

# MASON WELLS



Case Studies in Private Equity & The Role of the CFO  
Damon Thome  
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# My Background



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- Mason Wells 2012 – Present
- Piper Jaffray 2010 – 2012
- National City/RAP 2008 – 2010
- Northwestern University – MBA Strategy
- UW-Madison – BBA Finance, Accounting
- Green Bay Southwest HS – Hard Knocks



# Agenda

- Overview of Mason Wells
- Private Equity Overview
- Private Equity Case Studies & The Role of the CFO
  - Charter NEX Films
  - Paris Presents

# Overview of Mason Wells



# Mason Wells Background

## A Successful Tradition:

Over **35 years** in business (former subsidiary of Marshall & Ilsley)

Closed more than **90 transactions**

Cohesive Buyout team with an average tenure of **20+ years** with Mason Wells

Over **\$2.3 billion** under management including new **\$767 million** fund raised in 2020

Our philosophy: **“Invest in people”** vs. buy companies

## Poised for Continued Growth:

Seek to achieve returns through sustainable value creation (i.e. revenue, earnings) vs. financial engineering

A network of specialized executive partners with experience and expertise in a variety of industries

# Mason Wells' Investment Strategy

## Lower Middle Market

- Company Revenue \$25 - \$300M
- Company EBITDA \$5 - \$30M

## HQ in Midwest Region



## Targeted Industries



## Family-Owned / Closely Held Businesses

- Over 80% of MW's deals have been investments in closely-held / family-owned businesses

## Success has been achieved through:

- Preserving culture
- Alignment with management team
- Investing for growth, innovation, and operational efficiency
- Opportunistic add-on acquisitions
- Prudent use of leverage

## Examples of Family-Owned / Closely Held Company Investments



# Overview of Private Equity



# Overview of Private Equity

- Equity capital for the acquisition or recapitalization (partial sale) of private companies
  - Traditional funds
  - Independent funds
  - Family offices
  - Direct investments
- Positive cash flow companies with growth opportunities
- Majority equity position typically held by PE fund
  - Typically held by just one private equity fund (compared to VC model)
  - Remaining equity held by management and possibly prior owners
- Returns generated through growth and improvement of the business
  - Investment in growth
  - Operational improvements
  - Strategic positioning
  - Increased cash flow



# Typical Private Equity Transactions

- Founders/owners seeking liquidity for estate planning or diversification purposes
  - Partial or full sale of equity position
  - Desire that company remain independent
  - Transaction pursued in confidence without competitive risk
  - Help in resolving any “delicate” family ownership or management transition issues
- Change in business environment drives need for additional equity
  - Significant capital expenditures needed to grow
  - Industry consolidation requires company to get larger to compete
  - New risks/opportunities
- Divestiture of a “non-strategic” subsidiary or division by a larger company
- “Going private” transaction of a publicly-traded company

# Key Considerations of a Private Equity Firm When Analyzing a Business



# Common Target Company Characteristics

- Financial profile meeting investment criteria
  - Sales, EBITDA and annual Capex —————> Sustainable Free Cash Flow
  - Supports minimum investment size
- Management team in place
- Well defined growth opportunities
  - Strong position in a niche market
  - Benefitting from a large and growing market
- Limited customer concentration
- Opportunities for improvement
  - Margin improvement and capital management
  - Benefit from strategic focus and additional capital

# Typical Transaction Structure

- Mason Wells is a control investor:
  - *Own >50% of Voting Securities*
  - *Nominate many of the board members*
  - *MW partner serves as Chairman of the Board*

## Representative Financial Structure:

<i>Senior Debt (Club Deals)</i>	<u>Multiple of EBITDA</u>
<ul style="list-style-type: none"><li>• <i>Revolver</i></li><li>• <i>Term Loans</i></li></ul>	2.0x – 3.0x
<i>Mezzanine</i>	<u>1.0x – 1.5x</u>
<i>Total Leverage</i>	3.0x – 4.5x
<i>Equity</i>	
<ul style="list-style-type: none"><li>• <i>Preferred Stock (8%PIK)</i></li><li>• <i>Common Stock</i></li></ul>	<u>4.0x – 4.5x</u>
<i>Total Purchase Multiple</i>	7.0x – 9.0x

