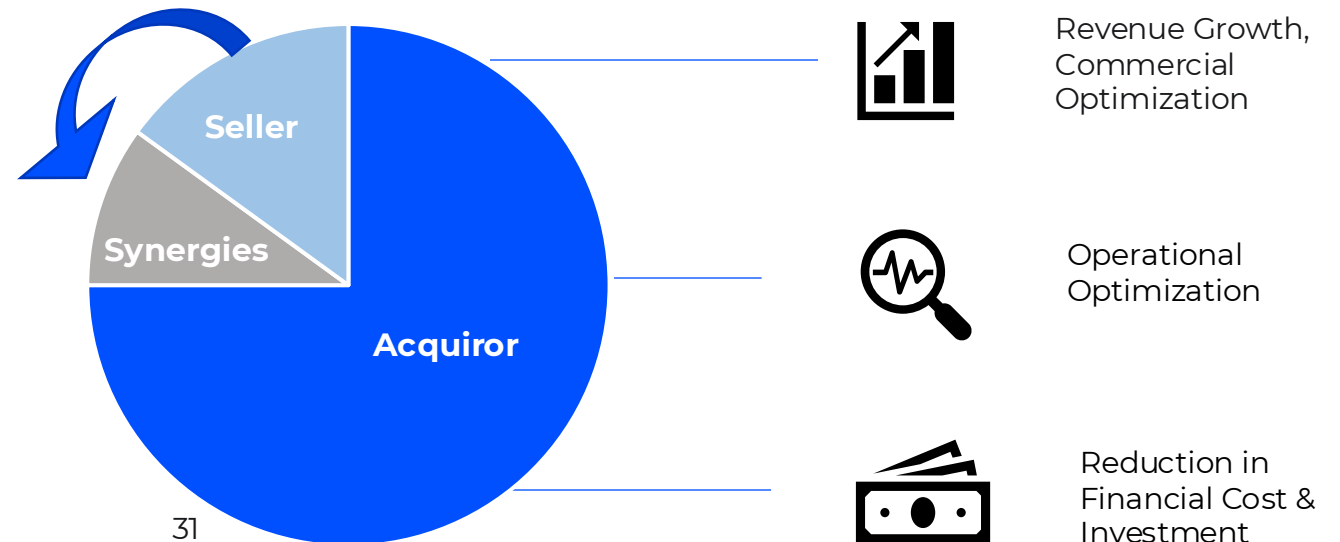
## Add-On Acquisition Commentary

- Add-ons are more prevalent in uncertain economic times for many reasons:
  - More small business owners will look to transact during economic downturns
  - Current platform companies indicate a familiarity with an industry
  - Platform companies will already have a trusted management team
  - Cost synergies and cross selling opportunities within a larger company
- “Add-ons can be less of a bet on the economic cycle and may be poised to accelerate in a challenging economic environment.” – Doug Korn, MD at Victor Capital Partners

