

An aerial photograph of the Milwaukee skyline, featuring the PNC Tower under construction with a crane, the Miller Building, and the Milwaukee Art Museum in the foreground. The image is overlaid with logos for Mason Wells, Cleary Gull, and Godfrey Kahn S.C.

MASON  WELLS

CLEARY GULL

GODFREY  KAHN S.C.

# FEI Northeast WI Chapter Presentation

Ryan Chimenti - Timothy McCoy - Jay Radtke

April 16, 2019



# CLEARY GULL

**FEI Northeast WI Chapter Presentation  
Ryan Chimenti – Managing Director  
April 16, 2019**



# Overview of Cleary Gull

*This presentation is for educational purposes only and should not be considered advice or a recommendation of any product or service. The factual statements herein have been taken from sources believed to be reliable, but such statements are made without any representation as to accuracy, completeness, or otherwise. Commentary is the current opinion of the presenter and is subject to change without notice. Historical data is not an indication of future results.*

*Cleary Gull Inc. is a member of FINRA / SIPC.*



**Ryan C. Chimenti**  
**Cleary Gull Inc.**

**Managing Director**  
414-291-4531 |  
rchimenti@clearygull.com

Mr. Chimenti joined Cleary Gull in 2005 and is a Managing Director and member of the firm's Board of Directors. He has 22 years of transaction experience and is responsible for executing transactions, business development and private equity coverage. Mr. Chimenti has advised numerous clients in a variety of industries and has significant experience in the Precision Machining, Metal Fabrication and Processing, Industrial Products, and Manufacturing industries.

Prior to joining Cleary Gull, Mr. Chimenti worked at Cornerstone Business Services and Wells Fargo Business Credit. He has worked in Milwaukee, WI, Indianapolis, IN and Chevy Chase, MD.

Mr. Chimenti is a member of the Board of Directors of Global Precision Products, LLC, a Board Member and the Treasurer of the Wisconsin Chapter of the Association for Corporate Growth, a member of the Children's Hospital of Wisconsin Investment Subcommittee of the Board of Directors, and a guest lecturer at the University of Wisconsin-Milwaukee and Marquette University.

Mr. Chimenti earned an MBA from the University of Notre Dame and a BS in Finance from Boston College.

**Employee-owned** middle-market, boutique investment banking firm

**Nationally recognized** with **global reach**

Clients include **private equity funds, entrepreneurs,** and **corporations**

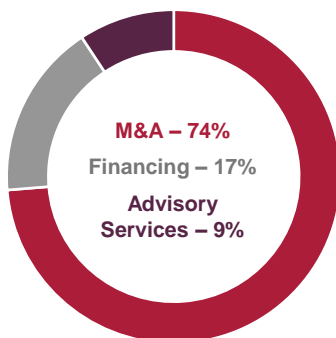
**30-year** track record

**Experienced** and **talented** team has completed **hundreds of transactions** representing billions in transaction value

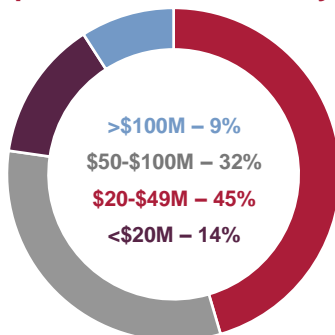
**Relentless approach** to helping clients achieve their goals

# Investment Banking Services

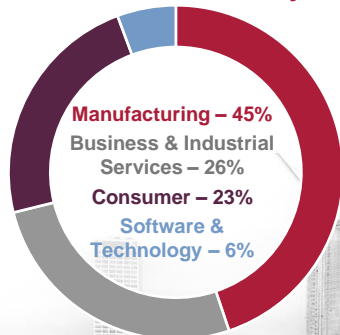
## Completed Transactions by Service



## Completed Transactions by Size



## Completed Transactions by Industry



## Mergers & Acquisitions

- Execute transactions up to \$250 million in enterprise value
- Focus on Manufacturing, Business & Industrial Services, Consumer, and Software & Technology companies
- Specialize in sell-side transactions
- Conduct targeted buy-side advisory services