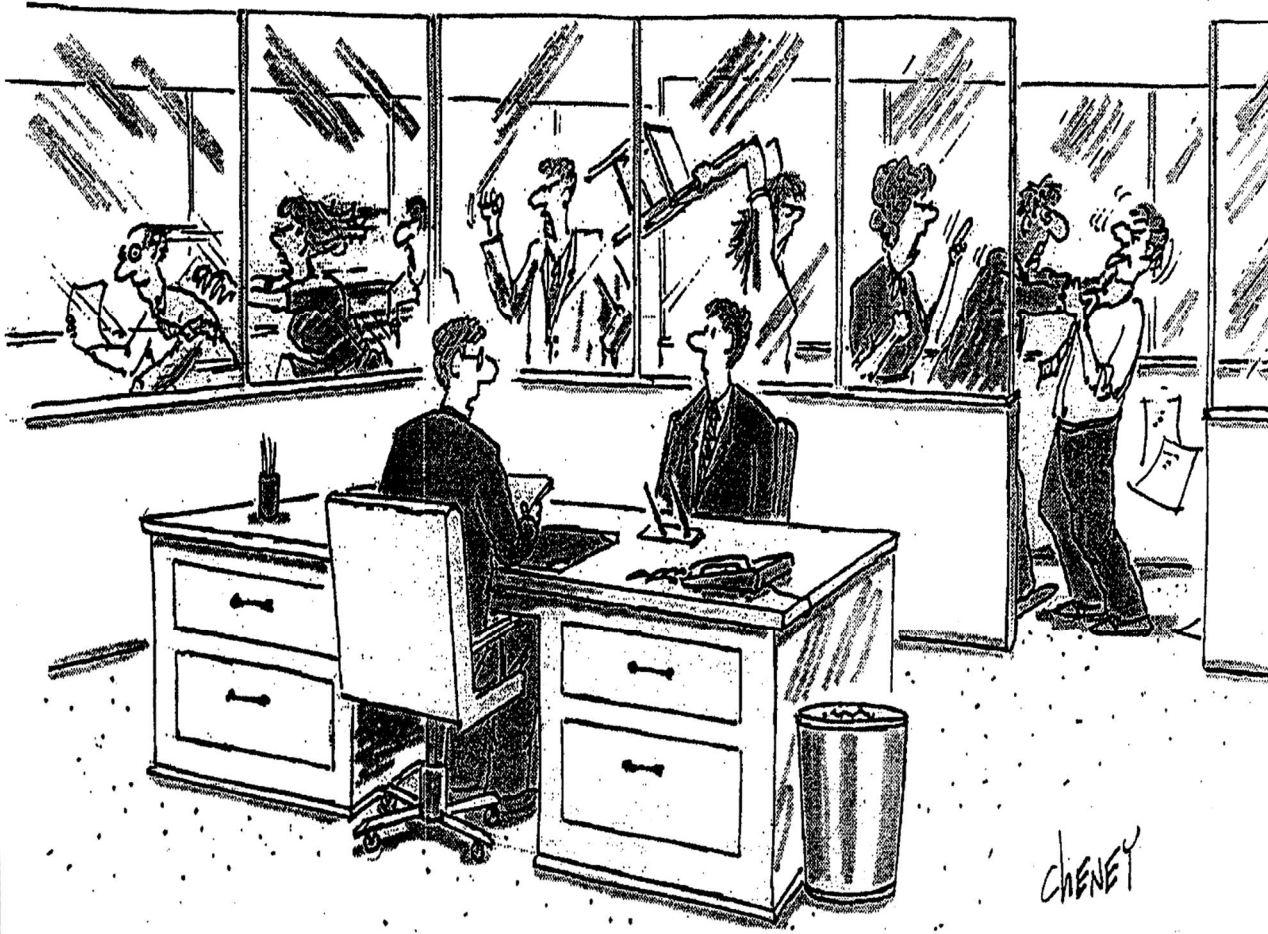


# Private Equity in a Family-Owned Business Environment



# Potential Characteristics of Family-Owned Businesses

- Managed by the founder or family member of founder
- Family members in key management positions
- Change averse
- Profitability just one key consideration
- Capital constrained / debt averse
- No formal strategic plan / direction



***“As you may have already gathered, we’re family-owned and operated”***

# Challenges Facing the Family Business

“We’ve outgrown our facility but I can’t afford something bigger...”

“I know I need to grow the company, but how?”

“Our competitors are all opening offices overseas, how can I compete?”

“My daughter just told me she doesn’t want to run the family business...”

“My father and my brother don’t really see eye to eye...”

# Benefits of Private Equity vs. Selling to Competitor

- Company can remain independent
- Fair and competitive valuation
- Confidentiality
- Reward existing management team
- Speed
- Strategic and operational expertise
- Gain strong financial partner
- Plan for long-term growth
- Flexible transaction structures



# What to Look for in a Private Equity Firm

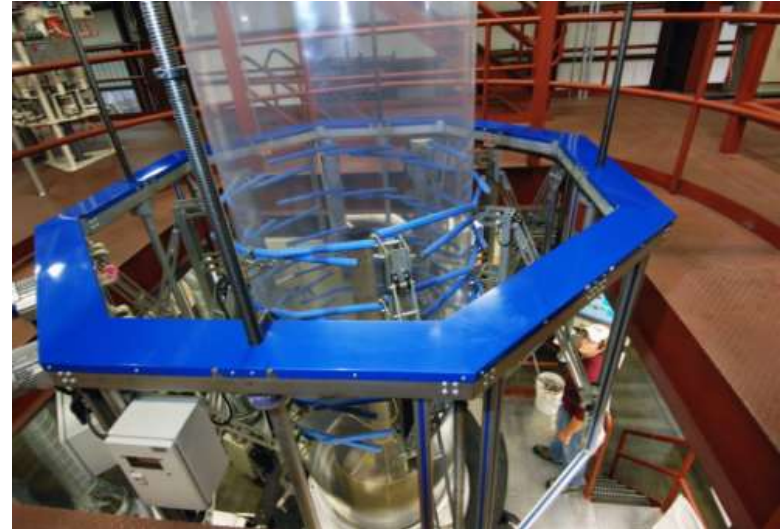
- **From a seller's perspective**
  - Proven history of closing transactions
  - Ability to quickly complete due diligence
  - Reliable financing sources (i.e., existing fund in place)
  - Reputation for honesty and integrity
  - Track record of success (preserve owner legacy)
- **From management's perspective**
  - Chemistry with the people
  - Ability to bring resources to the company (capital, advice, industry knowledge, etc.)
  - Global, value-added approach
  - Treatment of management as a “partner” vs. “divisional manager”



