



BUSINESS
TRANSITIONS
FORUM

NOV 16 / 17, 2016
CALGARY, AB

YOUR ROADMAP TO A SUCCESSFUL TRANSITION

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Business transitions forum

“Your roadmap to a successful transition”

YTD markets are mixed

Debt Capital Markets:

- Overall global debt capital markets activity totaled US\$5.5 trillion in 2016, a 27% increase
 - Cdn debt capital markets issuance decreased 2.2%
- The volume of global high yield corporate debt reached US\$238.7 billion in 2016, a 21% decrease

Equity Capital Markets:

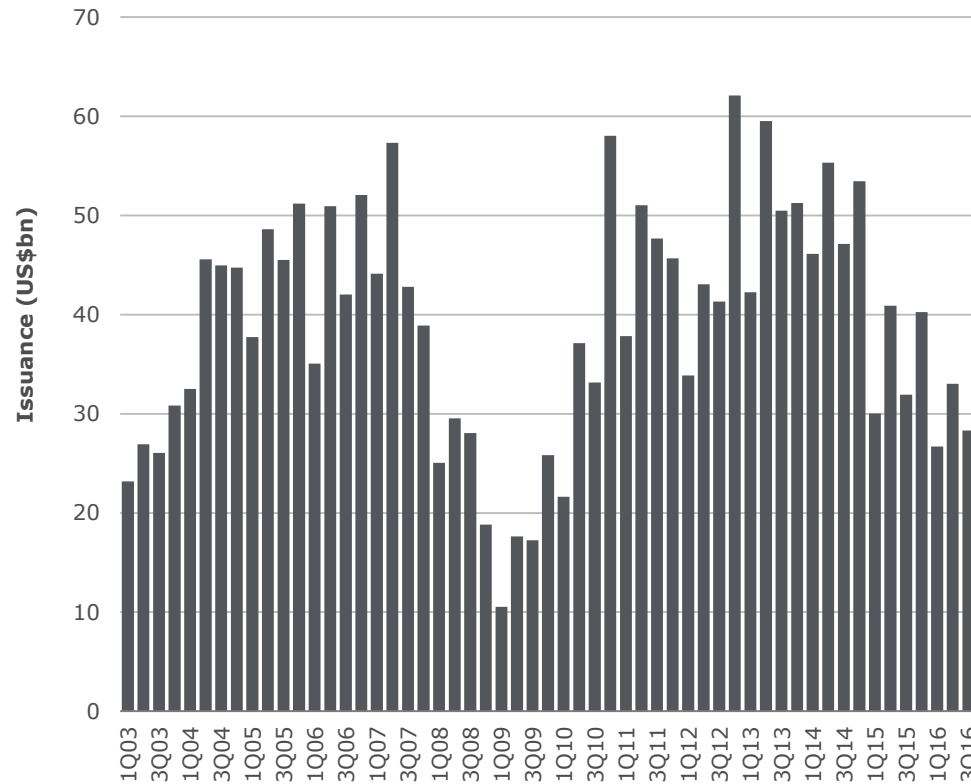
- Equity capital markets activity totaled US\$479 BN in 2016, a 28.2% decrease compared to a year ago
 - Cdn Equity issuance increased 10.7% led by the Energy & Power sector

Private Equity:

- # of PE funds seeking capital has continued to grow, with 1,807 funds in market, targeting \$495 BN
- PE funds closed in 2016 have secured an aggregate \$253 BN, a 20% increase

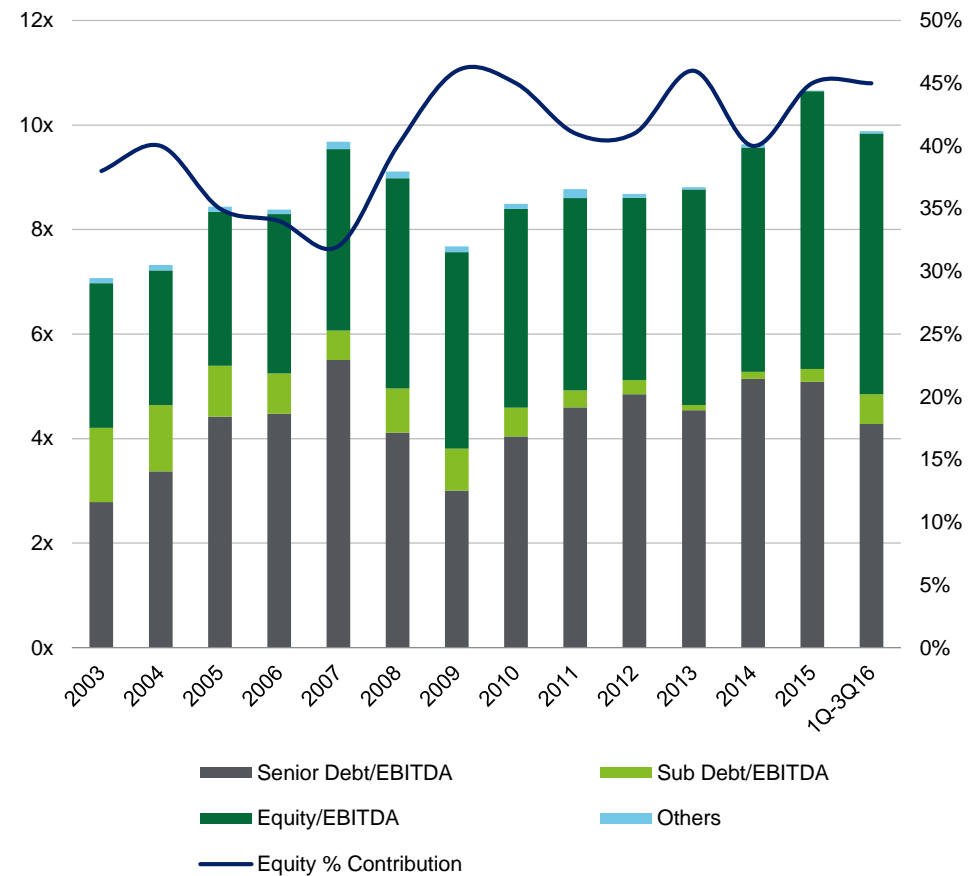
Middle market trends

Quarterly middle market loan issuance



Source: S&P Leveraged Commentary and Data

Purchase price multiple and equity contribution of middle market LBOs



What motivates a potential sale?