## Capital Placement

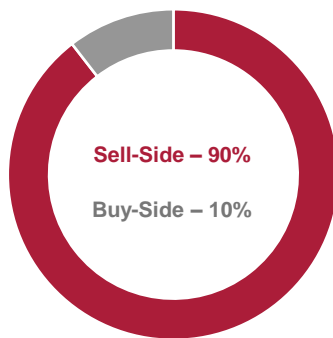
- Raise up to \$250 million of senior debt, mezzanine debt, and/or equity
- Provide capital structure advice for management buyouts, recapitalizations, and growth capital investments

## Special Situations and Advisory Services

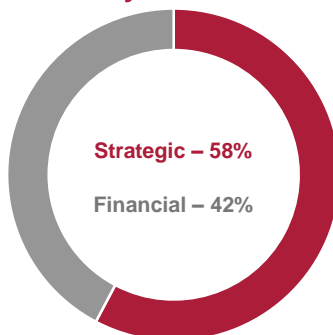
- Advise on distressed mergers and acquisitions
- Offer debt refinancing and restructuring services
- Perform valuations and strategic alternative analyses

# Sell-Side Expertise

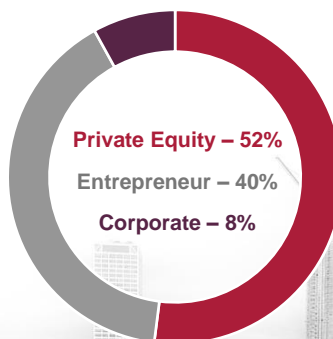
## M&A Assignment Type



## Buyer Profile



## Client Profile



**Known for selling excellent companies at premium prices**

**Proven ability to identify and articulate value**

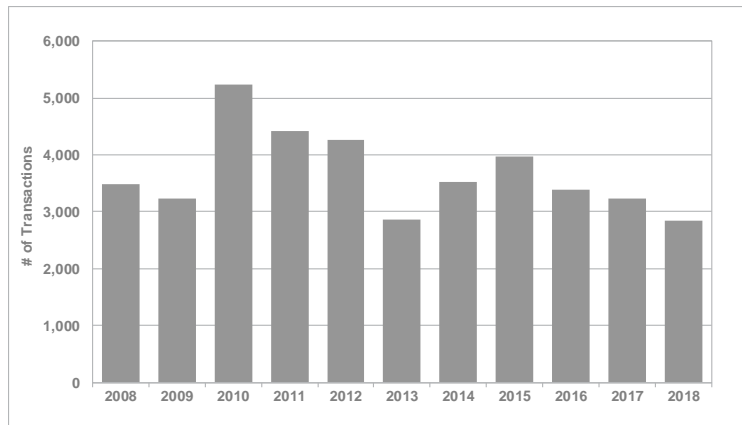
- Growth potential and opportunities
- Sustainable competitive advantage
- Pro forma cost structure
- Platform company potential

