

COVINGTON | ASSOCIATES



BregalSagemount

Valuing Your Company

April 11, 2016

Speakers

Covington Associates

- **Tim McMahon**, Managing Director
- **Grant Grava**, Director

Bregal Sagemount

- **Michael Kosty**, Vice President

Covington Overview

1991 Covington Associates was founded

250+ years of collective transaction advisory experience amongst Covington team members

170+ transactions closed in the past 10 years

\$10B+ in transaction value since 2007

Approach and Capabilities

Senior Team

- ✓ Direct senior involvement through all phases of the deal process

Impressive Track Record

- ✓ Successful track record of positioning and executing transactions with similar companies

Extensive Relevant Experience

- ✓ Direct relevant transaction experience from all team members

Customized Approach

- ✓ Customized pitch to each buyer to demonstrate unique fit of acquisition opportunity

Targeted Market Approach

- ✓ Deliberate and targeted marketing approach to diversified buyers

Industry Knowledge

- ✓ Demonstrated depth and breadth of industry knowledge, creating a thoughtful and dynamic process

Buyer Insight

- ✓ Strong insight into what matters most to each buyer

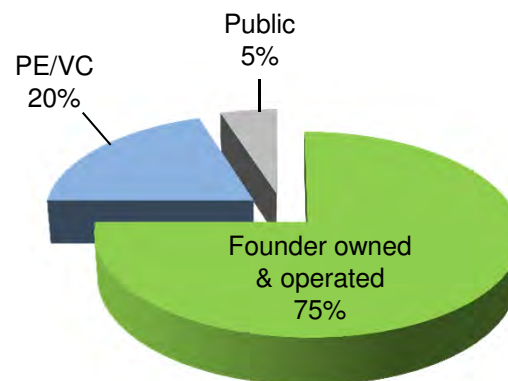
Buyer Contacts

- ✓ Extensive industry contacts with both Strategic and Private Equity partners

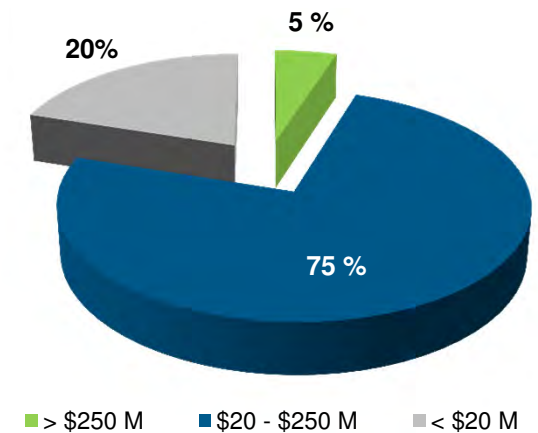
Advisory Services

- Mergers & Acquisitions (Primary Focus)
- Debt and Equity Capital Raising
- Merchant Banking
- Strategic Advisory Assignments
- Debt and Equity Restructuring
- Strategic Partnerships & Joint Ventures
- Valuations & Fairness Opinions

Client Ownership Profile



Transaction Ranges



Bregal Sagemount Overview

Our mission is to provide flexible capital and strategic assistance to market-leading companies in high-growth sectors across a wide variety of transaction situations. We are investing out of Bregal Sagemount II, LP, a fund with \$800 million of committed capital.

- **A Pure Focus on Growth:** We support market-leading companies in growth industries
- **Flexible, Solution-Oriented Capital:** We provide capital structured to fit the needs of growth companies
- **Domain Expertise:** We are domain experts in the industries in which we seek to invest
- **A Collaborative, Partner Mentality:** We partner with exceptional management teams to build value

