

CREATING VALUE

AN IMAP MAGAZINE DEDICATED TO CREATING VALUE IN THE M&A MID-MARKET GLOBALLY

No. 11 JULY 2021

Positioning for the **Next Wave in M&A**

SOLVING SUCCESSION PROBLEMS

Entrepreneurship Through Acquisition

SUPPLY CHAIN DYNAMICS

Practical Advice for Omni-Channel Retail

M&A VALUATIONS

Achieving Higher Company Valuations

IMAP

International M&A Partners

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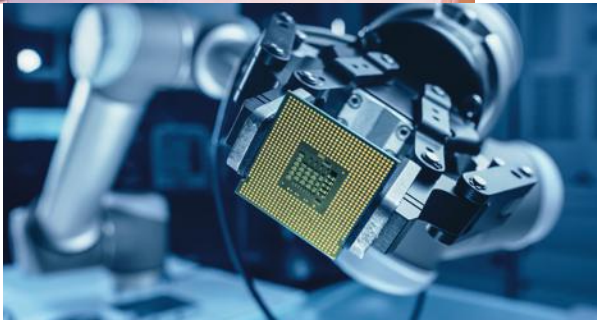
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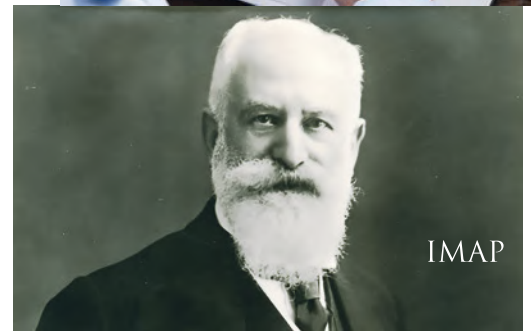
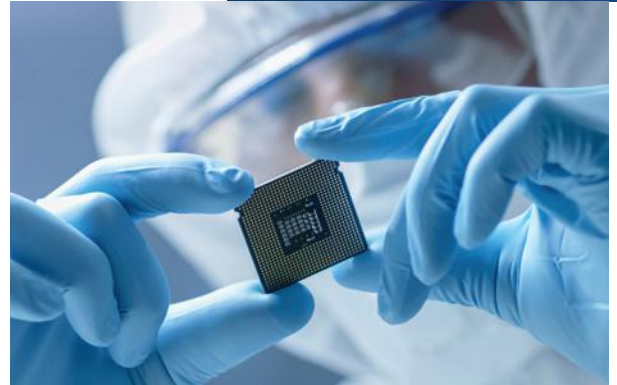
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Senior Writer: Claire Smedley



IMAP

Positioning for the Next Wave in M&A

Welcome to the 11th edition of Creating Value, as always, full of up-to-date case studies, commentary, and trending topics relevant to M&A markets, all contributed by our IMAP partners around the globe. This issue's theme is "The Next Wave in M&A". And what a wave it is! In fact, I think that we were lucky to get so many contributions from our partners, considering the level of M&A activity that we are seeing in almost all markets. We are well into the second year of the coronavirus pandemic and contrary to all expectations our partners around the world are busier than ever. In fact, some say this is the best market they have seen in 10 years!

Some say this is the best market they have seen in 10 years.

Wave-Generating Tailwinds

So, what is driving this wave, and how long can we expect it to continue? Some of it is due to the expected snap back from the depths of a year ago, pent up supply and demand, in other words, clearing the backlog, but this is only part of the story. The volume of money, M2, in the United States has risen by almost a third since January 2020, from \$15.4 trillion to \$20.4 trillion in May 2021¹ – meaning a 32% rise in just under 18 months! This money is driving stock markets to new highs day after day, but is also pouring into M&A deals, IPOs, stock buybacks, real estate, and other hard assets, as well as commodities. WTI Oil is at \$74 as I write this, nearly double what it was last November. And, naturally, commodity price increases are working their way through the economy in the form of inflation – Bloomberg consensus estimates expect year-on-year inflation for the second quarter to come in at 4.3%, double the Federal Reserve's target, and it is expected to be "sticky" in the high 3% levels through the beginning of next year.