## Case Study



# NEX Performance Films Product Overview



# NEX Films Business Description – 2010 (At Acquisition)



- Non-core division of Appleton Papers
- NEX manufactured single and multilayer polyethylene (“PE”) blown films for flexible packaging converters (primary end market was food)
- Film manufacturing only – no printing, laminating or converting
- NEX’s pure focus on film extrusion was attractive to customers who did not manufacture their own film since there were no conflicts (vs. Berry Plastics)
- Plants in Milton, WI; Rhinelander, WI; and Turners Falls, MA
- Appleton Papers no longer viewed NEX as a core business but wanted to find a management-friendly owner



# 2010 Due Diligence and Transaction Issues

- Diversified customer base (no customer > 10% of sales), but some “in-housing” and “going-concern” customer risks
- Older equipment set causing quality and waste issues – need for some significant investment in new and existing capacity
- Operations based on “gut feel” – limited metrics or improvement processes
- Sales strategy focused on “filling lines” vs. end market strategic fit
- Volatile resin market pressured earnings – need to restructure customer contracts
- Corporate carve-out requiring new IT and financial reporting systems – **big CFO task**

## Mason Wells conclusion:

**Significant “Investment Thesis” opportunity  
(i.e., improvement opportunities)**

# At Investment by Mason Wells

- Owned by Appleton Papers
- Financial:
  - Sales (Public): \$83,000 (2 year CAGR: -2.0%)
  - EBITDA (Public): \$9,000 (11% EBITDA margin)
- Reason for sale
  - Non-core business
    - Appleton wanted to reinvest proceeds into core paper business
  - High capex requirements
    - Typically 3 – 5% of sales per year
    - Number of delayed equipment projects were beginning to impact quality
  - Future growth: Owners felt they had taken the business as far as they could
- Transaction: complete sale
  - Mason Wells and new management team (CEO and VP-Sales) invested
  - Management gained future equity ownership opportunity via option plan

# Investment Thesis at Closing

## At Acquisition

Provided primarily mono-layer PE films to flexible packaging converters (#4 or 5 in North America)

### Value Drivers

Margin Improvement

Capital Management

Profitable Growth



## At Exit

#2 North American provider of multi-layer PE films to flexible packaging converters and brand owners

### Required Accomplishment

Increase EBITDA margin from 10% to 15% through implementation of “lean” techniques, quality improvements, improved pricing disciplines and added scale.

Closely manage capex spending to maximize capacity without missing sales opportunities. Improve working capital by improved inventory management and purchasing.

Increase revenues by selling into existing, high growth accounts as evidenced by strong sales pipeline. **Complete (ideally transformational) tuck-in acquisition.**

# Transformational Acquisition – Charter Films



- NEX's #1 competitor, #1 acquisition target and comparably sized
- Senior management of both companies personally respected each other for a number of years
- Charter had a very similar business – “hand-in-glove” fit
  - Headquartered in Superior, WI
  - Manufacturer of barrier, coex and mono films for flexible packaging bags, pouches, lidding and rollstock applications
  - Superior equipment set, product quality and customer service differentiate Charter from many of its competitors
- In late 2012, family ownership decided to exit and allowed the management team to select a go forward partner – NEX was chosen as the best fit
- Entire pro forma senior management team stayed with the Newco
  - Seamless transition to Newco (Culture, IT, Benefits) – Doesn't always happen!