## No. of Add-On Acquisitions in North America



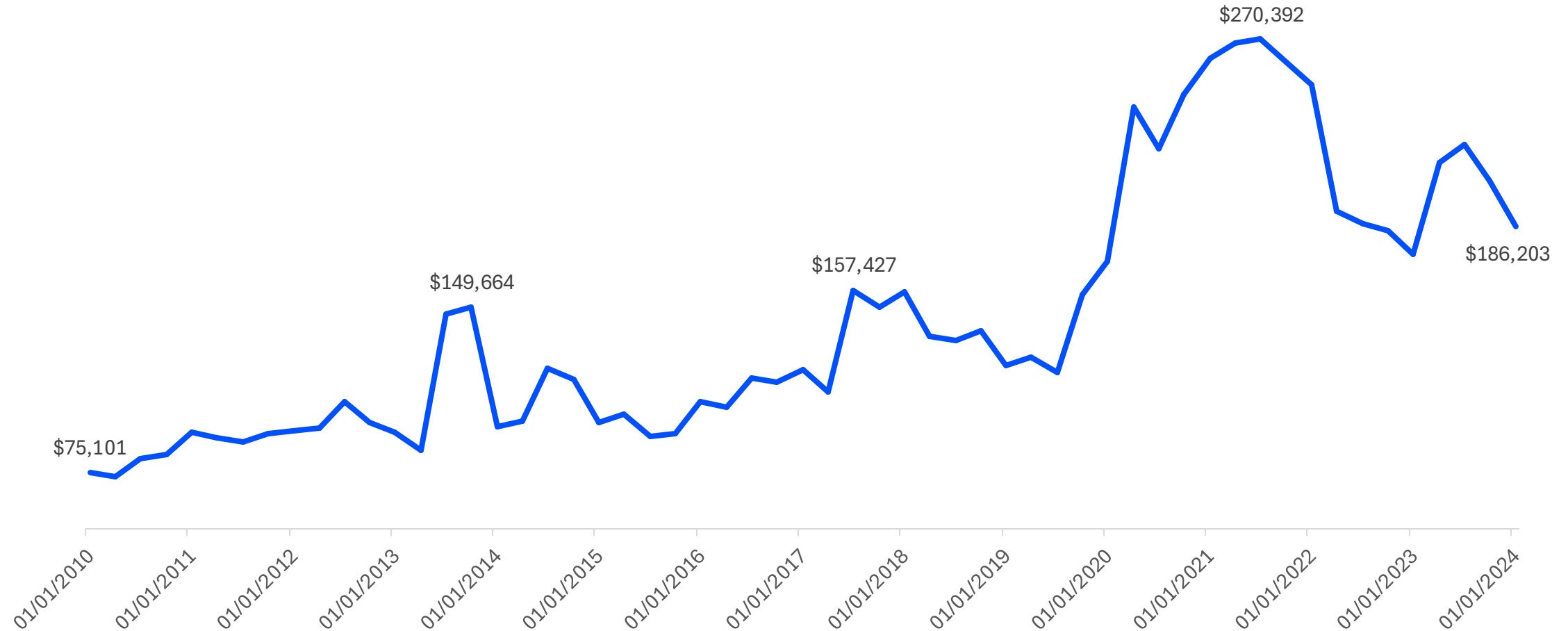
## Synergies in Add-On Acquisitions



# Total Cash on Hand and in Banks for U.S. Corporations

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\$'s in Millions

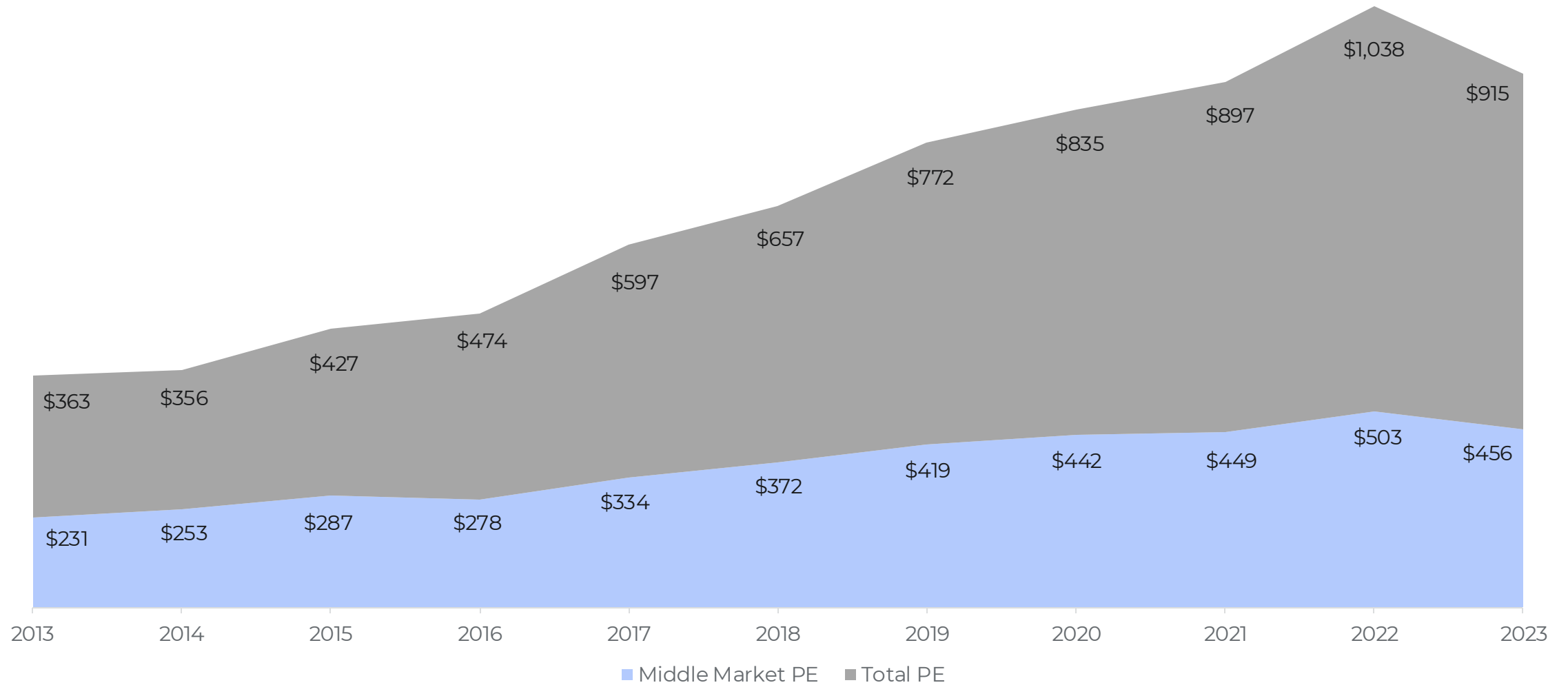


This tracks all corporations engaged primarily in manufacturing with total assets of \$5 million and over, and all other corporations engaged primarily in mining, wholesale trade, retail trade, information, or professional and technical services (except legal services) industries with total assets of \$50 million and over.