**Expertise in recognizing and realizing strategic value**

- Strategic fit
- Synergies

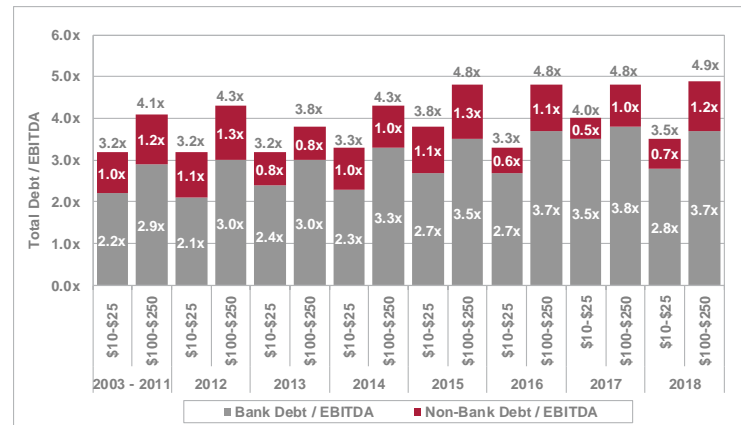
# Middle Market Trends

## U.S. Middle Market M&A Volume (Under \$500M of EV)



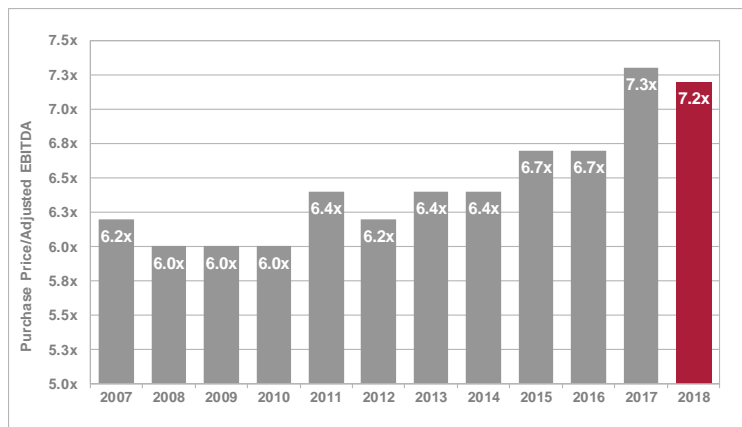
Source: Robert W. Baird

## Average LBO Debt Multiples (\$10M-\$25M and \$100M-\$250M of EV)



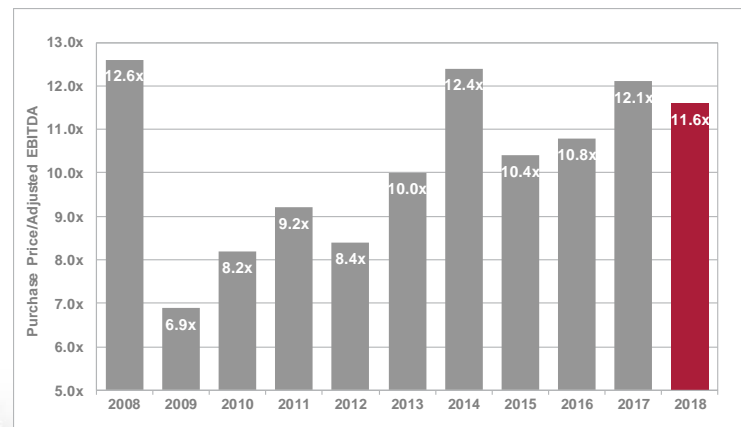
Source: GF Data®

## Average EV/EBITDA for PE-Backed LBOs (\$10M-\$250M of EV)



Source: GF Data®

## U.S M&A Transaction Multiples



Source: Robert W. Baird



# Market Value Drivers and Sell-Side M&A Preparation Best Practices

## Company Characteristics that Promote Higher Buyer Interest

**Private equity buyers are seeking characteristics in new investments that mirror those found in companies that provided the highest historical returns**

1. Recurring and predictable revenue
2. History of 10% per year revenue and EBITDA growth
3. High margins (>25% gross margins and >15% EBITDA margins)
4. Strong continuing management
5. Defined and executable growth strategy
6. Focused end market and sales channel strategy
7. Low customer concentration
8. Large (>\$500 million), growing, and recession resistant addressable market
9. High free cashflow/low capital expenditure business model
10. Defensible against product obsolescence and foreign competition

# Management and Compliance Best Practices

**Accountability is one indicator that a company and team are prepared to be a platform**

## **Compliance**

1. Board of directors with non-affiliated outside directors
2. Audited financial statements
3. Strong legal and tax advisors
4. Utilize investment bankers as strategic resources

## **Management**

1. Deep and empowered executive leadership team
2. Utilize strategic planning
3. Manage to Key Performance Indicators (“KPIs”)
4. Have a developed human resource strategy

## **Accounting**

1. Develop detailed annual budgets
2. Maintain detailed books and records
  1. Manage gross and EBITDA margin at product/service, customer, channel, and end market
  2. Maintain and update forecasts
  3. Perform return on investment (“ROI”) validation for new investments
  4. Back test performance to validate ROI and margin assumptions (“Close jobs”) to the budget or forecast