# Charter Films Product Overview



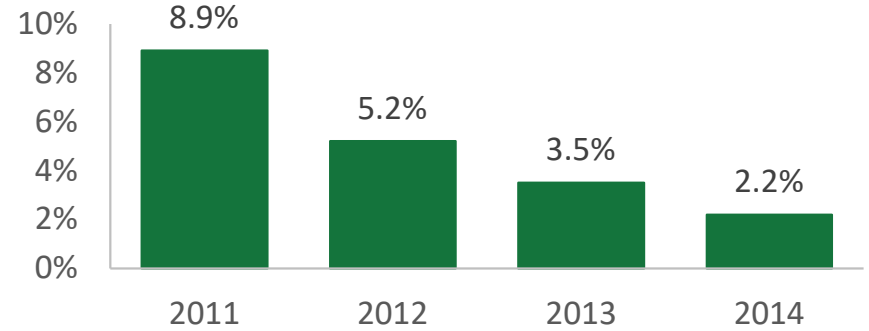


# Margin Improvement

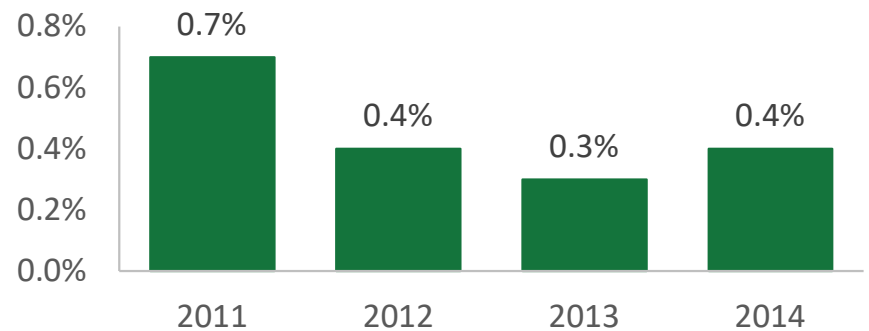
- Charter's world-class equipment and operating culture were a catalyst for a number of pro forma operating statistical improvements:
  - World class training through Charter University
  - Net scrap rates
  - Quality Returns
  - Resin Savings
    - Grade consolidations
  - These three categories drove dramatic margin improvements over a short period
- CFO developed a "Synergies" scorecard
  - Tracked monthly



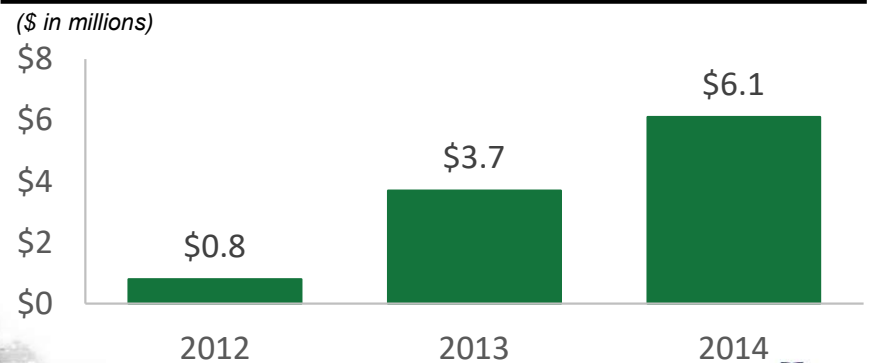
**Net Scrap Rate**



**Quality Returns**



**Cumulative Resin Purchasing Savings**

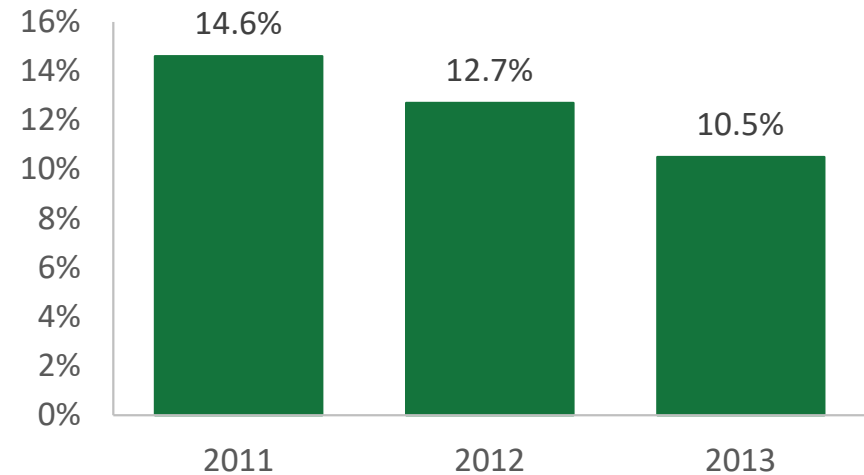


# Capital Management

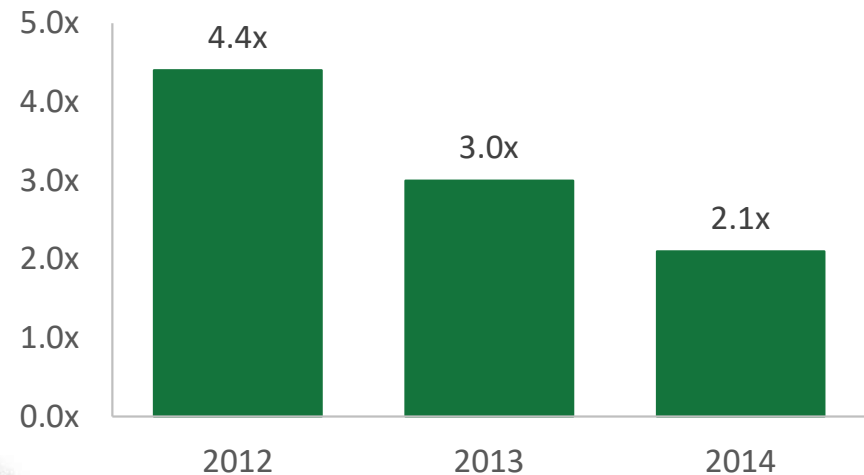
- CFO focused on speed of cash flow
  - Electronic billing
  - Rapid focus on A/R collection when past due
  - Better payment terms with suppliers
  - Results: NWC from nearly 15% to under 11% of Sales
- Significant debt pay down as a result of better working capital and capital expenditure management
  - However, didn't prevent the Company from making significant capex investments for growth