# US Private Equity Dry Powder Remains Near Record Highs

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\$ in billions



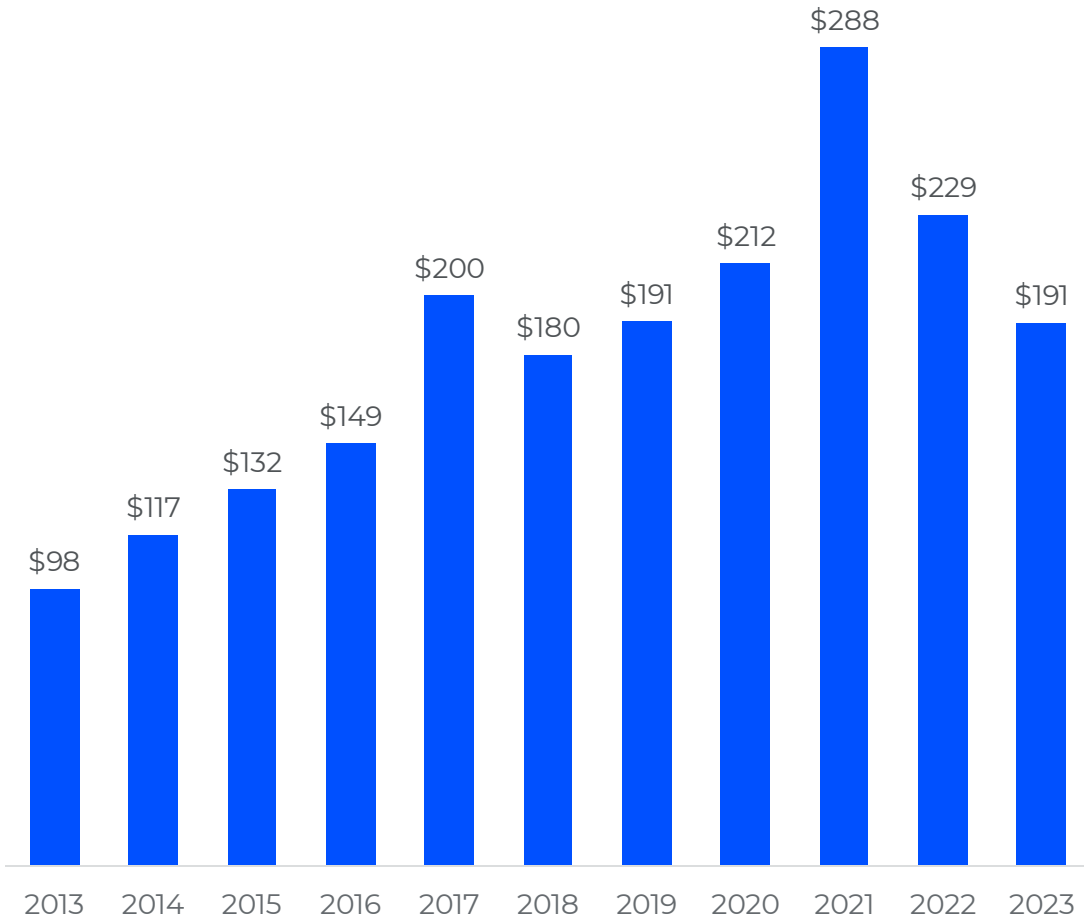


# Debt Multiples Continuing to Contract Slightly in Q4 and in to 2023

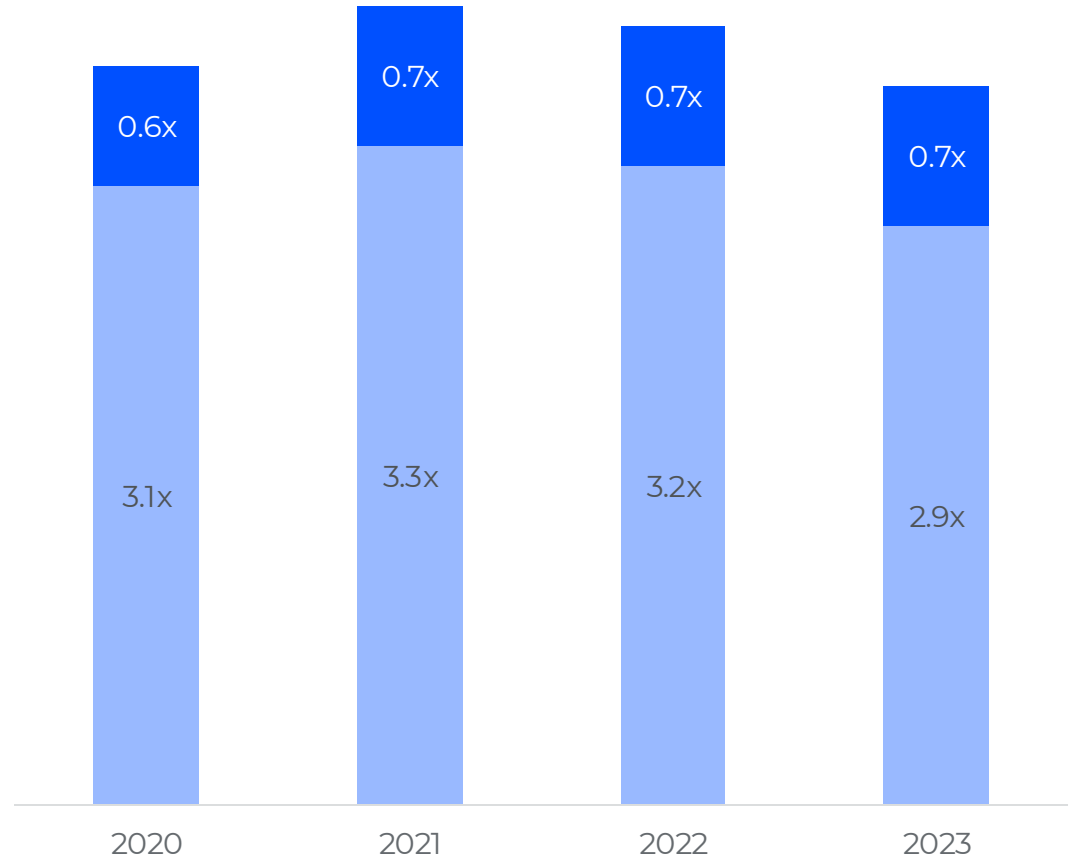
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## Private Debt Aggregate Capital Raised