Again, some of this is being caused by supply chain back-ups because of the pandemic, but years of under investment have caught up with many firms, which, again, is an M&A driver. The big debate now is whether this inflation is transitory or will remain at a permanently high level. We will see.

51 Billion

If you have been trying to buy a new or used car, you know that used car prices are through the roof, while waiting times for new cars are stretched due to chip shortages. I don't want to delve too much into this issue, which is down to supply imbalances, the huge demand for new gaming chips, the surprisingly quick recovery of the Auto industry, etc. But it should be noted that about 65% of the world's chip-making capacity is based in Taiwan, which is suffering one of the worst droughts in recent history, and chip making uses a lot of water. Now, besides the nightmare of potential US-China posturing over Taiwan threatening our supply of chips, it seems that the effects of global warming could be just as serious a threat.

Admittedly, this is a sneaky way to segue into a consideration of ESG investing, but recently we have seen major investors getting serious about Environment, Social and Governance (ESG), and this is a trend that is likely to become more and more important, and to come much faster than we anticipate. As we know, most of the time change comes slowly, and then, suddenly. Throughout his new book on climate change, 'How to Avoid a Climate Disaster'², Bill Gates refers to the figure of 51 billion - the number of tons of greenhouse gases the world adds to the atmosphere each year and proposes ways that we can (and must) bring that number down to zero. At IMAP we intend to be in the vanguard of understanding and developing ESG deal capabilities and opportunities and will be taking up that challenge in upcoming panels, conferences, and publications.

Paddling for the Peak

So, going back to my original question - how long can we expect this M&A wave to continue? The answer is – I have no idea! The financial press is full of talking heads trying to answer that and related questions, but there are a couple of things I have learned about economic predictions: 1. you shouldn't make too many of them, and 2. you shouldn't take too much notice when other people make them. I remember seeing a couple of books at an airport around 10 years ago, one calling for spectacular stock market gains (those predictions are coming true), the other predicting the bankruptcy of America, which hasn't come true yet, although we are seeing more and more dire assessments.³

¹ Federal Reserve Bank of St. Louis, Research Division, <https://fred.stlouisfed.org/series/M2SL>

² Bill Gates, "How to Avoid a Climate Disaster", Penguin Random House, 2021

³ See, for example, James Rickards, "The New Great Depression: Winners and Losers in a Post-Pandemic World", Portfolio, 2021

The point is that there are books and analyses that cater to whichever way you happen to be feeling, each with charts and graphs that support what you know must be true. A great analysis of how narratives drive decision making is the most recent work by Nobel prize winning economist, Robert Shiller, "Narrative Economics"⁴, which describes many of the narratives that drive economic booms and busts. That is not to say that narratives are true or false, but to emphasize the importance of recognizing them and understanding when to get off the wave. The otherwise great American economist, Irving Fisher, will be forever known for his prediction just nine days before the 1929 stock market crash, that stock prices had "reached what looks like a permanently high plateau."

The importance of recognizing the "narrative" that drives economic booms and busts.

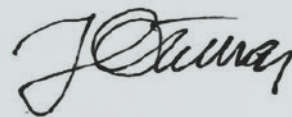
History Never Repeats Itself, but It Often Rhymes

So, what to do? Should we ignore macro economic trends and hope for the best? Not at all. The world around us is constantly changing, and our views should change along with our inputs - what's important is not to have a prediction, but to have a system. Our system in IMAP is to constantly monitor the activities of our 250 senior dealmakers in 43 countries – transactions, mandates, pipeline – to discover trends, share information, anticipate sector booms and slowdowns, without getting tricked into making or following gut feel predictions or following and being stuck in a narrative.

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If you want to understand the nature of markets, the importance of having a systemic view and realizing that most of what we "know" about financial markets is wrong, there can be no better introduction than that by the French-Polish mathematician Benoit Mandelbrot, who died in 2010. In his classic "The Misbehavior of Markets"⁵ Mandelbrot describes how with time each market becomes a fractal of itself. In simplistic terms, in a quote attributed to Mark Twain, "History never repeats itself, but it often rhymes". So, at IMAP we are constantly looking for connections and reading the signals, taking each day as it comes and hoping to be prepared for whatever the markets and our clients throw at us next, hoping, as Warren Buffet warned, to not be caught naked when the tide goes out.