Investment Situations	Industry Focus	Investment Parameters
<p>We have the ability to acquire and/or invest highly flexible capital into growth companies for a variety of situations and uses, including:</p> <ul style="list-style-type: none"> ■ Growth capital ■ Capital for acquisitions ■ Buyouts, including management buyouts, take-privates, divisional carve-outs, and divestitures ■ Shareholder liquidity / recapitalizations 	<p>We focus on industries with strong secular tailwinds and companies with recurring revenue streams:</p> <ul style="list-style-type: none"> ■ <u>Software:</u> SaaS, enterprise, Internet ■ <u>Business and Consumer Services:</u> B2B, B2C, eCommerce ■ <u>Digital infrastructure:</u> Towers, data centers, hosting and cloud services ■ <u>FinTech / specialty finance:</u> Payments, specialty finance, asset management ■ <u>Healthcare IT / Services:</u> Healthcare services, IT, outpatient / outsourcing 	<p>Our investments typically have the following characteristics, although we consider exceptional opportunities outside this profile:</p> <ul style="list-style-type: none"> ■ <u>Investment size:</u> \$8-150mm ■ <u>Structures:</u> Common or preferred equity; senior or subordinated debt ■ <u>Role:</u> Control or non-control; typically lead investor ■ <u>Metrics:</u> Recurring or re-occurring revenue model (\$15mm+), growth (10%+), and profitability (corporate or unit-level)

