SeaFort Capital

Understanding The (Key) Steps To Building A Saleable Business

Business Transitions Forum 2024

BUSINESS TRANSITIONS FORUM

AGENDA

1. How to Build a Saleable Business
2. Sale Process Timeline
3. Risk Mitigation Strategies

Charlie Munger's Method to Solving Difficult Problems

Charlie Munger
1924 - 2023

"Invert,
Always Invert."

10 Rules to Build an <u>UN</u>saleable Business

Rule #1: Act like a dictator.

- Trust no one.
- Control everything.
- Punish mistakes.
- Eliminate rivals.

Better Rule #1: Delegate authority, empower employees and develop a clear succession plan.

Buyers want to acquire companies that:

- ✓ Have distributed leadership with senior managers who make their own decisions and are accountable for the results.
- ✓ Have customer relationships that are managed by the firm, not the owner.
- ✓ Create a supportive learning environment that encourages innovation.
- ✓ Will survive if the owner is hit by the proverbial bus.

Rule #2: Fly blind.

- Don’t implement financial reporting systems.
- Trust your gut.
- Don’t share sensitive financial and operating information.

Better Rule #2: Implement robust financial reporting processes, develop tailored KPIs, and share information with employees.

Buyers want to acquire companies that:

- ✓ Have clean, timely and accurate reporting.
- ✓ Share relevant information with key employees.
- ✓ Monitor the KPIs that drive the performance of the business.
- ✓ Don’t require a new ERP on day one.

Rule #3: Navel gaze.

- Maintain an internal focus.
- Assume nothing will change.
- Keep doin' what you're doin'.

Better Rule #3: Think strategically and develop a deep understanding of your industry and your company's place in the value chain.

Buyers want to acquire companies that:

- ✓ Have a solid understanding of the competitive landscape.
- ✓ Can anticipate where their industry is headed.
- ✓ Are well prepared to identify and respond to threats and opportunities.

Rule #4: Randomize employee compensation.

- Play favorites.
- Don't tie bonuses to measurable goals.
- Maximize anxiety by keeping employees guessing.

When your employee asks if they are getting a bonus this year…

Better Rule #4: Develop and implement a thoughtful compensation program that aligns corporate goals with employee incentives.

Buyers want to acquire companies that:

- ✓ Have a compensation structure that equitably shares the rewards of company success.
- ✓ Regularly review employee wages to ensure they are in line with market.
- ✓ Have bonuses tied to both individual and team goals.

Rule #5: Be a short-term thinker.

- A penny saved is a penny earned.
- If I train my employees, they're more likely to leave.
- R+D is a waste of money.

Better Rule #5: Identify issues facing your industry and proactively address them.

Buyers want to acquire companies that:

- ✓ See long-term industry risks and position the company accordingly.
- ✓ Invest in equipment maintenance, employee training and R+D.
- ✓ Aren’t afraid to change and evolve.
- ✓ Think in years and decades, not weeks and months.

Rule #6: Go all in on key relationships.

- Build your business around your most important customer.
- Source from a single supplier for key inputs.
- Rely on personal relationships to support continuity.

Better Rule #6: Reduce concentration risk by diversifying your customer and supplier base.

Buyers want to acquire companies that:

- ✓ Don’t have suppliers that can hold them hostage.
- ✓ Have a broad customer base that can withstand churn.
- ✓ Have well documented, flexible, favorable commercial agreements.

Rule #7: Act like Archie Bunker.

- Diversity of thought just leads to arguments.
- Climate change is a hoax.
- If someone is dumb enough to have an accident they deserve to be injured.
- Remember: profits over people.

Better Rule #7: Pay attention to ESG-related issues, including safety, diversity, and the environment.

Buyers want to acquire companies that:

- ✓ Are good corporate citizens.
- ✓ Care deeply about their employees.
- ✓ Have a diverse workforce operating in an open, safe environment.
- ✓ Are not at risk at making the front page of the Globe and Mail.

Rule #8: Stay loose from a working capital perspective.

- Allow customers to dictate payment terms.
- Hold extra inventory, just in case.
- Wait until it's time to sell your business to tighten things up.

Better Rule #8: Manage working capital to maximize return on investment.

Buyers want to acquire companies that:

- ✓ Have processes in place to issue invoices and collect sales in a timely manner.
- ✓ Turn their inventory quickly and don’t require annual write-offs.
- ✓ Don’t experience large swings in working capital.
- ✓ Optimize investment in working capital to balance service levels with maximum return on capital employed.

Rule #9: Run personal expenses through the business.

- Focus on personal tax savings, not company profitability.
- Use company cash flows to support relatives and reward friends.
- Reverse all of the above with EBITDA adjustments in the CIM.

Better Rule #9: Run a clean business with no personal or other unrelated expenses running through the books.

Buyers want to acquire companies that:

- ✓ Clearly present true operating results over an extended period of time.
- ✓ Don’t have a laundry list of EBITDA adjustments.
- ✓ Can move quickly through financial due diligence.

Rule #10: Hide the warts and be evasive.

- Hide key facts about your business if they are unfavorable.
- Don't be upfront and truthful in your discussions with prospective buyers.
- Re-negotiate if/when problems are uncovered.

Better Rule #10: Be open and honest with advisors and prospective buyers.

Buyers want to acquire companies from sellers that:

- ✓ Are transparent about the business' deficiencies and suggest strategies for mitigation.
- ✓ Don't raise unexpected surprises during due diligence.
- ✓ Are trustworthy and open to a longer-term relationship with the buyer.