\$'s in billions



## Middle Market Transaction Debt Multiples



■ Senior Debt / EBITDA ■ Subordinated Debt / EBITDA

# Synergies Impact Valuation

## Typical Opportunity Areas

### Revenue Growth:

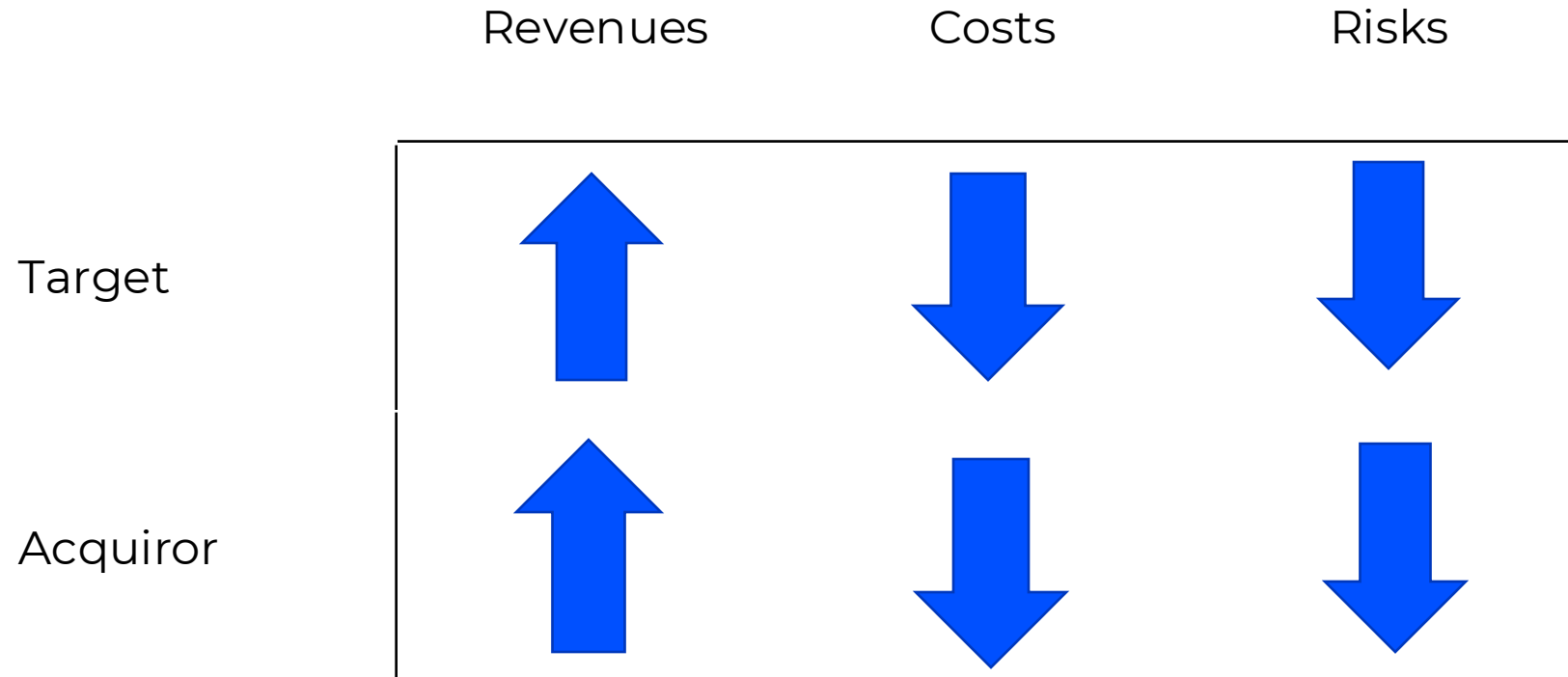
- New products sold through existing channels
- Optimize sales chain
- Additional distribution channels