# Valuation Considerations

Preparation Best Practice	Description	Highlights of What Defines “Best in Class” Companies
Strategic Planning	<ul style="list-style-type: none"> <li>Formal executable and documented growth strategy</li> </ul>	<ul style="list-style-type: none"> <li>Three to five year plan focused on market share, products/services, markets, channels, and financial performance</li> <li>Developed in partnership with a 3<sup>rd</sup> party facilitator or proven process</li> <li>Tracked and updated annually</li> <li>Audited statements and annual detailed budgets</li> </ul>
Financial Performance	<ul style="list-style-type: none"> <li>Sales, margins and cash flow</li> </ul>	<ul style="list-style-type: none"> <li>Gross and EBITDA margins in excess of 25% and 15%, respectively</li> <li>At least 10% per year sales growth</li> <li>Modest, but realistic non-recurring addbacks and adjustments</li> <li>Low capital expenditure requirements (&lt;25% of EBITDA)</li> <li>Sell-side Quality of Earnings analysis</li> </ul>
Management	<ul style="list-style-type: none"> <li>Capable of driving strategy</li> </ul>	<ul style="list-style-type: none"> <li>Continuing post-transaction</li> <li>Depth and experience to manage a business 3x larger</li> <li>Built a strong culture</li> <li>Manage to the strategic plan</li> </ul>
Customers, Channels, and End Markets	<ul style="list-style-type: none"> <li>Level of Concentration</li> </ul>	<ul style="list-style-type: none"> <li>Low customer concentration</li> <li>Strong and defensible market share</li> <li>Large addressable domestic and/or international market</li> <li>Recession resistant markets</li> <li>Desirable and simple go-to-market sales channels</li> <li>Laser focused on one or more end markets (e.g. medical)</li> </ul>



# FEI Northeast WI Chapter Presentation

Timothy J. McCoy  
Shareholder  
Godfrey & Kahn, S.C.  
Green Bay/Appleton

April 16, 2019

# Overview of G&K

# Business Practice Groups:

- ▶ Banking & Financial Institutions
- ▶ Business Finance, Bankruptcy & Restructuring
- ▶ Commercial Lending
- ▶ Corporate Governance
- ▶ Corporate Law
- ▶ Data Privacy & Cybersecurity
- ▶ Emerging Companies
- ▶ Employee Benefits
- ▶ Employee Stock Ownership Plans
- ▶ Energy
- ▶ Environmental
- ▶ Estate Planning, Estate & Trust Administration
- ▶ Health Care
- ▶ Indian Nations
- ▶ Intellectual Property
- ▶ International Trade Compliance
- ▶ Investment Management
- ▶ Labor, Employment & Immigration
- ▶ Media Law
- ▶ Mergers & Acquisitions
- ▶ Political Law
- ▶ Private Equity & Venture Capital
- ▶ Public Finance
- ▶ Real Estate

# Litigation Practice Groups:

- ▶ Antitrust
- ▶ Appellate
- ▶ Contract/Commercial
- ▶ Distribution, Franchise & Dealership
- ▶ ERISA Litigation
- ▶ Estate, Trust & Fiduciary Litigation
- ▶ Financial Services Litigation
- ▶ General Litigation
- ▶ Government Investigations, White Collar & Compliance
- ▶ Insurance & Reinsurance
- ▶ Intellectual Property Litigation
- ▶ Labor & Employment Litigation
- ▶ Media & First Amendment
- ▶ Non-Competition & Trade Secrets
- ▶ Products Liability & Torts
- ▶ Real Estate & Construction Litigation
- ▶ Securities & Corporate Governance Litigation