Have a great summer!



JURGIS V. ONIUNAS
IMAP Chairman
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⁴ Robert J. Shiller, "Narrative Economics: How Stories Go Viral and Drive Major Economic Events", Princeton University Press, 2019

⁵ Benoit B. Mandelbrot and Richard L. Hudson, "The Misbehavior of Markets: A Fractal View of Risk, Ruin and Reward", Basic Books, 2004

IMAP's H1 2021 Results

IMAP closed 112 deals worth more than \$14.7bn in H1 2021

IMAP closed 112 deals worth more than \$14.7 billion during the first half of 2021. The strong rebound in market activity that began in Q4 of 2020 carried over well into Q1 of this year and although the rate of deal making returned to more normal pre-COVID levels in Q2, IMAP partners around the world have full pipelines and many are expecting to have a record year. IMAP partners in North America and several European countries in particular are experiencing the strongest market environment and most new deal flow in over a decade. In the first half deals were closed across 14 different sectors, with Technology, Business Services, Healthcare, Industrials, and Consumer Retail the most represented. Twenty-nine percent of IMAP deals were cross-border.

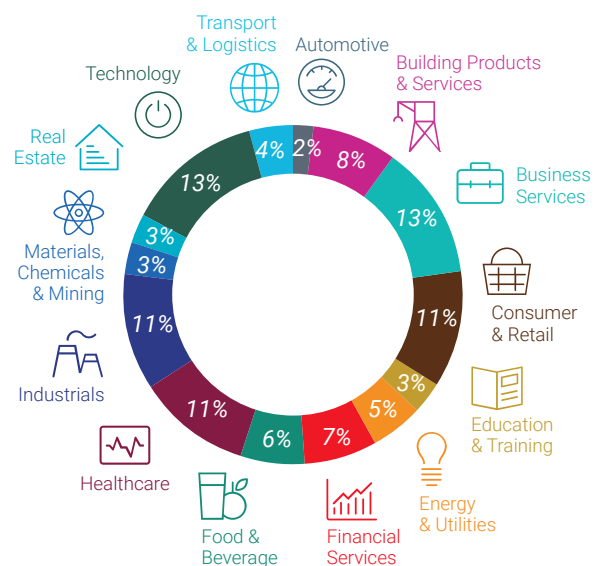
Global Performance

Rank	Advisor
1	PwC
2	KPMG
3	Deloitte
4	Rothschild & Co
5	Houlihan Lokey
6	Ernst & Young
7	IMAP
8	Lincoln International
9	Oaklins
10	JP Morgan

Ranking based on number of transactions closed in H1 2021. Undisclosed values and values up to \$500 million.
Source: Refinitiv and IMAP internal data.



Deal Distribution by Sector H1



JURGIS V. ONIUNAS
IMAP Chairman

“The rebound in deal making activity observed throughout the first half of the year as transactions were reactivated and well-positioned buyers and sellers re-engaged is impressive. Moreover, a unique combination of lingering pent up demand, low interest rates, cash rich corporates, ambitious PEs with staggering amounts of investment capital, the SPAC boom, along with the ongoing disruption of technology trends across many sectors will continue to drive activity in the second half.

Local Market M&A Insights

IMAP partners share their views on the M&A market and expectations for the second half of 2021.

GERMANY



We are very optimistic for the remainder of 2021 and expect a strong M&A market overall. We see a strong increase in almost all sectors, especially in technology and healthcare. In the industrial sector, clients are currently facing the challenge of rising material and freight costs, especially in the early-cycle automotive sector.

Coupled with an upward trend in the economy, we expect a further increase in financing requirements in the second half of 2021. This will probably also affect the late-cycle mechanical and plant engineering sector.

We expect a further increase in financing requirements in the second half of 2021

We also expect increased carve-out activities by large corporates, as it may be easier to convince stakeholders of these measures due to the Corona situation. However, a distressed wave is still not in sight in Germany, but is also dependent on how flexibly the affected companies can deal with expiring state aid in the coming months.



Henning Graw
IMAP Germany

ITALY



Despite the ongoing Covid situation, H1 was very active for the Italian M&A market with several landmark transactions completed or in process. Large deals in energy and infrastructure have led the Italian M&A market in terms of values in the last twelve months.

