

# MASON WELLS



What to Expect in the First Year Under Private Equity Ownership  
Jay Radtke & Damon Thome  
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# Agenda

- Overview of Mason Wells
- What typically changes in the first year post-sale?
  - Management Team (Sometimes)
  - Sense of Urgency / Bias for Action
  - Corporate Governance
  - Communication
  - Capitalization and Value Creation Focus
  - Building a Strategic Asset





# 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 \$767M fund raised in 2020
- 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

# Closely Held / Family-owned Businesses

- Over 80% of Mason Wells' deals have been investments in closely-held / family-owned businesses
- Mason Wells' investment is often the first control institutional money

## 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 Closely Held Company Investments

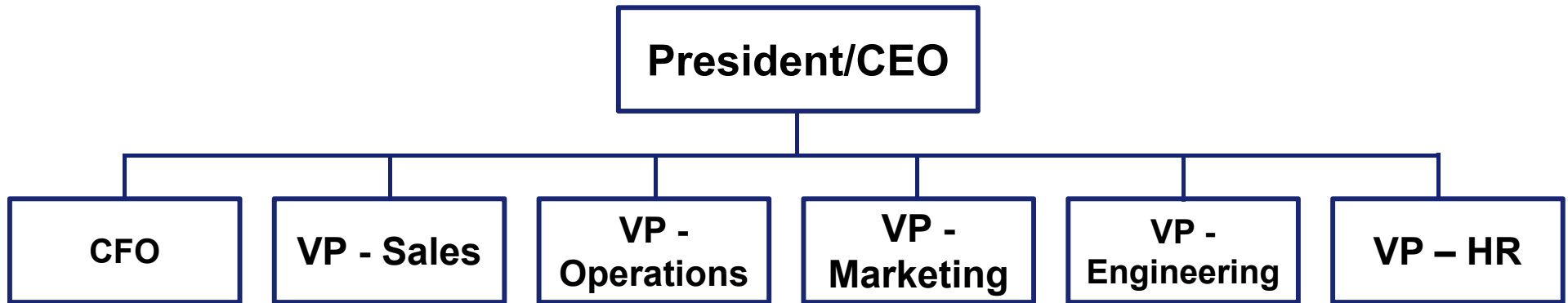


## What can I expect to change?



# Solidifying the Management Team

SOMETIMES the first changes are to senior management organization structure:

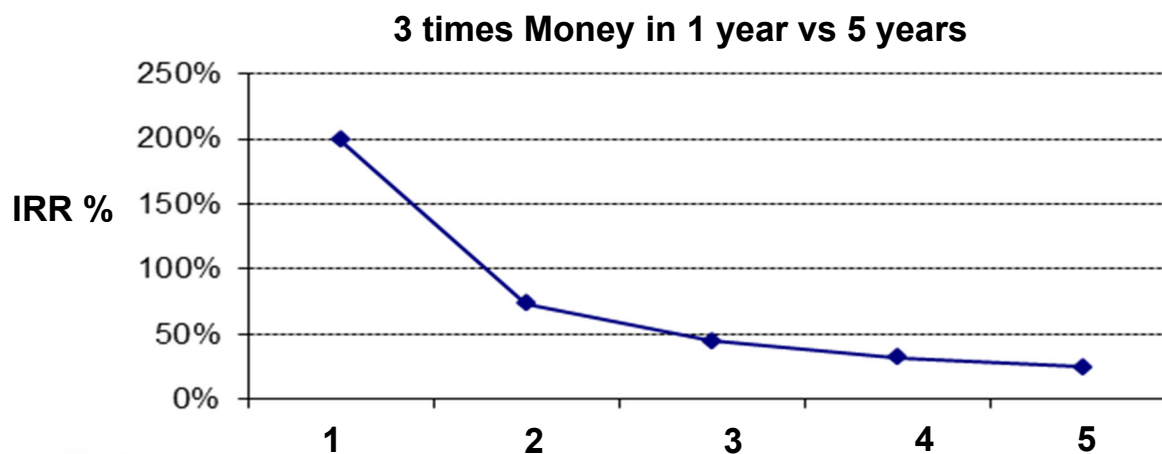


- Is everyone committed to stay?
- Often need to address retirements in family-owned business transitions
- Who is willing to invest?
- Any key holes in the second layer of management?