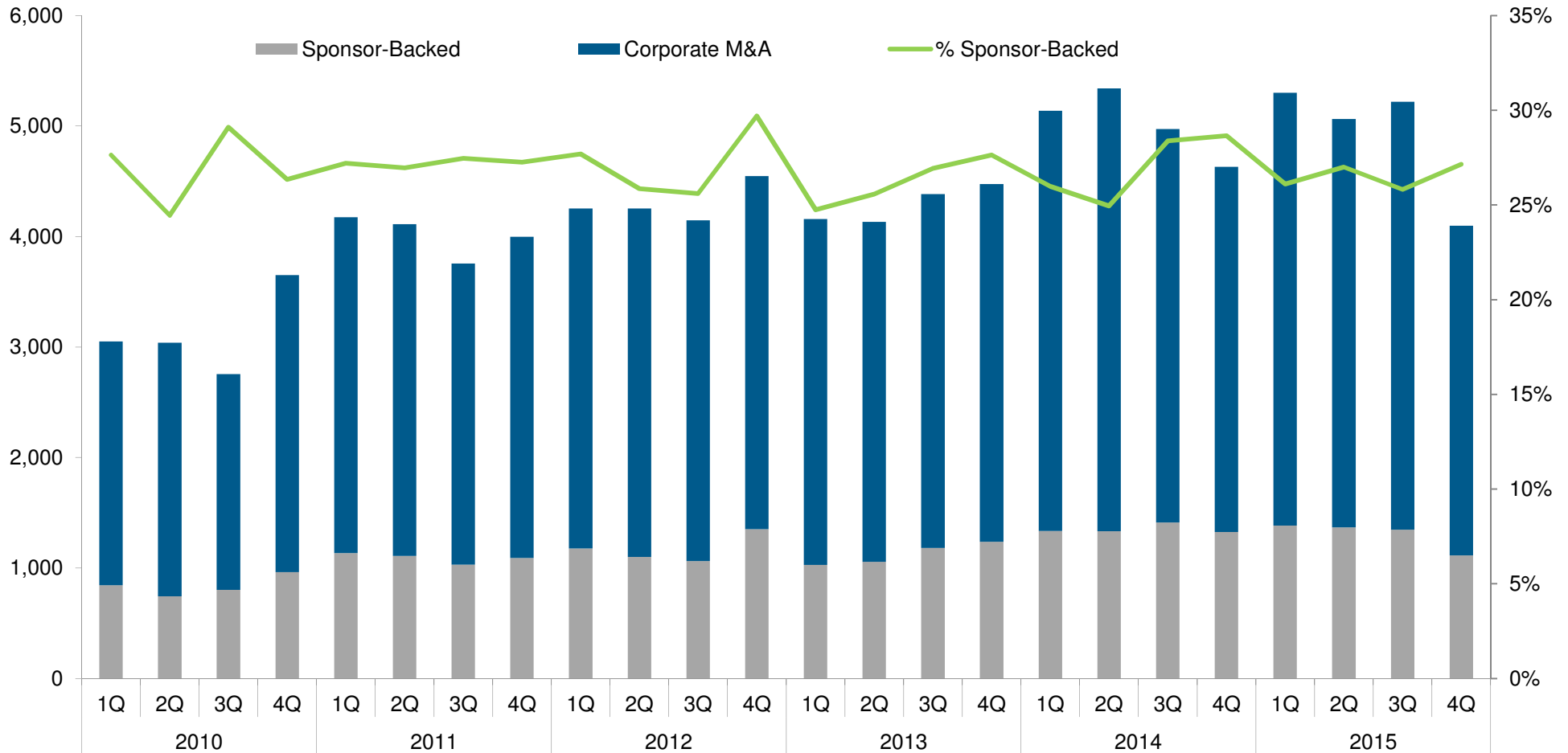
Executive Summary

- M&A Market Overview
- Trends in the Data Center TPM Markets
- What Drives Value?
- Strategic Buyers vs. Financial Sponsors
- Q&A

Current Landscape: Mergers & Acquisitions

2015 was another strong year for the domestic M&A market, as tailwinds from previous years heightened activity helped to produce over 18,000 announced deals.

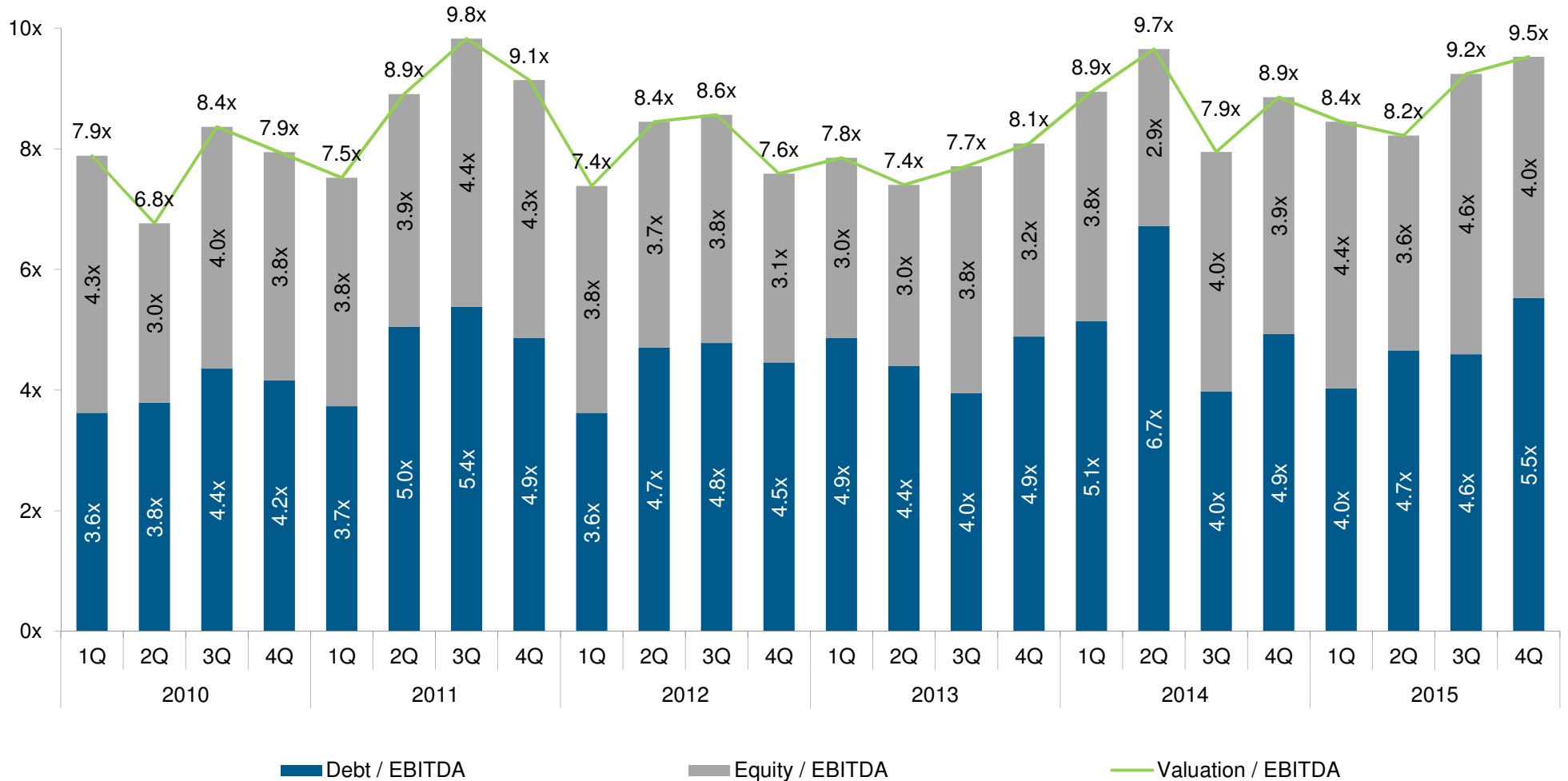
Buyer Breakdown: Strategics vs. Financial Sponsors, 1Q2010A – 4Q2015A