# G&K Offices

## FIRM LOCATIONS

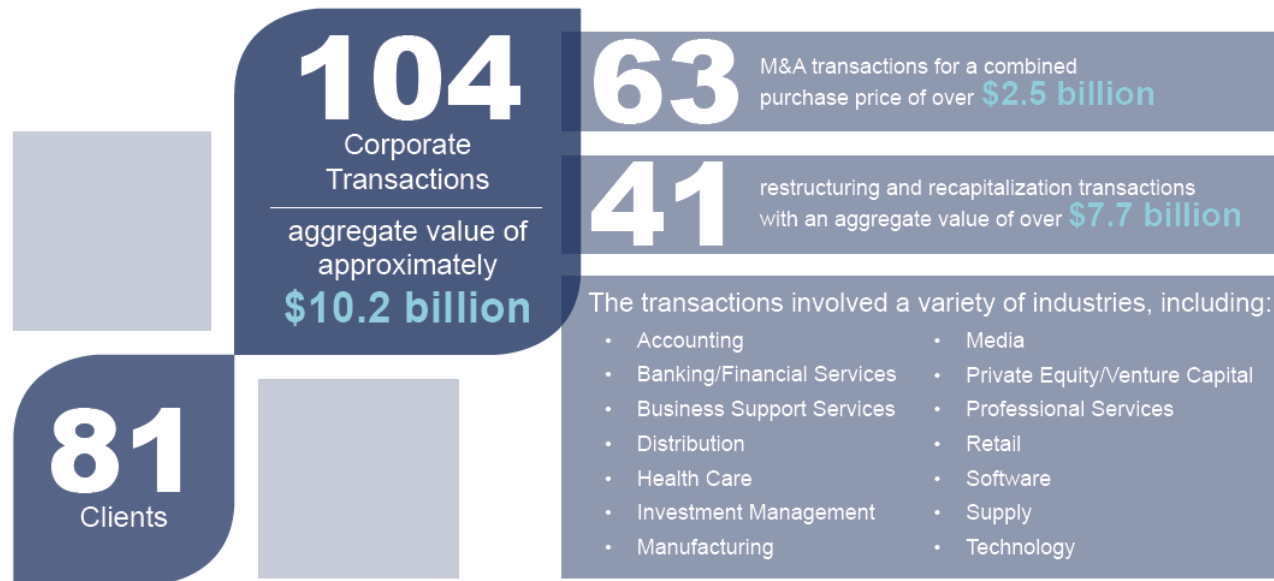
Godfrey & Kahn has established offices throughout Wisconsin and in Washington, D.C. to effectively serve its clients' needs and reflect its commitment to the businesses and governmental agencies located or doing business within the state of Wisconsin and beyond.

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# Corporate Transactions: A Year in Review

The Corporate Practice Group of Godfrey & Kahn, S.C. is pleased to announce another strong year of transactions in 2018. We have more than 50 experienced transactional attorneys with broad experience and deep knowledge who understand the importance of creativity and efficiency. Thanks to our clients, we have developed a strong, diverse and growing transactional practice, and a reputation as highly effective dealmakers. We are off to another exciting start in 2019 as we continue to provide our clients with the outstanding results they deserve and expect.

## So what was Godfrey & Kahn's deal in 2018, anyway?



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## Considering a deal in 2019?

If you would like to learn more about how we can help you with your next transaction, please contact:

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# Preparation For A Transaction

Preparing ....

- ❖ Entities
- ❖ People
- ❖ Assets
- ❖ Liabilities
- ❖ Processes



# Preparing Selling Entities ...

- ▶ Review and update corporate structure, entity status
  - ▷ Organizational documents, Shareholder/Operating Agreements
  - ▷ Capital Structure/Equity Table
  - ▷ Tax Matters
  - ▷ Control Group, “Drag Along” Rights
- ▶ Divest or Separate (“Carve Outs”) Unique, Nonperforming, Retained Subsidiaries, Divisions, Assets, etc.
- ▶ Identify Excluded Assets
  - ▷ Real Estate, Developmental Projects
- ▶ Identify and solve “hurdles” smart Buyers will find

# Preparing People ...

- ▶ Identify core “Deal Team”: Who will do the work (and their job)? The CFO at the eye of the storm....
- ▶ Model estimated compensation/pay outs to management team shareholders, SAR/UAR/“Phantom” plan participants
  - ▷ Consider Transaction and Retention Bonuses
  - ▷ Anticipate “roll over equity” requirements of certain buyers
  - ▷ Anticipate redundancies in resulting organizational structures
- ▶ Anticipate benefit plan “mapping”
  - ▷ Fringe benefit plans
  - ▷ Health Insurance continuity
- ▶ Develop a compelling narrative regarding the Transaction for the workforce.

# Preparing Assets ...

- ▶ Review and understand critical Vendor/Supply agreements
  - ▷ Term, renewal, competitors, compliance, price increases, exclusivity
  - ▷ Long term “handshake” relationships may not survive management team changes
  - ▷ OEM, dealer/sales representative agreements will require third party consents
- ▶ Review and understand critical Customer contract
  - ▷ Term, renewal, volume trends, price increases, relationship management, technological currency, alternative suppliers
  - ▷ Don't hand Customers an excuse to shop their relationship

# Preparing Liabilities ...

- ▶ Clean up the Balance Sheet
  - ▷ Scrub AR and AP
  - ▷ Deal with Inventory quality (XS, obsolete, slow moving, etc.) issues before you are forced to on the Buyer's terms
  - ▷ Settle all shareholder notes, "due to, due from" accounts, etc.
- ▶ Anticipate manufacturer's limited product warranty exposure, contingent liability exposure
- ▶ Is now the time to commence litigation? Is now the time to settle litigation? What is your strategy to deal with pre-closing litigation matters – you should have one.