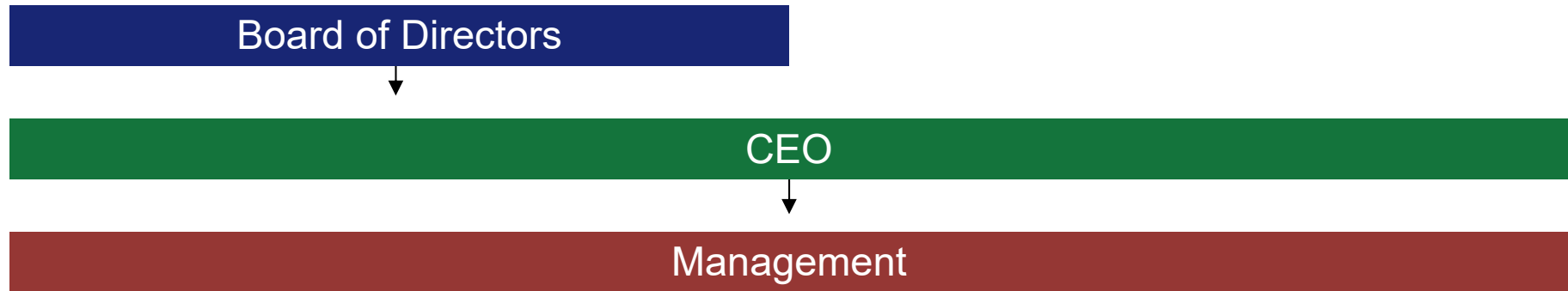


# Cultural Change – Sense of Urgency

- Interest Alignment – Management's and Private Equity firm's interests aligned on common goal: creating substantial value in their respective equity positions and incentive cash bonus plans
- Time Compression – Time line of private equity deal is to create substantial equity value in 5 - 8 years. Experience has proven this time line is short. Therefore:
  - **Time is of the essence**
  - **A sense of urgency is required**
- First year is critical – It lays the foundation for creating substantial value in years 2 - 5.
  - If this isn't accomplished in first 2 years, the value opportunity can be lost



# Corporate Organization and Responsibilities



## Vision

- Corporate Mission
- Ultimate Structure
- Corporate Culture
- Financial Goals



## Strategy

- Business Philosophy
- Competitive Positioning
- Growth Strategy
- Acquisition Strategy



## Tactics

- Planning Philosophy
- Benchmarking
- Market Plan
- Operating Plan
- Financial Plan



## Implementation

- Management Philosophy
- Organization & Work Design
- People Selection & Development
- Rewards & Compensation
- Information Systems

# Corporate Governance

- Purpose of Board of Directors
  - Responsible for maintaining appropriate corporate governance policy and procedures
  - Decision making body
  - Authorizes certain corporate actions:
    - Capital Expenditures > \$250,000 in total costs
    - Approves other material corporate and contractual obligations
    - Sets and approves compensation policy and changes
- Executive Committee established to handle review and evaluation of major items
  - 3 members: CEO and two Mason Wells representatives
  - Meeting/telephone call when appropriate
- Board Calendar
  - Established annually
  - Quarterly board meetings – typically 3<sup>rd</sup> or 4<sup>th</sup> week after quarter end
  - Interim/Ad Hoc Executive Committee Meetings

# Weekly Communications

- Weekly Flash Report and ad hoc Management calls
  - Flash report
    - Actual performance month-to-date versus plan for month
    - Key financial metrics & trends
    - Typically delivered on Monday from prior week
  - Ad hoc conversations with the CEO and others
    - As needed