### Operational Efficiencies:

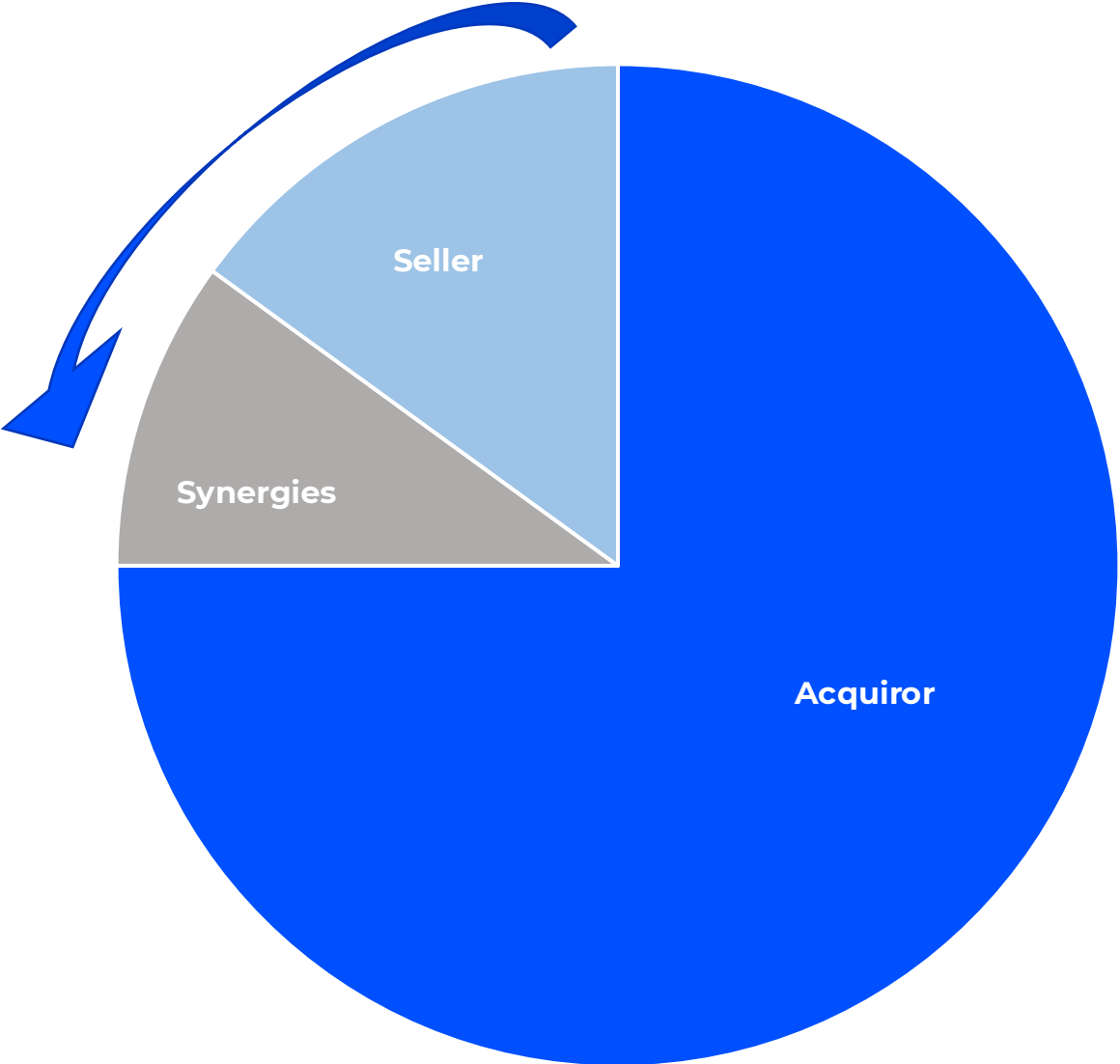
- Improve price formulation strategies
- Strategic sourcing
- Purchasing power
- Cost reduction in back office functions

### Risk Reduction:

- Exposure to new end markets
- Exposure to new geographies
- Exposure to new suppliers