## **Net Working Capital**

(% of TTM Sales)



## **Net Debt / EBITDA Ratio**

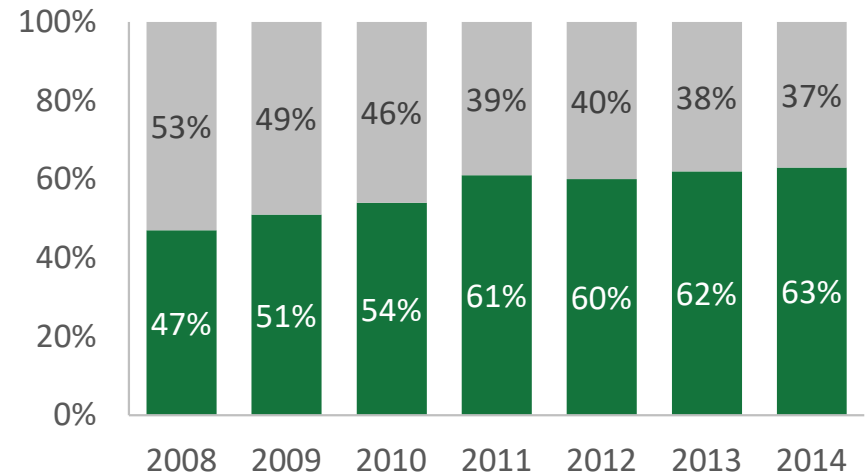


# Profitable Growth

- Conducted customer satisfaction assessment (pre-close)
  - Identified critical success factors
  - Refined marketing value proposition
- Reorganized consolidated sales team
  - No new hires needed
  - Reorganized territories and reassigned overlapping accounts
  - One face to the customer
  - Executed on strategic product mix to higher margin multi-layer film sales (see chart)
- Value Proposition of #1 Quality leader resonated in strong customer demand (see chart)

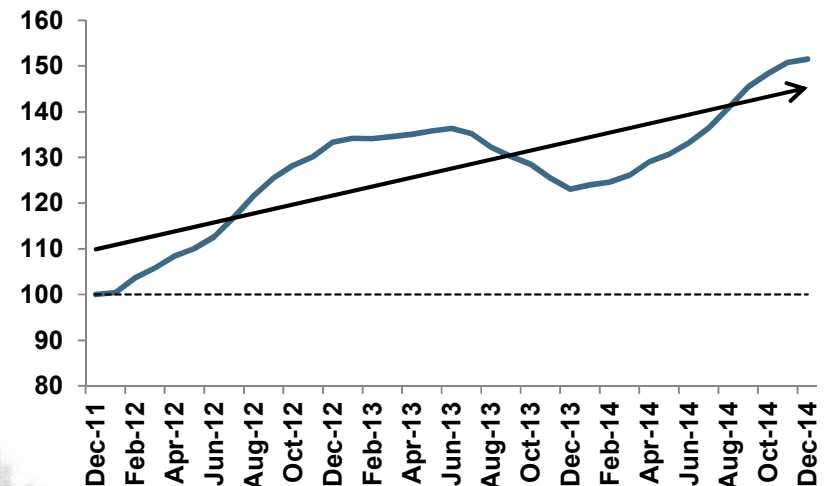
**Sales Mix Evolution**

(% of TTM Sales)



**TTM Indexed Backlog Trend**

(100 = December 2011)



# Role of CFO

- Joined at NEX Closing (with CEO and COO). Equal “one-third” responsibility:
  - CEO – “Ms. Outside” – Customers, Suppliers, Sales
  - COO – “Mr. Inside, 1/2” – Floor operational efficiencies and IT
  - CFO – “Mr. Inside, 1/2” – Synergies, Financial Reporting, Purchasing, Cash Flow

## Key contributions:

- Implemented standalone financial reporting at NEX and post Charter merger
- Improved quality of financial reporting – weekly flash, monthly packages and audits
  - Built team of plant controllers
  - Helped all to understand what is happening in the business proactively
- Developed customer profitability and “value” pricing (e.g., 80/20 review)
- Responsible for reducing SG&A spending post-Charter merger (complete review of all positions and spending)
- Point person with banks, auditors and insurance providers
- Led significant working capital improvements and debt reduction
- Key point person with CEO during sale process

# Exit

- Business performance by 2014 had far exceeded management's forecasts
- Significant capital requirements were needed to keep up with business demand setting the stage for a large expansion in the Milton, WI plant (picture on next page)
- Capital requirements “outgrew” Mason Wells – need for larger financial partner
- Financial performance
- Exit
  - Sold to Pamplona Capital Management (\$4 billion private equity fund based in London) in February 2015
  - Significant value in management equity position
  - Entire management team stayed and reinvested
  - Charter NEX is now considered the North American leader in PE blown films and is now owned by KKR (4<sup>th</sup> private equity partner)