Strong Valuation Environment

Public markets and private valuations have grown at an impressive rate over the last half decade.

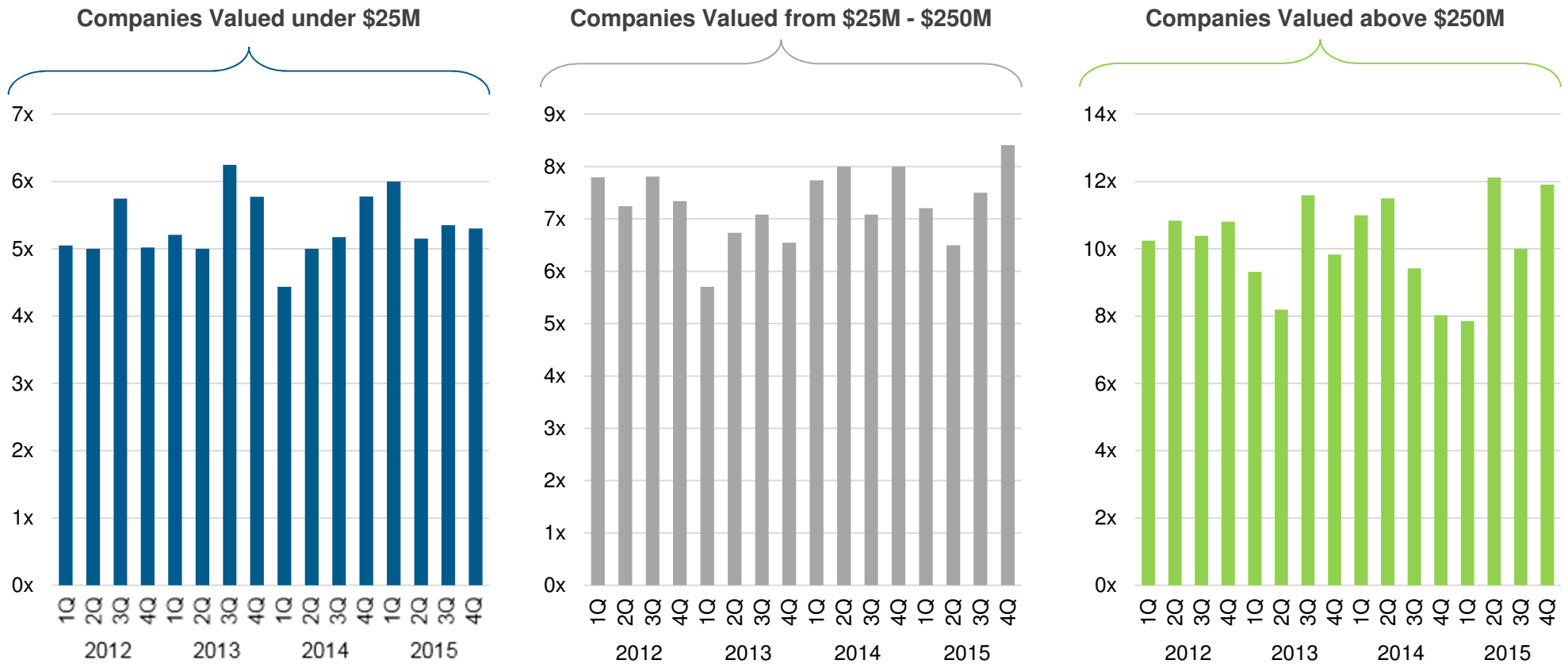
Transaction Multiples, 1Q2010A – 4Q2015A