# Monthly Communications

- Monthly Report and call with CEO and CFO
  - Monthly report
    - Delivered prior to 20<sup>th</sup> of month (prefer earlier)
  - Monthly update call to review monthly report
    - Discussion of monthly report
    - Update on Value Creation plan initiatives
      - Work Plan review
      - Focus on First Year Integration progress
      - Sales Pipeline discussion
    - Other topics
    - Typically about 1 hour
    - Typically between 20<sup>th</sup> and 25<sup>th</sup> of the month
    - To be scheduled on a monthly basis one year out

# Communication Ground Rules

- Direct and open
- No surprises and never hide information – the sooner items are surfaced, the more time and options we all have to react
- Usually informal
- Listen with an open mind
- Be willing to say “I don’t know” vs. faking it
- Don’t shoot the messenger
- Keep each other informed of important strategic and operating issues as they develop

# Pacon Creative Products Overview

- **Acquisition Date:** November 2011
- **Exit Date:** June 2018
- **Headquarters:** Appleton, WI
- **Type of Transaction:** Family-Owned
- **Description:** Pacon is a manufacturer and importer of branded and private label educational aids, arts & crafts and fine art products sold through education, e-commerce, distribution, and retail channels. Brands include Strathmore, Princeton Artist Brush, Peacock, Fadeless, and Riverside.
- **End Markets Served:** Education (80% of sales) and Art (20% of sales)



## Customers



# State of the Business at Acquisition

## Strategic

- Leader in paper products (e.g. construction paper, poster board, etc.)
- Focused on serving needs of School Distribution customers in North America
- Proven M&A platform

## Cultural

- “Win or Lose as a Team” mentality
- Operational focus with minimal Sales & Marketing efforts
- Very few Key Performance Indicators (“KPIs”)

Pacon	
(\$ in millions)	 @ Acquisition
Date	11-1-11
Revenue	~\$180
Capex	~\$2.5
# Acquisitions Closed	10
Market Share	#1



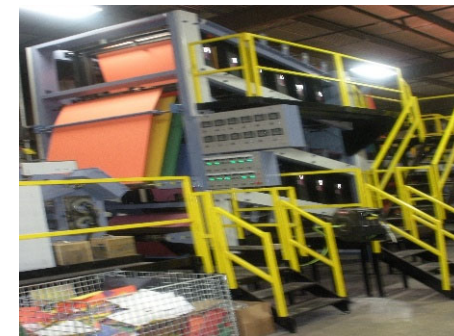
# Top Priorities & Changes in Year 1

## People

- Install a Board of Directors with significant paper and consumer products industry experience
- Add a new CFO and complete an assessment of other senior managers

## Profitable Growth

- Initiate long term strategic planning
- Expand the bolt-on acquisition pipeline
- Invest in E-commerce and Mass retail channel penetration
- Improve sales & marketing functions (e.g. CRM, social media, packaging)
- Invest in new product development and licensing (e.g. Crayola)



Sheeter

## Margin Improvement

- Invest in new automation equipment (e.g. sheeter) and streamline corporate overhead
- Evaluate footprint consolidation and lease re-negotiations
- Implement cost accounting discipline; rationalize low and negative margin SKUs

## Capital Management

- Improve inventory turns and working capital controls



# Outcome

## At Acquisition

## At Exit

### Strategic

- Leader in paper products (e.g. construction paper, poster board, etc.)
- Focused on serving needs of School Distribution customers in North America
- Proven M&A platform


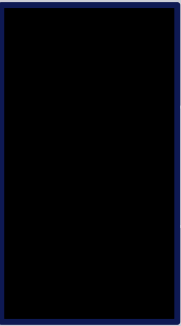
- ✓ Leader across multiple fine arts & crafts categories
- ✓ Focused on E-commerce, Mass Retail and School Distribution channels in North America and internationally
- ✓ Closed five add'l bolt-on acquisitions with many more in the pipeline

### Cultural

- “Win or Lose as a Team” mentality
- Operational focus with minimal Sales & Marketing efforts
- Very few Key Performance Indicators (“KPIs”)