We still expect private equities to be very active, given the high level of liquidity

The second half of 2021 is expected to be very positive but the final outcome will also depend on a number of macro-issues which investors do not control (such as the vaccination campaign, the effective use of the Next Generation EU funds and whether the Italian government manages to make needed reforms).

We still expect private equities to be very active, given the high level of liquidity, with key sectors being ESG related and infrastructure assets (also driven by the Next Generation funding resources).



Giovanni Mautone
Vitale & Co. - IMAP Italy

THE NETHERLANDS



The M&A market in The Netherlands showed strong resilience in Q2 with strong deal appetite from both strategic buyers and financial sponsors.

Strong deal appetite from both strategic buyers and financial sponsors

With expectations of a strong economic recovery in the EU, and The Netherlands in particular, and a further roll-out of COVID-19 vaccines, we expect that the M&A market will remain strong in the remainder of this year, and not only for typical corona-resilient businesses like tech, food or healthcare.

We have recently seen transactions with very high multiples also in other industries, transport and logistics, or related to for example the energy transition.



Guillaume Petit
IMAP Netherlands

IRELAND & UK



In Ireland, a high volume of deals were completed in H1 and indications are that this will continue into H2. As the market recovers there are multiple forces at play, with cash rich buyers seeking to bolster existing businesses, while some sectors present great value in the current climate. We have been active on a number of pitches lately with owner managed businesses assessing their options and we expect to see this trend continuing.

As the market recovers there are multiple forces at play, with cash rich buyers seeking to bolster existing businesses

M&A activity rebounded strongly in the UK in H1 and we expect the level of deal making to remain strong through H2. The rebound in valuation metrics in the UK (particularly in key sectors such as TMT and Healthcare) will encourage sellers to explore their options, capitalizing on strong demand from strategic buyers and/or investors for interesting opportunities.



Jonathan Dalton
Key Capital - IMAP Ireland

POLAND

The Polish economy fared relatively well and was one of the least effected by the Covid-19 related downturn in 2020 and 2021. IMAP Poland maintains a favorable outlook for both M&A and ECM activity in the second half of 2021.

Deal activity may include the largest M&A transaction ever completed in Poland, involving the merger of three state controlled energy companies. In 2020, Poland was one of the most active IPO markets in Europe with eight completed IPOs, of which we completed a record of five.

Warsaw should retain its role as the largest equity capital market in Central Europe

The IPO pipeline is strong also in 2021, with two large IPOs completed to date, and Warsaw should retain its role as the largest equity capital market in Central Europe. Looking ahead, we also see interest from all classes of investors to initiate and complete transactions in Poland, including local entrepreneurs, local private equity, and foreign investors.



Piotr Chudzik
Trigon Investment Banking - IMAP Poland



HUNGARY

The M&A market in Hungary remained fairly active during the pandemic; while some upper-mid market and large transactions were postponed, lower mid-market and smaller ones have not suffered much.

Underlying growth drivers have not changed, postponed deals are coming back to the market

A significant part of these deals are succession situations, as a large wave of entrepreneurs who kick-started their companies and the market economy in the early 90s need to retire soon. These transactions were also supported by abundant and cheap financing.

As the recovery is roaring ahead, we are positive about the short-term performance of the M&A market in Hungary. Underlying growth drivers have not changed, postponed deals are coming back to the market, professional financial and corporate buyers seem to be increasingly willing to start investing and paying attractive multiples again.



Kalman Nagy
Concorde MB Partners - IMAP Hungary



USA

We are in the midst of the strongest market environment that we have witnessed over the past fifteen years. Given the volume of transactions in the market or just entering the market, the outlook for the rest of the year remains the same.

We are in the midst of the strongest market environment that we have witnessed over the past fifteen years

After enduring the travails of the pandemic, we suspect that many business owners want to strike while the iron is hot and take advantage of the strong economy, low interest rates and staggering availability of investment capital.



Theodore Polk
Capstone Partners - IMAP USA



CANADA



M&A activity in Canada picked up significantly in Q4 2020 and that trend continued throughout the first half of 2021. We are witnessing record levels of new deal flow across numerous industry sectors and valuations for quality businesses are above historic averages.