**GREAT WISCONSIN BUSINESS STORY!**





# Questions

# Paris Presents

INCORPORATED

## Case Study



# Paris Presents Business Description – 2010 (At Acquisition)

- Merchandiser, designer and developer of beauty and bath accessories founded in 1947 and headquartered in Gurnee, Illinois
- Products included cosmetic accessories, bath accessories, specialty bath liquids, trial/travel products and nail care
- Primarily a private label provider; however had begun to develop a proprietary brand of cosmetic and bath accessories called “EcoTools”
- Provided value added services including brand development exclusive to retailers, product development and sourcing/supply chain
- Primary sales channels included mass retail, drug, specialty beauty and grocery
- Approximately \$75 million in annual sales

# 2010 Due Diligence and Transaction Issues

- SKU intensity was high driven by product lines developed exclusively for many of the top retailers
- Product development lacked formal processes to prioritize new products that already had retailer buy-in
- Opportunity to drive high-margin sales of EcoTools products through investment in marketing and advertising
- Supply chain was run by founder's "gut feel" through numerous middlemen with factory relationships in China
- Weak working capital procedures leading to high inventory levels
- Insufficient tracking of customer and product profitability

## **Mason Wells conclusion:**

**Significant "Investment Thesis" opportunity  
(i.e. improvement opportunities)**

# At Investment by Mason Wells

- Owned by second generation of founding family
- Financial:
  - Sales: \$75,000 (2 year CAGR: 9.0%)
  - EBITDA: \$8,100 (11% EBITDA margin)
- Reason for sale
  - Second generation family owner interested in liquidity
  - Substantial investment in marketing and processes required to drive branded sales
  - Future growth: Owners felt they had taken the business as far as they could
- Transaction: complete sale
  - Mason Wells and new management team acquired
  - Management gained future equity ownership opportunity via option plan



# Investment Thesis at Closing

## At Acquisition

Mostly a private label provider of beauty accessories with a focus on merchandising for retailer customers



## At Exit

#1 provider of branded cosmetic and bath accessories driven by social media based marketing, streamlined innovation process, and new product development

### Value Drivers

Margin Improvement

Capital Management

### Required Accomplishment

Increase EBITDA margin from 11% to 13% through SKU rationalization based on 80/20, shift in product mix to higher margin branded product and improved purchasing

Improved inventory management and supply chain procedures through addition of supply chain resource

# Paris Presents Product & Brand Overview

## Cosmetic Accessories



### Retailer Exclusive Brands



## Bath Accessories

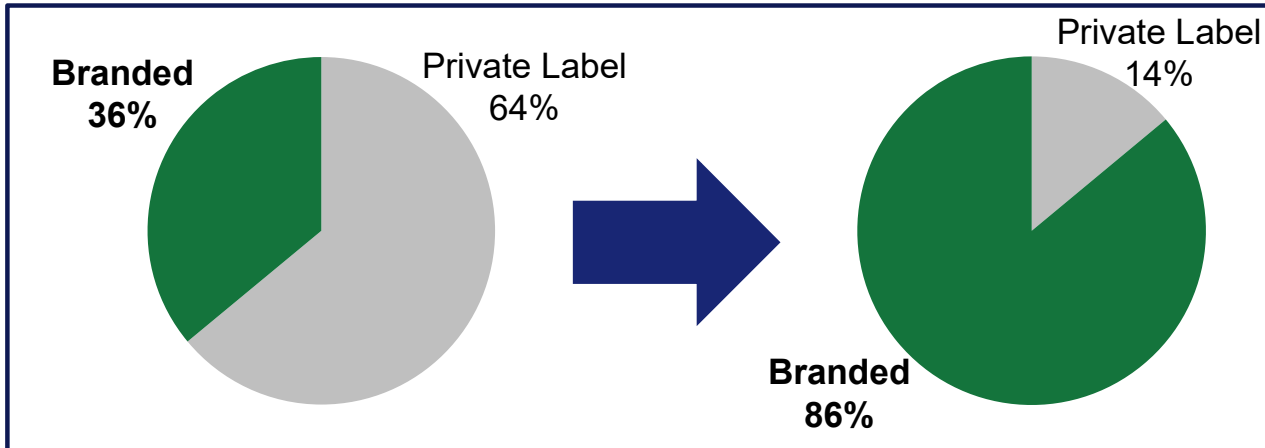


### Retailer Exclusive Brands



# Margin Improvement

- Sales mix shift to high margin branded product



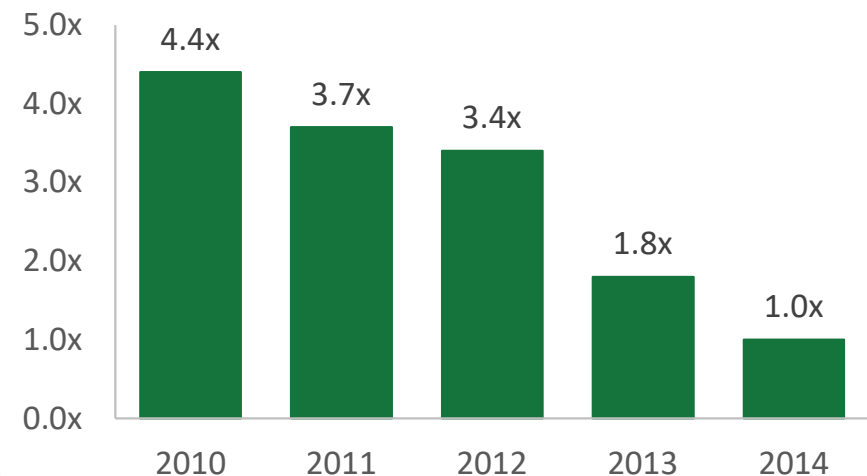
- Improved sourcing model
  - Supplier diversification
  - Competitive bidding
- Developed and monitored profitability metrics by customer and SKU
- Streamlined innovation and product development processes