- ✓ Professional management team incentivized by equity value creation
- ✓ Operational excellence with a strong Sales, Marketing & Product Development culture
- ✓ Data driven decision-making and KPI accountability

# Outcome (cont.)

Pacon Creative Products		
(\$ in millions)	 @ Acquisition	 @ Exit
<b>Date</b>	11-1-11	6-7-18
<b>Revenue</b>	~\$180	
<b>EBITDA</b>	~\$20	
<b>Capex</b>	~\$2.5	
<b># Acquisitions Closed</b>	10	15
<b>Market Share</b>	#1	#1

**Exited to Italian arts & crafts company FILA SpA, who valued Pacon's North American distribution and strong management team**

# Example – Transaction Structure at Closing

(\$ in 000s)

	<u>\$ Capital</u>	<u>% of Total</u>	<u>Annual Cost</u>	<u>Participants</u>
<b><u>Senior Debt</u></b>				
Revolver	\$2,000		L+425 (1)	Senior Lenders
Term Loan	40,000		L+425 (1)	Senior Lenders
Total Senior Debt	<u>\$42,000</u>	36.1%	<u>L+425 (1)</u>	
Mezzanine Debt	\$15,000	12.9%	11% (2)	Mezzanine Lender
Total Debt	\$57,000	49.0%		
<b><u>Equity</u></b>				
Preferred Stock	\$53,440		8.0%	
Common Stock	<u>5,938</u>			
Total Equity	<u>\$59,378</u>	51.0%	>20%	Mason Wells, Mezzanine Lender, Family Reinvestment, Management & Board of Directors
Total Capital	\$116,378	100.0%		

(1) Rate varies with senior debt / EBITDA ratio. At >4.5x, L+425; at 4.0-4.5x, L+400; at <4.0x, L+375.

(2) 10% cash / 1% PIK interest.



# Example – How is Equity Value Calculated?

- Simple Formula:

(\$ in 000s)

Adjusted EBITDA	\$14,250
x Multiple at Acquisition	8.0x
Enterprise Value	<hr/> \$114,000
Plus: Transaction Adjustments	\$2,447
Less: Debt at Close	(57,000)
Plus: Cash at Close	(70)
<b>Shareholder Value</b>	<hr/> <b>\$59,378</b> <hr/>

- Equity Value Creation = Increase in Stockholder Value

# Example – How is Value Creation Measured?

(\$ in 000s)	Historical		@ Close TTM 04/21	Post-Close - Management / Mason Wells Case					
	2019A	2020A		2021	2022	2023	2024	2025	2026
Net Sales	\$100,704	\$106,747	\$115,958	\$116,354	\$126,158	\$135,620	\$144,956	\$156,262	\$166,575
Growth %				0.3%	8.4%	7.5%	6.9%	7.8%	6.6%
Adj. EBITDA	\$10,595	\$10,761	\$14,250	\$14,978	\$16,479	\$16,033	\$18,311	\$21,357	\$22,987
Margin %	10.5%	10.1%	12.3%	12.9%	13.1%	11.8%	12.6%	13.7%	13.8%
EBITDA Multiple			8.0 x	8.0 x	8.0 x	8.0 x	8.0 x	8.0 x	8.0 x
Enterprise Value			114,000	\$119,818	\$131,830	\$128,258	\$146,481	\$170,852	\$183,894
Plus: Transaction Adj.			2,447						
Less: Net Debt (cash)			57,070	55,672	45,972	37,744	27,320	14,629	459
<b>Equity Value</b>			<b>\$59,378</b>	<b>\$64,146</b>	<b>\$85,858</b>	<b>\$90,514</b>	<b>\$119,161</b>	<b>\$156,223</b>	<b>\$183,436</b>
<b>Equity Growth %</b>				<b>8.0%</b>	<b>33.8%</b>	<b>5.4%</b>	<b>31.6%</b>	<b>31.1%</b>	<b>17.4%</b>
Capex	2,846	1,486	1,000	1,117	1,200	1,325	1,450	1,575	1,700
% of Net Sales	2.8%	1.4%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%

