

Woodbridge Merger & Acquisition Advisors, Inc.

SWILL Conference, February 2023

Merger and Acquisitions of Private Companies

Presentation Agenda



Woodbridge Merger & Acquisitions Advisors, Inc.



Current Environment for the Sale of Private
Businesses



Preparing a Business For Sale



Timeline of Process



Current Metrics

Merger and Acquisitions of Private Companies



Woodbridge Merger and Acquisitions



Investment Bank located in Minneapolis serving private business owners



Represent sellers, buyers and raise financings for private companies valued between \$10-\$150 Million in enterprise value



Structure and Raise Financing for intergenerational transfers and buyouts of minority shareholders



Formed in 2021

Current Environment

Macro Economic Backdrop

- Inflation-supply driven
- Quantitative Tightening-excess liquidity inflated all asset classes, now in the process of unwinding
- Federal Reserve-lag effect
- Aging workforce-talent is at a premium/rising unemployment
- Deglobalization/reshoring
- Increased regulation

Result in uncertainty, dislocations, and volatility. How will this impact the future? For sellers of businesses, valuations have come down, with less debt and more equity in deals. With fewer mega deals, private companies with strong business models can still get attractive deals done. Buyers have capital, are looking to add talent, and are looking for growth via acquisitions. Buyers will look for add-ons. Private companies can be less volatile. Domestic manufacturing is increasing. Premium valuation due to the low cost of capital has diminished. How will the rate increases affect the economy, and for how long? Valuations are normalizing, and growth is at a premium.

Current Environment

Who are the buyers

- Strategic-PWC Global CEO Survey-73% of CEO's are pessimistic about global growth in 2023
 - 60% of CEO's are not planning to delay deals in 2023
- Private Equity-Prequin estimates \$3.7 Trillion of capital available
- Family offices-new trend, powerful trend, long-term holders

Strategic buyers making buy or build decisions. Strategics are looking to add talent. Private equity firms are looking to deploy capital, make new platform investments, and add-on and tuck-in investments. Private equity does not run the business on a day-to-day basis. Back strong management teams and underwrite the growth. Family offices are making direct investments in private companies. Many times, have a long-term holding period and is patient capital.

Current Environment

Capital Availability

- Private equity
- Senior Debt-Non- Bank senior lenders/credit funds/asset - based lenders
- Mezzanine Debt
- Seller notes

A large overhang of equity capital. Senior debt is available but at reduced levels. More restrictive covenants. Non-bank senior lenders are filling the void. The equity position of the banks is in good shape. Mezzanine and subordinated debt are returning to bridge the gap between senior debt and equity. Seller notes and earnouts are used more to support a higher valuation but increase the risk to the seller.

Current Environment

Acquirer's Strategy

- Growth
- Management talent and quality workforce
- Visibility
- Ability to build on existing infrastructure to enhance efficiencies and achieve benefits of scale

Looking for companies which can grow given the new environment. Can acquired companies scale and what is needed to grow? Management talent and quality workforce are in short supply. Companies with a demonstrated strong management team and workforce can support premium valuations. What is visibility given supply chain, inflationary environment and other factors? How easily can an acquired company take advantage of the existing infrastructure and resources provided by the acquirer to enhance productivity, scale and provide necessary return on investment?

Preparing a business for Sale

- **Financial Statements**

- Compilation
- Reviewed
- Audited (GAAP)
- Quality of Earnings Analysis
- Financial statements-maximize profits
- Stop using aggressive accounting practices
- Recast financial statements
- Are there assets which have market value exceeding book value?
- Increase liquid assets-monitor A/R and A/P
- Inventory accounting
- Budget/Forecast
- CAPEX

- **Management/Talent**

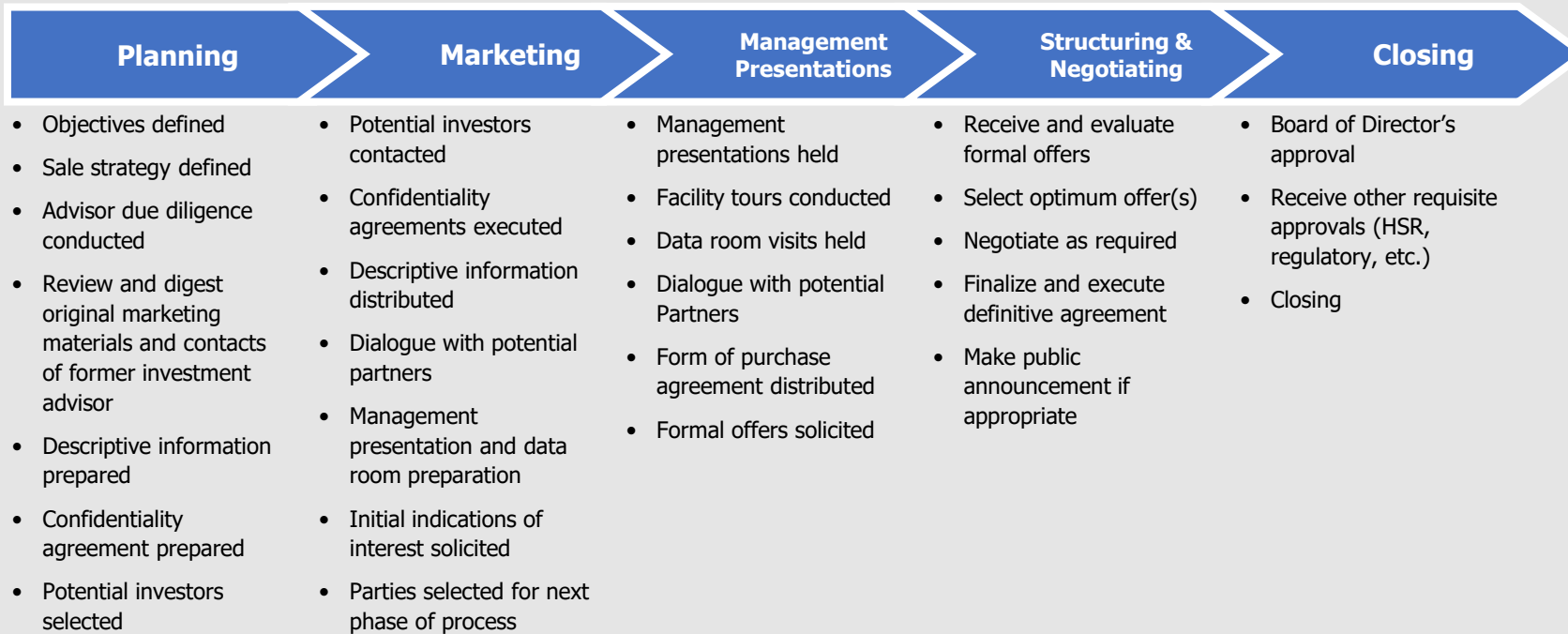
- The market will pay for outperformance
- Are there tools to retain talent in place
- Training
- Who are the key people in the organization?
- How does the company recruit?

Customers/Suppliers

- **Contracts/Leases**
 - No customer over 25-30% of annual revenue, diversify customer base
- Diversify suppliers
- **Supply Chain/Logistics**
 - How is supply chain managed to ensure and limit disruptions
- **Organization**
 - Corporate documents up to date and available
 - Policy and procedures documented
 - Quality control process documented
 - Update facilities, equipment, technology



Timeline of Process



Current Metrics

- Valuation
- Enterprise Value/multiples
- Representations and Warranties
- Escrows
- Working Capital

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