# Preparing Processes ...

- ▶ Review and update Target's processes and adopt best practices in advance of Buyer telling you your processes are outdated and insufficient
  - ▷ Human Resources
  - ▷ Intellectual Property portfolio (patents, TMs, copyrights, etc.) management
  - ▷ Sales forecasting, CAPEX/OPEX budgeting: robust?
  - ▷ OSHA compliance
  - ▷ Environmental compliance and hazardous waste management practices



M&A Buyside Considerations – How to Prepare for a Sale?  
Jay Radtke  
April 16, 2019

# Agenda

- Overview of Mason Wells
- What is important for a Buyer and how to best prepare for a sale?
  - Management Team
  - Growth Story / Sales Pipeline
  - Customer Diversity / Sustainability
  - Competitive Positioning / Market Opportunity
  - Improvement Opportunities
  - What does Good Look Like?

# Overview of Mason Wells

# Mason Wells Background

- Founded in 1982 as a subsidiary of Marshall & Ilsley Corporation (M&I)
- Became an independent firm in 1998
- Closed more than 50 transactions in over 20 years of business
- Cohesive leadership team with an average tenure of 20 years with Mason Wells
- Currently seeking investments for \$615M fund raised in 2016
- Our philosophy: “Invest in people” (vs. buy companies)
- More information available at [www.masonwells.com](http://www.masonwells.com)



# Mason Wells' Investment Strategy

## Lower Middle Market

- Company Revenue \$25 - \$300M
- Company EBITDA \$5 - \$30M
- Transaction Value \$25 - \$250M

## HQ in Midwest Region



## Targeted Industries



## Closely Held / Family-Owned Businesses

- Partner with entrepreneurial management teams via alignment of interests
- Establish focused strategies for growth
  - Internal via capex investment
  - External via tuck-in acquisitions
- Prudent financial structuring



# Consistent Track Record of Fox Valley Region Investments

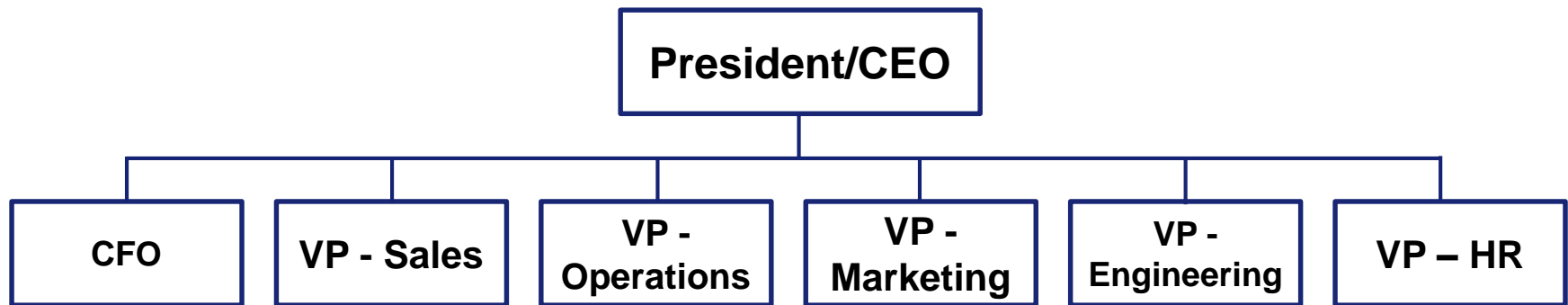


# Considering an Ownership Transition?

**What is important for a Buyer and how  
can a business best prepare?**

# Management Team

Address any holes in a traditional senior management organization structure:



- Is everyone committed to stay?
- Have back-ups/succession plan been considered?
- Any key holes in the second layer of management?
- In case of a financial buyer, will management be willing to re-invest/invest in new company?