Multiples

Larger businesses continue to attract a premium relative to lower middle market businesses.

Median EV/EBITDA Multiples, 1Q2012A – 4Q2015A



Industry Trends in the Data Center TPM Market

- M&A activity in the data center TPM market in recent years has been very active.
- A number of transactions have resulted in more PE-led platform companies which will be looking to grow aggressively through M&A.
 - 2015: Park Place Technologies / GTCR
 - 2015: SEI / Pamlico
 - 2013: SMS / Summit (minority investment)
 - 2012: Park Place Technologies / Westview Capital
 - 2012: Curvature / Quad-C
- TPM providers themselves have been consolidating smaller players and with new private equity ownership, this trend will likely continue
- In recent years, with the exception of one deal that we led (Tech Data's acquisition of Signature Technology Group), all of the TPM M&A activity has been comprised of PE or in-market buyers.
- As large-cap technology services providers seek to diversify into higher margin, value-added services, we suspect the TPM industry might start to see more interest from strategics.

What Actually Drives Value?

- Buyers are ultimately seeking a path to increased profits, but a number of other considerations can drive valuations higher:
 - Business model attributes
 - Predictable growth
 - High margins
 - Strong cash flow
 - Market share
 - Customer base
 - Channels to market
 - Geographical reach
 - Intellectual property / know-how/ “secret sauce”
 - Support for multi-vendor environments
 - Key individuals
 - Scarcity value

Private Equity Focus

- Private equity firms are looking for target companies with sustainable business models and a growth opportunity.
 - Motivated and competent management team
 - Sustainable business model with a stable customer base
 - History of consistent growth
 - Recurring revenue model
 - Robust and stable cash flow
 - Leverageable balance sheet
 - Low capital expenditures
 - Opportunity to consolidate fragmented sectors

Strategic Buyer Focus

- Strategic acquirers look to M&A as a path for continued growth and/or an expansion of capabilities or reach.
 - Consolidation opportunity
 - Complementary skills and capabilities
 - Access to new channels or customer base
 - Access to new geographies or target markets
 - Potential for cost savings/synergies