- Age and Stage
- Stress/Distressed
 - Performance
 - Prospects
 - Health
 - Matrimonial
- Opportunistic
 - Strong market
 - consolidation
- Unsolicited offer



Typical business owner considerations

- Cost
- Confidentiality
- Value
- Time requirement
- Employee Continuity
- Brand Impact



Items that impact value

- Financial trends
- Customer or supplier concentration
- Geographical concentration
- Mgt
 - Depth of team
 - Succession
 - Alignment of interests
- Quality of assets
- Industry trends
- IT
- Growth opportunities
 - Plant capacity



How to get the business ready

- Maximize EBITDA
- Focus on sustainability of revenues
- Optimize working capital
- Clean up
 - Org charts
 - Related transactions
 - Customer contracts
 - Tie up mgt
- Prepare Dataroom
- Consider
 - VDD
 - Asset appraisals
 - Environmental assessments



Common Pitfalls During a Sale Process

Entering market at the “right” time of cycle

- Understand key due diligence issues
- Deliver on earnings projections during a process
- Be able to devote time necessary to support process

Failure to customize the process and understand the acquiror/investor

- Marketing materials and deal strategy should be tailored to specific targets
- Positioning properly for relevant investment merits including strategic and operational synergies

Critical to focus acquirors/investors on sustainable cash flow

- Important to focus prospective acquirors/investors on clearly established earnings, logical cash flow adjustments, and acquiror-specific synergies
- Clearly demonstrate pro forma realized current-year results and demonstrate visibility into the following year and beyond

Failure to create “process” culture

- Enhances preparedness and credibility of management
- Maintain “competition” during the entire process
- Reduce “surprises” on the back end

Failure to maintain involvement in the drafting of the purchase agreement

- A good deal can quickly turn sour during documentation
- Know key issues ahead of time

- Clearly defined EBITDA adjustments can add significant value to the final purchase price
 - Essential to detail potential cost savings and initiatives.

Pick a liquidity option

- Sale to a strategic
- Sale to PE
- Refinancing (debt/equity)
- Public offering
- Sale to Mgt



Pick the team and approach

- Chose an advisor
- Chose a sale process
 - Exclusive
 - Targeted
 - Broad Auction
- Chose counsel



Misconceptions of an exclusive or highly targeted process

Perception

“A shorter buyers list will mean the process won’t last as long and the transaction will close sooner.”

“We know the top 6 to 10 logical buyers for the company and why they will pay a strategic premium for the business.”

“A smaller process will be more confidential.”

Reality

- Competitive pressure is the biggest factor in driving buyer behavior and encouraging expeditious closings
- Negotiations with only a handful of parties typically take the longest amount of time
- It is impossible to determine which acquiror will present the most attractive terms for the seller and achieve an outlier valuation
- The need for financial partners to place capital has led them to be competitive with strategic buyers in most processes
- Information leaks tend to occur near the end of processes as the eventual buyer performs confirmatory diligence
- Confirmatory diligence is a key step in any process, both broad and targeted

Get ready for the marathon

Phase I Preparation and Positioning

Total: 6 – 10 weeks

2 – 4 weeks

Preparation:

- Refine purchaser list and approach, emphasizing key buyers
- Conduct preliminary vendor diligence
- Craft an offering memorandum
- Organize online data room
- Identify risks and appropriate mitigation
- Draft non-disclosure agreement (“NDA”)

2 – 4 weeks

Positioning for optimum value:

- Tailor marketing materials and process for purchaser groups
- Prepare teaser and process letter
- Begin drafting management presentation
- Begin drafting sale and purchase agreement (“SPA”)

Special considerations:

- Staple financing
- Phasing of data room access
- Special terms in NDA
- Limited disclosure in teaser
- Process letter requirements

Phase II Marketing and Refining

Total: 6 – 8 weeks

3 – 6 weeks

Marketing:

- Contact potential purchasers
- Distribute teaser and NDA
- Distribute offering memorandum
- Finalize management presentation
- Solicit indications of interest (“IOI”)
- Consider early exclusivity for compelling, full proposals

3 – 6 weeks

Refining offers:

- Analyze and confirm IOIs
- Management presentations and visits
- Open Phase 1 data room
- SPA template and final bid procedures released
- Solicit detailed Letters of Intent (“LOIs”)

Special considerations:

- Fireside chats for select parties
- Leverage “deal style” of each purchaser
- Maintain flexibility and resist exclusivity
- Phasing of data room and information
- Need for certain final bids to contain non-compete language

Phase III Negotiating and Closing

Total: 8+ weeks

4+ weeks

Negotiation:

- Select purchaser(s)
- Open Phase 2 data room
- Negotiate final terms of SPA
- Select final bidder
- Execute SPA and ancillary documents

4+ weeks

Closing:

- Fulfill closing conditions
- Transaction announcements
- Introductions to key vendor/customer relationships
- Finalize ancillary documents
- Fund transaction

Special considerations:

- Resist purchaser integration requests/ plans until all closing conditions are met
- Commitment from financing parties
- Release highly sensitive data post-SPA signing
- Planning for post-closing adjustments and indemnifications