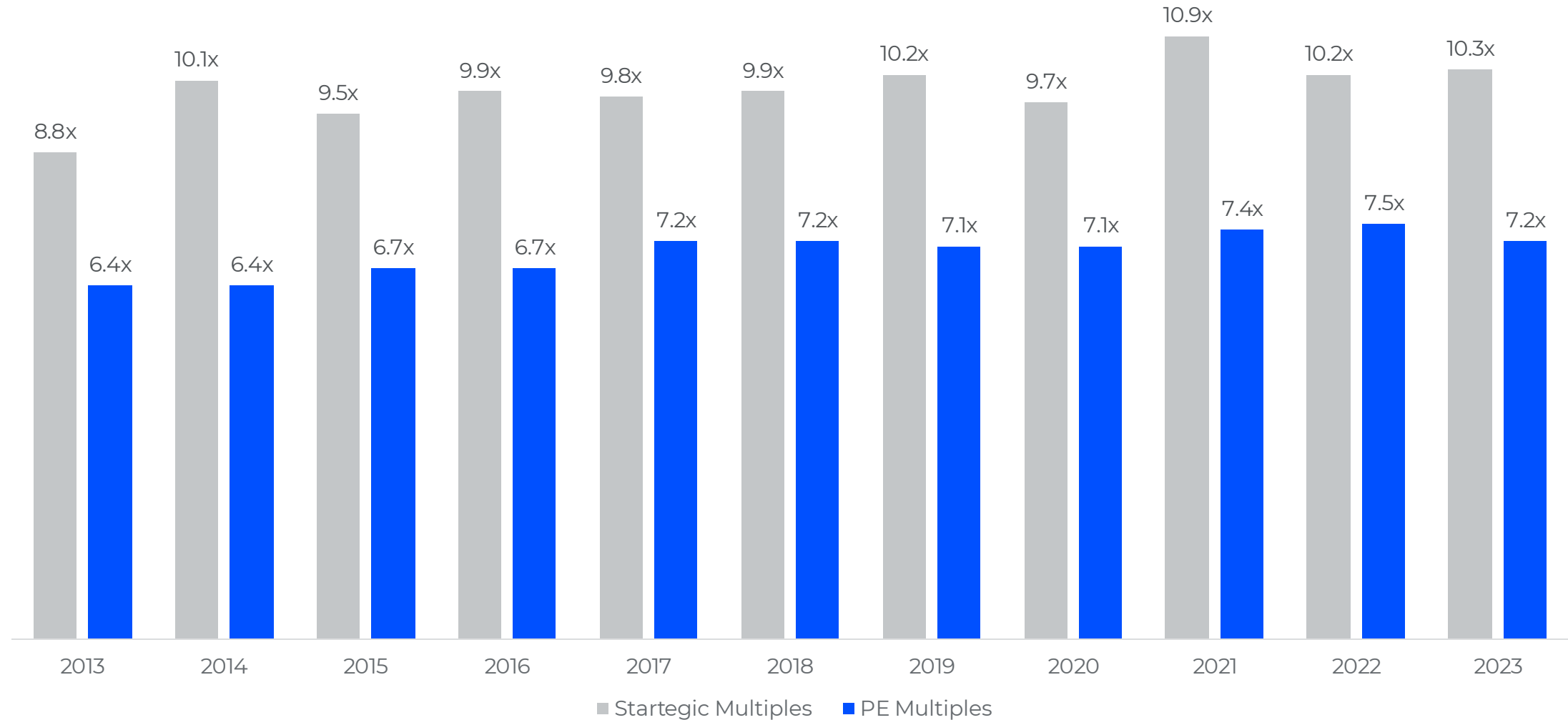
# Synergies Impact Valuation



# Strategic M&A Valuations Have Dropped From the Highs of 2021 While PE Rises

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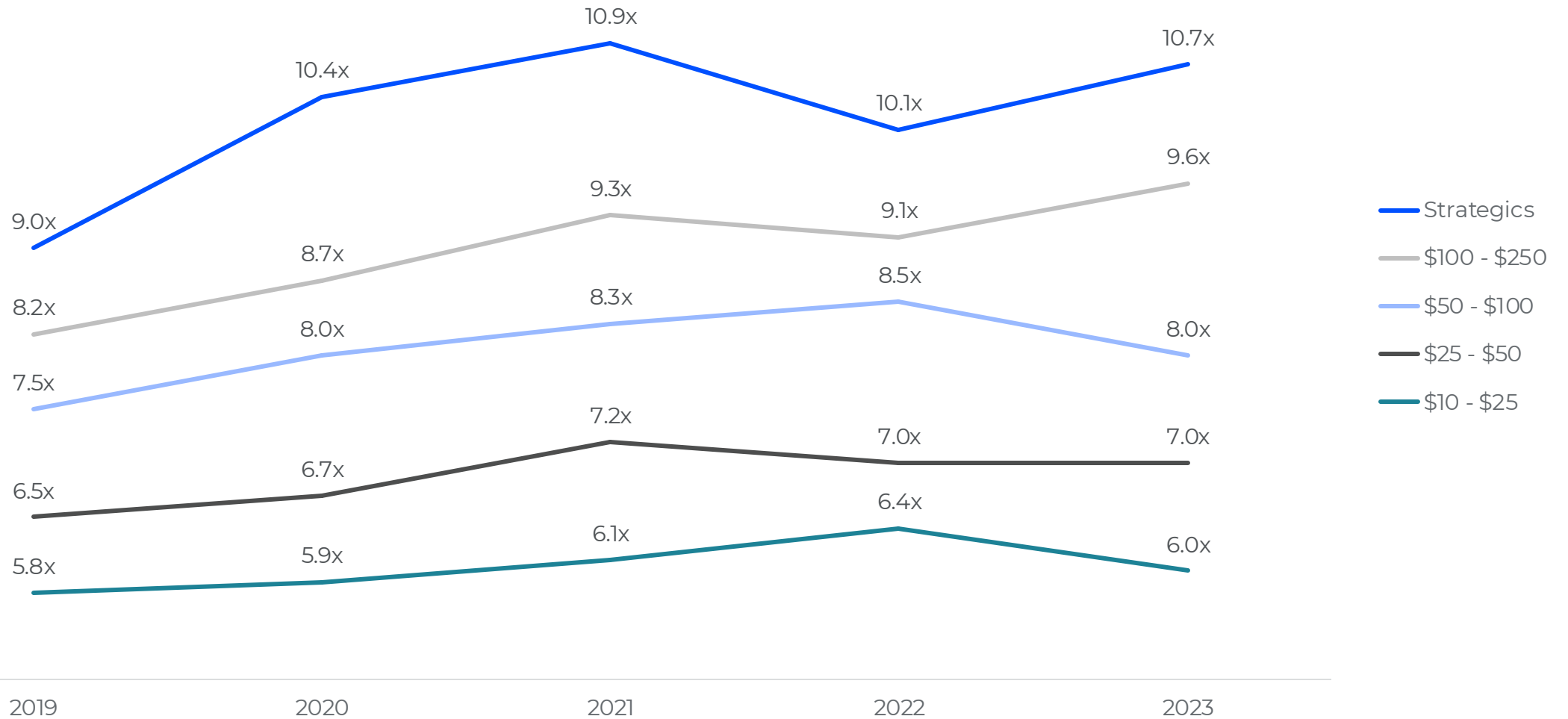
## Strategic vs. PE M&A Valuations



# Valuations are Reflecting the Competitive Landscape

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## Strategic vs. PE M&A Valuations



## Value Drivers in impacting valuation

- ✓ Cyclicalilty of End Markets
- ✓ Customer concentration
- ✓ Supplier Concentration
- ✓ Reoccurring Nature of Revenues
- ✓ Historical Bidding Success Rates
- ✓ Geographic Diversity
- ✓ Software / IP
- ✓ Management Team
- ✓ Corporate Culture
- ✓ Scale
- ✓ Growth





# Choosing an Optimal Path

**1**

Continue  
Operating

**2**

Transition  
Internally

**3**

External  
Sale or  
Partnership

# Thank you!

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