- Focus is on creating sustainable equity value by managing the levers of Profitable Growth, Margin Improvement and Capital Management

# Example – How is Value Creation Measured?

(\$ in 000s)

	Historical		@ Close TTM 04/21	Post-Close - Management / Mason Wells Case					
	2019A	2020A		2021	2022	2023	2024	2025	2026
Net Sales	\$100,704	\$106,747	\$115,958	\$113,225	\$117,754	\$120,287	\$125,700	\$130,979	\$134,909
Growth %				(2.4%)	4.0%	2.2%	4.5%	4.2%	3.0%
Adj. EBITDA	\$10,595	\$10,761	\$14,250	\$14,575	\$15,838	\$16,830	\$18,991	\$21,352	\$23,133
Margin %	10.5%	10.1%	12.3%	12.9%	13.5%	14.0%	15.1%	16.3%	17.1%
EBITDA Multiple			8.0 x	8.0 x	8.0 x	8.0 x	8.0 x	8.0 x	8.0 x
Enterprise Value			114,000	\$116,596	\$126,700	\$134,639	\$151,921	\$170,809	\$185,061
Plus: Transaction Adj.			2,447						
Less: Net Debt (cash)			57,070	55,300	45,234	34,981	23,542	10,051	(5,172)
<b>Equity Value</b>			<b>\$59,378</b>	<b>\$61,296</b>	<b>\$81,466</b>	<b>\$99,658</b>	<b>\$128,379</b>	<b>\$160,758</b>	<b>\$190,233</b>
<b>Equity Growth %</b>				<b>3.2%</b>	<b>32.9%</b>	<b>22.3%</b>	<b>28.8%</b>	<b>25.2%</b>	<b>18.3%</b>
Capex	2,846	1,486	1,000	1,117	1,200	1,325	1,450	1,575	1,700
% of Net Sales	2.8%	1.4%	0.9%	1.0%	1.0%	1.1%	1.2%	1.2%	1.3%

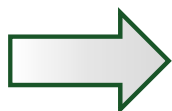
- Focus is on creating sustainable equity value by managing the levers of Profitable Growth, Margin Improvement and Capital Management

# Summary Goal of First Year Initiatives

## Mason Wells Philosophy is to Invest In the Following:

1

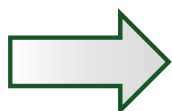
### People



- Retain highly qualified individuals
- Hire “A” players for any open senior positions

2

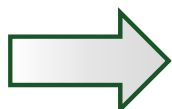
### Growth



- Invest in sales team and sales tools
- Marketing to develop additional customer leads

3

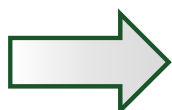
### Capabilities



- Invest in best-in-class equipment or systems that bolster productivity and margins
- Improve purchasing

4

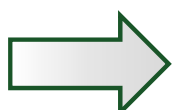
### Geographies



- Become #1 or #2 player in market
- Acquisition in new geography that addresses strategic / customer goals

5

### Processes



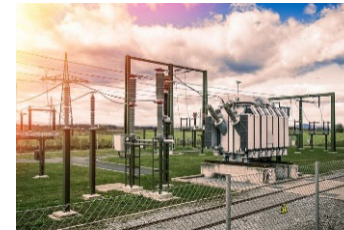
- Continuous improvement to streamline operations and improve margins
- Invest in IT and automation that adds efficiencies

**Set Stage to build unique “Strategic Asset” / Leader in Industry**



# Qualus Power Services Overview

- **Acquisition Date:** April 2015
- **Exit Date:** March 2021
- **Headquarters:** Cincinnati, OH
- **Type of Transaction:** Founder-Owned
- **Description:** Qualus Power Services is a leading independent provider of outsourced power system engineering, testing, and maintenance services focused primarily on medium and high voltage transmission and distribution systems and related components such as substations and transformers
- **End Markets Served:** Utility, Industrial, and Commercial