# Growth Story

## 1. Strategic Plan

- Addresses how and in what markets sales growth will come from
  - Is it supported by historical financials?
- Unusual for companies <\$100 MM sales

## 2. Sales Pipeline/Processes

- CRM based and driven by a sales leader (VP – Sales)
- Provides visibility to sales forecast
  - E.g. Need \$X in various stages of pipeline to generate \$Y of annual sales



# Customer Diversity / Sustainability

Challenging Customer Sales Situation					
(\$ in 000's)	# Years as a Customer	Sales for Period Ending 12/31,			2018 Sales % of Total
		2016	2017	2018	
<b>Customer A</b>	<b>3</b>	<b>\$40,000</b>	<b>\$30,000</b>	<b>\$65,000</b>	<b>65%</b>
<b>Customer B</b>	<b>4</b>	<b>\$5,000</b>	<b>\$10,000</b>	<b>\$20,000</b>	<b>20%</b>
Customer C	10	\$1,000	\$8,000	\$5,000	5%
Customer D	10	\$3,000	\$12,000	\$3,000	3%
Customer E	10	\$1,000	\$2,000	\$1,000	1%
Customer F	10	\$1,000	\$1,500	\$1,000	1%
Customer G	10	\$1,000	\$1,000	\$1,000	1%
Customer H	10	\$1,000	\$500	\$800	1%
Customer I	10	\$1,000	\$800	\$500	1%
Customer J	10	\$1,000	\$500	\$0	0%
<b>Sub-Total</b>		<b>\$55,000</b>	<b>\$66,300</b>	<b>\$97,300</b>	<b>97%</b>
Other Customers		\$15,000	\$18,700	\$2,700	3%
<b>Total Sales</b>		<b>\$70,000</b>	<b>\$85,000</b>	<b>\$100,000</b>	<b>100%</b>

VS.

Attractive Customer Sales Situation					
(\$ in 000's)	# Years as a Customer	Sales for Period Ending 12/31,			2018 Sales % of Total
		2016	2017	2018	
<b>Customer A</b>	<b>20</b>	<b>\$5,000</b>	<b>\$7,500</b>	<b>\$10,000</b>	<b>10%</b>
<b>Customer B</b>	<b>15</b>	<b>\$4,000</b>	<b>\$6,500</b>	<b>\$9,000</b>	<b>9%</b>
Customer C	14	\$3,000	\$5,500	\$8,000	8%
Customer D	13	\$2,000	\$4,500	\$7,000	7%
Customer E	12	\$1,000	\$3,500	\$6,000	6%
Customer F	11	\$900	\$3,400	\$5,900	6%
Customer G	10	\$800	\$3,300	\$5,800	6%
Customer H	10	\$700	\$3,200	\$5,700	6%
Customer I	10	\$600	\$3,100	\$5,600	6%
Customer J	9	\$500	\$3,000	\$5,500	6%
<b>Sub-Total</b>		<b>\$18,500</b>	<b>\$43,500</b>	<b>\$68,500</b>	<b>69%</b>
Other Customers		\$51,500	\$41,500	\$31,500	32%
<b>Total Sales</b>		<b>\$70,000</b>	<b>\$85,000</b>	<b>\$100,000</b>	<b>100%</b>

- Consider top 10 – 15 customer survey work 1 – 2 years prior to a sale to avoid diligence surprises and allow time to fix any issues found

# Competitive Positioning / Market Opportunity

- Can you succinctly describe your value proposition?
  - Probably should touch at least one of QSCI
  - A lot of companies can't do this well
- Can you quantify market size (of each market participate in), growth and market share?
  - Who are the top 2 – 5 competitors and why do you win?



# What Does Good Look Like?

## Can you articulate the story?

Some attractive characteristics to shoot for:

- Leading (but not dominant) market share ✓
- Participate in large, growing market with attractive trends ✓
- Compelling value proposition via IP, sales engine, marketing, etc. ✓
- No unions/multi-employer pension plans ✓
- Historical financial growth – ideally not lumpy ✓
- Recurring sales model (e.g. aftermarket, consumables) ✓
- Customer diversity ✓
- Modern, well invested equipment set ✓
- Improvement opportunities in sales and margins ✓
- Experienced and complete management team willing to stay ✓

# Contact

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