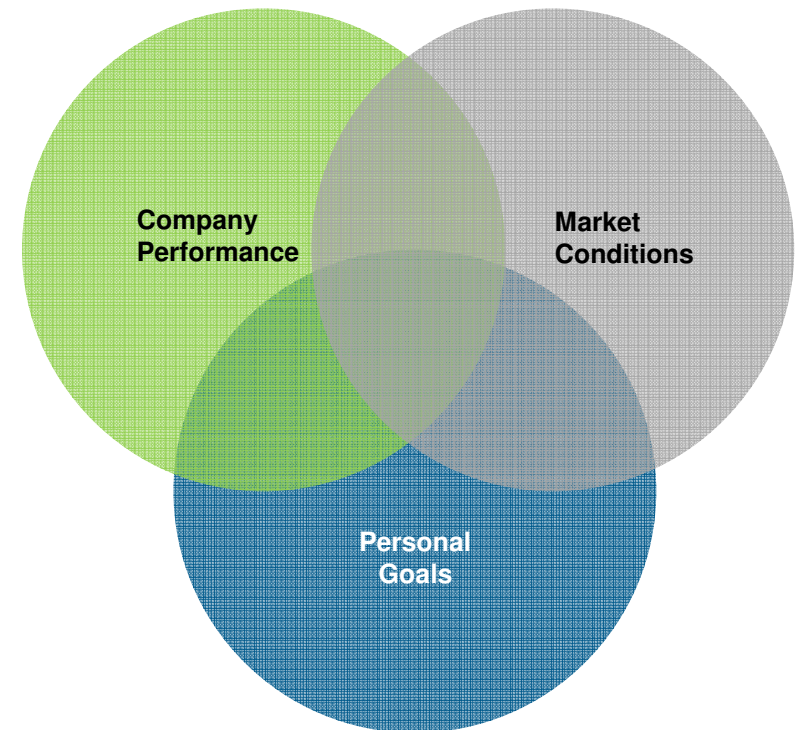
What Differentiates Sponsors and Strategics?

A seller has to weigh the pros and cons of a sale to PE sponsors or to a strategic.

	Pros	Cons
Sponsors	<ul style="list-style-type: none">• Flexible transaction structure to meet owner / management objectives• Typically some money upfront and larger second bite at exit 3-5 years later• Often structured to allow non-owner employees to earn ownership over time• Typically don't get involved operationally – instead take advisory board seats	<ul style="list-style-type: none">• Lower upfront cash proceeds due to cash reinvestment requirements• Often require management to stay / retain meaningful ensure to align interests• Use of leverage can burden a growing business• Detailed due diligence / prolonged time to close (60-90 days) can distract management
Strategics	<ul style="list-style-type: none">• Potential higher valuations due to synergies• Typically buy 100% of the target, with shorter due diligence processes• Less concern with issues common in entrepreneurial businesses (cyclicality, customer concentration, etc.)• Selling management can typically exit the business after a transition period	<ul style="list-style-type: none">• In a 100% sale, sellers will be unable to monetize future growth opportunities• Little opportunity for remaining management to have ownership in resulting entity• Reduced job security for employees• Potentially adverse culture change post-integration / loss of owner legacy

Timing of a Sale

- Timing of a sale can be driven by a number of factors:
 - Financial performance of your business/outlook for growth
 - Condition of the overall market / level of transactional activity in your industry
 - Personal motivation (retirement, financial needs, net worth diversification)
- Getting all of those factors to line up simultaneously is impossible, but if these three factors start to converge, it is a good time to consider a transaction.



Components to a Successful Transaction

A thoughtful approach to each aspect of the process leads to exceptional results

Market Dynamics

- ✓ Strength of M&A environment
- ✓ Recent trading multiples
- ✓ Low cost of capital
- ✓ Strong momentum in the technology services space

Choosing the Right Advisor

- ✓ Knowledge of the client
- ✓ Assemble the right team
- ✓ Position the Company
- ✓ Understand the value drivers

Preparation

- ✓ Develop defensible financial projections
- ✓ Establish data room and prepare differentiated marketing materials
- ✓ Anticipate key diligence issues

Maximize Value



Market Dynamics

Choosing the Right Advisor

Preparation

Competitive Environment

Seller Considerations

Quality Information

Competitive Environment

- ✓ Carefully select bidders, based on thorough pre-marketing
- ✓ Create price tension
- ✓ Minimize exclusivity period
- ✓ Keep other bidders “warm”

Seller Considerations

- ✓ Minimize disruption to business
- ✓ Respect commercial sensitivity
- ✓ Ensure clean exit

Quality Information

- ✓ Comprehensive marketing materials
- ✓ Electronic data room
- ✓ Controlled access to management
- ✓ Consistent business case

Q&A