# Capital Management

- Hired VP Supply Chain and removed supply chain middlemen to source directly from Asian suppliers
- Implemented finished goods inventory system (Kanban) at certain Asian suppliers
- Eliminated use of Banker's Acceptances with suppliers
- Significant debt pay down as a result of better working capital and cash flow management

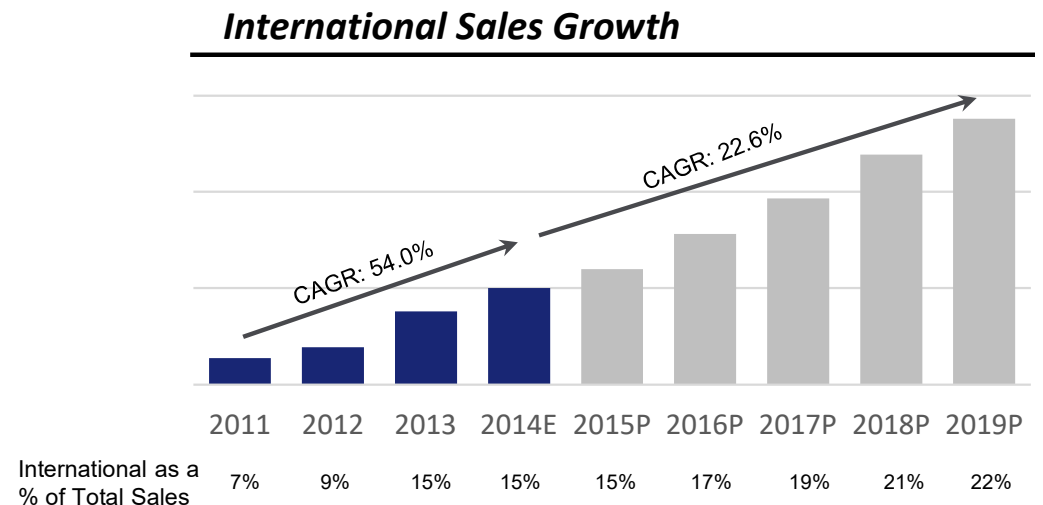


**Net Debt / EBITDA Ratio**



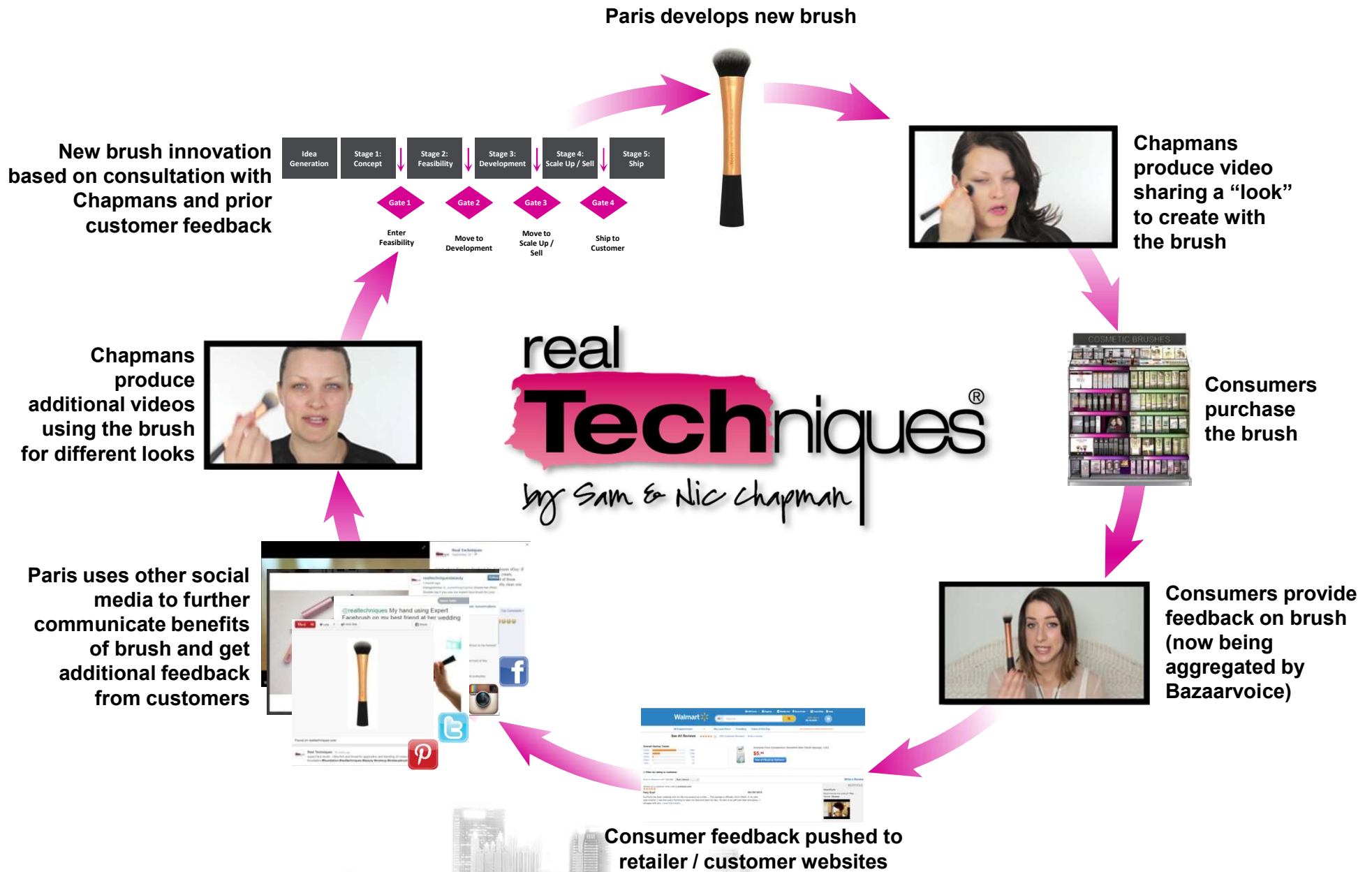
# Profitable Growth

- Augmented team with new CEO, VP of Sales and VP of Marketing to focus on driving sales of branded products
- Continued to drive growth in EcoTools product line, taking advantage of trends in natural personal care
- Launched Real Techniques brand fueled by Direct Connection Marketing system based on social media and YouTube tutorial videos
- Implemented category management techniques based on consumer insights to expand at existing customers and with new customers
- Set up UK-based subsidiary to begin driving international
- Built infrastructure to support and drive e-commerce sales





# Direct Connection Marketing System™



# Role of CFO

- Joined one year after Closing. Equal “one-third” responsibility:
