

Owner Resource Group is pleased to provide the following perspective on private equity for small and medium-sized businesses

WHAT IS PRIVATE EQUITY ALL ABOUT?

HOW DOES IT WORK? WHAT WOULD IT MEAN FOR MY BUSINESS?

Private equity has traditionally been an opaque and often misunderstood component of the financial services industry. We established Owner Resource Group to be a different kind of investment firm because we found a number of business owners were either dissatisfied with, misinformed about, or downright fearful of private equity. And we didn't blame them!

Our mission therefore has been to draw back the curtain and dispel some of the more negative notions about what it is like to work with

a private equity firm. We don't pretend to be the only firm out there doing things right (thank goodness), but we do strongly believe that transparency is the right approach. Therefore, in the coming paragraphs, we'll lay out the various reasons for seeking a private equity partner, what to look for in a private equity partner, and what exactly to expect from the process of working with a reliable private equity partner.

REASONS TO SEEK A PRIVATE EQUITY PARTNER

Working with a private equity partner is often:

- » An ideal way to overcome the challenges of succession.
- » The most viable method of expanding a business or acquiring a competitor.
- » A sound way for an owner to realize some liquidity while maintaining some ownership — a double win for owners who believe in their company's future but do not want to face all of the risk alone.
- » The most direct path for a company to achieve fundamental business improvements that often are more difficult to achieve under the valid constraints of current ownership.

- » The most economically viable way to ensure your company isn't left behind during this economic phase in which many industries are experiencing a rapid consolidation trend.

Note: Different private equity groups have different areas of expertise — some specialize in supporting early stage companies. Others, like ORG, are experienced in investing in solid, profitable companies with prospects for long-term growth. Some, again like ORG, specialize in certain industries. You should find a group that you like and has the experience to be successful in meeting your needs.

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WHAT TO LOOK FOR IN A PRIVATE EQUITY PARTNER

The most successful transactions occur when there is a mutual trust between the two parties. Seek a firm that values your goals and opinions and has the following characteristics:

- » A strong network of sales and industry contacts, supportive resources, management and board level talent, and relationships with financial institutions.
- » Alignment of management interests with that of the owners. This alignment, through communication, investment, and incentives, fosters innovation and long-term growth.
- » A long-term view and the singular goal to improve the underlying value of the company.

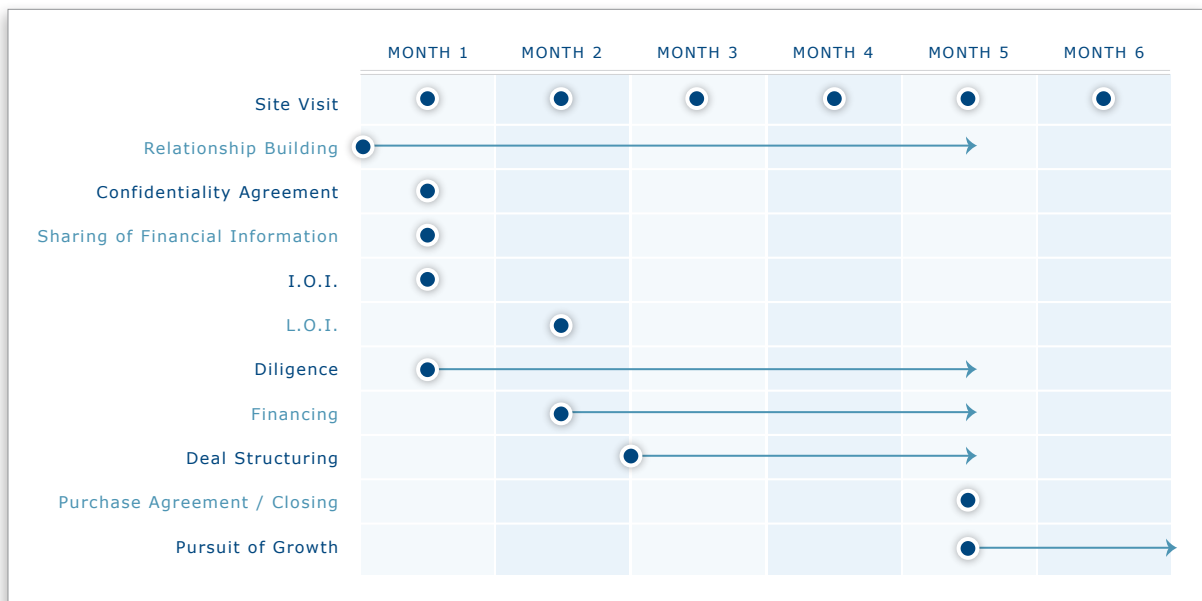
- » Willingness to unlock a company's full potential by spending on sales and marketing, product development, management talent, capital expenditures, and acquisitions.

Note: Private equity investors succeed only when the companies they own succeed. A recent Ernst & Young report found that two-thirds of the earnings growth at companies with a private equity partner came from business expansion. A good private equity partner will add to the company's strength by supporting strategic improvements to the business.

WHAT TO EXPECT FROM THE PRIVATE EQUITY TRANSACTION PROCESS

The transaction process can be time consuming, so it's important to continue to run the business at full speed despite the distractions.

The following is a high-level timeline that describes the components of a private equity transaction.



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Relationship Building — The foundation of a successful transaction is trust, so this is perhaps the most important stage of the process. In order to build a strong relationship and collect information as effectively and efficiently as possible, you can expect a private equity partner to make multiple visits to your facilities.

Confidentiality Agreement — A confidentiality agreement protects you and your business when sharing proprietary and sensitive information.

Sharing of Financial Information — Your company's historical financial information is the most important tool available in determining how a transaction might look.

Indication of Interest (IOI) — A broad outline of a proposed transaction with initial valuation expectations based on fairly limited information. The IOI is one of the first pieces of information you will use to help you determine whether you want to work with a private equity partner. Depending on the availability of information about your company, the private equity firm may skip the IOI in favor of going directly to submitting an LOI.

Letter of Intent (LOI) — Specific terms that will instruct the diligence and structuring phases. The LOI provides the private equity firm a period of exclusivity, which is important because the firm will be spending a significant amount of time and resources during the diligence and financing phases.

Due Diligence — Your private equity partner will request and review multiple pieces of information including, just to name a few: financial statements, budgets/forecasts, customer information, vendor information, inventory, PP&E, organizational structure, etc.

Financing — Virtually every company has a capital structure made up of equity (stock) and debt (bank loans most often). When a private equity firm invests in or acquires a company, they typically arrange for an appropriate mix of financing that is made up of equity they invest from their funds and loans, usually from banks with whom they have existing and strong relationships.

Deal Structuring — This phase starts to outline the transaction details in hopes of structuring a transaction that meets the needs of both parties. During this time, lawyers and advisers for both sides are negotiating the items left open in the LOI.

Purchase Agreement — The structure and final terms of the transaction are contained in the purchase agreement, which is the official document of the transaction. The closing represents the culmination of a lot of hard work by all the parties involved, as well as the start of a new era for the company and usually includes a dinner with everyone involved to celebrate past achievements and future successes.

Pursuit of Growth — Now the fun part — the ongoing task of providing the capital and resources to grow the business. Since the transaction was structured to align the interests and incentives of both the management and owners, everybody takes part in the company's future successes.

Note: Different private equity groups have different mandates in terms of how long they are able and willing to be invested in a particular company. Though some groups have made a reputation for "flipping" companies, many private equity groups make long-term investments in their companies and only seek to harvest the investment when the benefit can be maximized for their investors, the company, and its management team.

Visit orgroup.com to learn how we can help you achieve your unique goals.