## Customers



# State of the Business at Acquisition


## Strategic

- Regional footprint mostly in the Midwest
- Niche player with limited service set
- Focused on serving needs of Industrial and Commercial customers
- Unproven M&A platform

## Cultural

- Run by “Tribal Knowledge” of customers and operations
- Unclear roles, responsibilities, and accountability
- Objectives overload

## Qualus Power Services

(\$ in millions)	 @ Acquisition
Date	4-30-15
Revenue	~\$45
5-Year Revenue CAGR	~15%
EBITDA Margin %	~10%
FCF % of EBITDA	~30%
# Acquisitions Closed	2
Market Share	#4 or #5 Depending on Service Line

# Top Priorities & Changes in Year 1

## **People**

- Installed a Board of Directors with significant utility and power services industry experience
- Began recruiting efforts to facilitate Founder's desire to transition out of CEO role

## **Profitable Growth**

- Leveraged utility industry relationships to make customer introductions
- Implemented sales processes to cross-sell all services at existing customer base
- Improved recruiting and marketing efforts to win “war for talent”
- Completed one acquisition to expand geographic presence

## **Margin Improvement**

- Strategically positioned Company to focus on most technical service capabilities to capture higher margins and increase billable resource utilization
- Created centralized project management group to minimize execution errors
- Invested in mobile field labor scheduling and time entry systems to streamline operations

## **Capital Management**

- Established contracting best practices to garner better customer payment terms
- Improved customer billing workflow to increase frequency of invoicing

# Outcome

## At Acquisition

## At Exit

### Strategic

- Small regional footprint in the Midwest
- Niche player with limited service set
- Focused on serving needs of Industrial and Commercial customers
- Unproven M&A platform



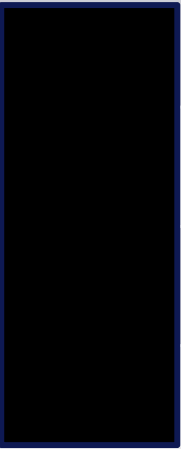
- ✓ Industry leader with national footprint
- ✓ “Cradle to grave” service offering
- ✓ Focused on medium/high voltage needs of Utility, Industrial, & Comm. customers
- ✓ Proven M&A platform with management experienced in execution and integration

### Cultural

- Run by “Tribal Knowledge” of customers and operations
- Unclear roles, responsibilities, and accountability
- Objectives overload

- ✓ Systems and processes that can be replicated and scaled
- ✓ Decision-making speed driven by “push-down” of authority with clear roles and responsibilities
- ✓ Handful of focused objectives that are measurable and tracked

# Outcome (cont.)

Qualus Power Services		
(\$ in millions)	 @ Acquisition	 @ Exit
<b>Date</b>	4-30-15	3-26-21
<b>Revenue</b>	~\$45	
<b>5-Year Revenue CAGR</b>	~15%	
<b>EBITDA</b>	~\$5	
<b>FCF % of EBITDA</b>	~30%	
<b># Acquisitions Closed</b>	2	8
<b>Market Share</b>	#4 or #5 <i>Depending on Service Line</i>	#1 or #2 <i>Depending on Service Line</i>

**Exited to Larger Private Equity Firm That Backed Management to Use Qualus as a Platform For Continued Organic and Inorganic Growth**



# Contacts

**Jay Radtke**  
**Senior Managing Director**  
**(414) 727-6405**  
**[jradtke@masonwells.com](mailto:jradtke@masonwells.com)**

**Damon Thome**  
**Director**  
**(414) 727-6406**  
**[dthome@masonwells.com](mailto:dthome@masonwells.com)**

411 East Wisconsin Avenue Suite 1280 Milwaukee, WI 53202  
Tel 414/727-6400 Fax 414/727-6410  
[www.masonwells.com](http://www.masonwells.com)

MASON  WELLS

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