  - CEO, CCO, VP Marketing – “Outside Facing Team” – Customers, Sales, Marketing
  - VP Supply Chain – “Ms. Inside, 1/2” – Suppliers, warehouse operations
  - CFO – “Mr. Inside, 1/2” – Profitability and Pricing, Financial Reporting, Cash Flow

## Key contributions:

- Implemented financial reporting – weekly flash, monthly packages, and audits
  - Helped all to understand what is happening in the business proactively
- Developed customer, brand and SKU profitability
- Responsible for helping drive down supplier costs as company transitioned to direct sourcing
- Point person with banks, auditors and insurance providers
- Monitored supplier costs and played active role in supplier contract negotiations
- Key point person with CEO during sale process

# Exit

#1 cosmetic accessories brand in the U.S.

**ecOTOOLS**  
earth-friendly beauty®



**ecOTOOLS**  
earth-friendly beauty®

SIX PIECE STARTER  
Beautifully soft with bamboo & recycled materials

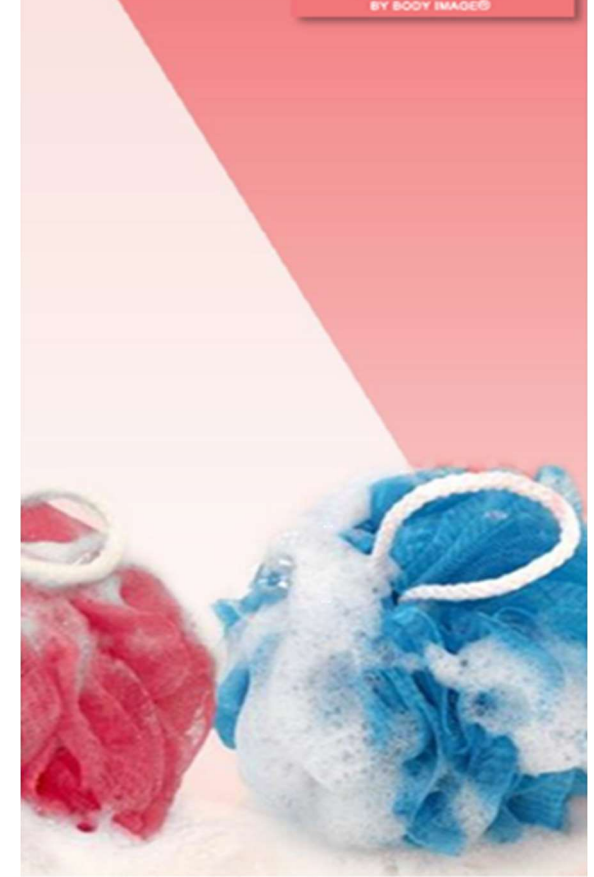
#1 fastest growing brush brand in the U.S.

real **Tech**niques®  
by Sara & Nic Chapman



#1 bath accessories brand in the U.S.

**body**  
BENEFITS  
BY BODY IMAGE®



## Questions

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