Top 10 Rules to Build a **Saleable** Business

1. Delegate authority and develop a plan for leadership succession.

2. Implement robust financial reporting processes, develop KPIs and share information.

3. Think strategically by developing a deep understanding of your industry and your company's value chain.

4. Develop and implement a thoughtful compensation program that aligns corporate goals with employee incentives.

5. Identify issues facing your industry and your business and proactively address them.

6. Reduce concentration risk by diversifying your customer and supplier base.

7. Pay attention to ESG-related issues, including safety, diversity, and the environment.

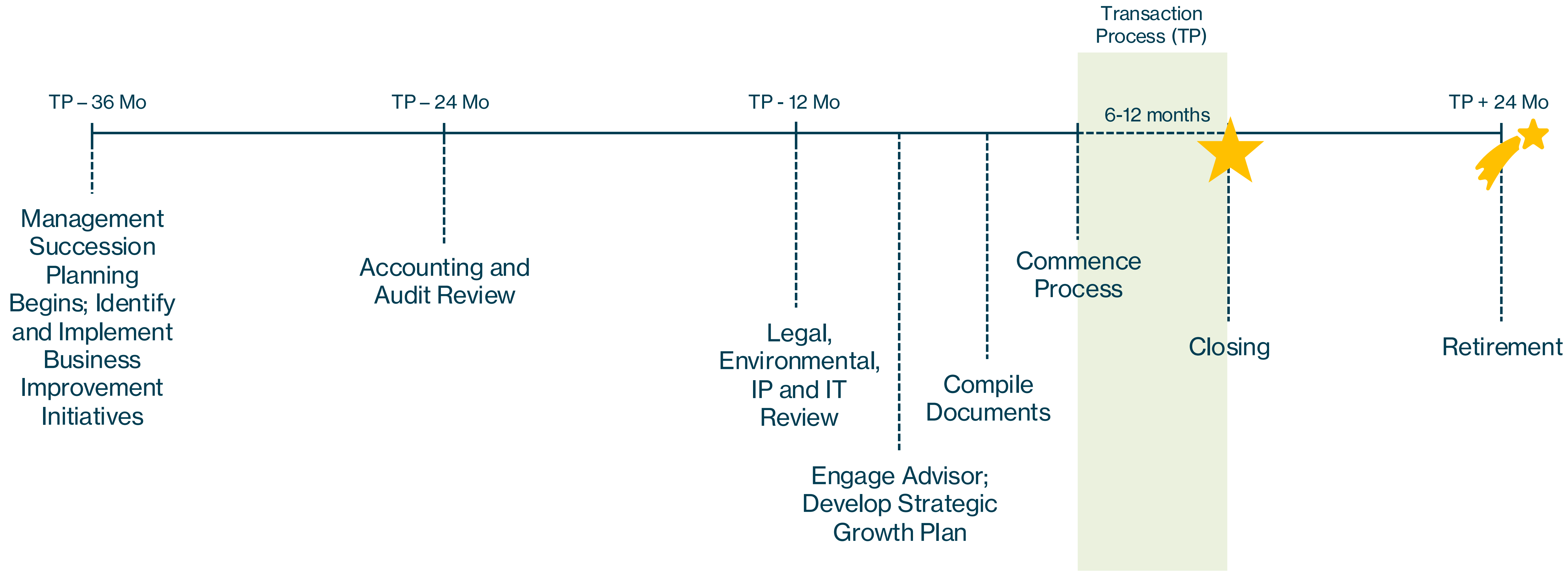
8. Manage working capital to maximize return on investment.

9. Run a clean business with no personal or other unrelated expenses running through the books.

10. Be open and honest with advisors and prospective buyers.

Bonus: Don't wait till the last minute.

Preparing Your Business For A Sale



Begin the process five to six years before your planned retirement

The Transaction Process

A Typical Mid-Market Auction

Preparation	Marketing	First Round Bids	Management Presentations	Initial Due Diligence	Second Round Bids	Exclusivity and Confirmatory Diligence	Closing
4 – 6 Weeks	*4 – 6 Weeks*	*Expression of Interest (EOI)*	*2 – 3 Weeks*	*3 – 4 Weeks*	*Letter of Intent (LOI)*	*8 – 10 Weeks*	*Binding Purchase Agreement*

Expect the transaction process to take 8 to 12 months

Process Risk Mitigation Strategies

1 ASSEMBLE THE ADVISORY TEAM

Third-party help you should consider hiring / informing:

1) M&A Advisor
2) M&A Lawyer
3) Tax Professional
4) Wealth Advisor

2 DEVELOP COMMUNICATION STRATEGY

Think carefully about who should know what, when:

- ❑ Senior Executives
- ❑ Remaining Employees
- ❑ Customers
- ❑ Vendors
- ❑ Landlord

3 CREATE THE RIGHT INCENTIVES

Ensure that your team's incentives are aligned:

- ➢ Transaction Bonuses
- ➢ Equity Grants
- ➢ Success Fees

Rob Normandeau – SeaFort Capital

SeaFort's Mandate

- **Geographic Focus**:
  - Principally Canada, potential for measured U.S. & offshore exposure
- **Target Characteristics**:
  - Equipment service, manufacturing, distribution, and business services
  - Some competitive advantage or barriers to entry
  - Preference for "old economy" investments (no technology, biotech or minerals)
  - Strong cash flow features
  - Potential for measured growth
- **Individual Deal Size**:
  - Target businesses with EBITDA of $2 million to $15 million
  - Smaller deal sizes for add-ons to existing portfolio investments
- **Leverage Level**:
  - Prudent levels of leverage
  - Generally do not use mezzanine or other high interest subordinated debt financing
- **Long Term Goal**:
  - Establish and grow sustainable cash flow streams
  - Form solid relationship with key operating partners and achieve thoughtful diversification across a portfolio of investments