We are witnessing record levels of new deal flow across numerous industry sectors and valuations for quality businesses are above historic averages

Driven by the economic recovery, a low interest rate environment and the abundance of available capital we anticipate the current trend in M&A to continue for the foreseeable future.



Andrew Kemper
Capital West Partners - IMAP Canada

BRAZIL

The M&A and capital markets in Brazil remain quite strong as a harbinger of strong economic recovery in the range of 5.5% GDP growth in 2021 and appreciation of the Brazilian Real.

The M&A and capital markets in Brazil remain quite strong

Following the announcement of the merger of our client GOL Airlines with its publicly listed mileage program company - Smiles, we continue to see 2021 as an excellent year for us with several transactions in the NBO/due diligence phase in our pipeline and expected to close still in Q3 and Q4 2021.



Marcio Fuiza
Brasilpar - IMAP Brazil



MEXICO & LATIN AMERICA



After decades of pro-business, free market economic policies in most Latin American countries, we are witnessing the revival of “left-wing” populist governments and social unrest. Most populist leaders, like those of Mexico, Perú, Argentina, Venezuela, have given the government a bigger role and are crowding out private investment.

This will affect the short and medium term appetite of private investors in the region, both domestic and foreign, with its spillover effect into M&A. In the particular case of Mexico, the outlook for 2021 shows some improvement as the result of the interim election of June 6 put a stop to President AMLO’s plans for changing the constitution and amassing more power.

The recovery of the US economy, to which the Mexican industrial sector is heavily tied, is expected to have a positive impact on M&A activity in the rest of 2021 and 2022. We are already seeing interest from European and US companies in acquiring automotive and manufacturing facilities in Mexico to complement their production capabilities geared at selling in the US.

The economic crisis, together with bad politics, have created a willingness to sell in the minds of Mexican business owners

High leverage and liquidity problems have presented consolidation opportunities for healthy companies in several sectors, but valuations in general are down from pre 2020 levels. The economic crisis, together with bad politics, have created a willingness to sell in the minds of Mexican business owners that we have not seen since the last century.

An additional trend to look at is related to the accelerated increase of funds available for start-ups in Mexico and LatAm. Venture capital funds are pouring huge amounts of money into digital and tech enables companies, as well as in the fintech and digital payments sectors. One notable example is Clip, the latest Mexican unicorn in the digital payments space, who received funding for \$250 million last week, and is now valued at \$2 billion.



Gilberto Escobedo
Serfidor IMAP, S.A.Pl. de C.V. - IMAP Mexico

MOROCCO

Projections for H2 indicate a buoyant M&A market as the local economy returns to a growth trajectory, propped up by a thriving agriculture sector and the growth of the automotive parts and phosphate and derivatives exports.

A buoyant M&A market as the local economy returns to a growth trajectory

Local M&A activities are seemingly pointing towards restructuring and rebuilding with a refocus on strategy and on exploring new investment opportunities. This should allow us to realize meaningful business development gains, mainly from family owned companies that have fared well during the pandemic looking to divest their businesses, as well as from corporate acquisition activities.



Abdellatif Imani
Ascent Capital Partners - IMAP Morocco

SOUTH AFRICA

We continue to grow the pipeline and pick up market share in a market which is generally sideways. Two new PE sell side wins in Q2 are a very positive sign.

We are a major supplier to the PE community (sell-side M&A), and there is a lot of volume coming over the next 2 years as GPs reach end of fund life. Buyer appetite is generally stronger now compared to last year.

Buyer appetite is generally stronger now compared to last year

Looking ahead, we expect strong revenue in H2 2021 and into H1 2022 as we have our strongest pipeline to date. The most important sectors for us on the M&A side include, fintech, banks/MFBs, agro-industrial, telecoms.

Our other businesses are performing strongly too. This should help us make further investments on the M&A side in the course of the next 12 months. The cycle on the M&A side is a bit longer so this is important.



Edmund Higenbottam
Verdant Capital - IMAP South Africa



INDIA



The sharp revival in economic activity starting towards the end of last year has now seen a temporary reversal following the second wave of Covid. It is widely expected that more than 60% of the population will be vaccinated by September 21 and that should help return to relative normalcy.

The liquidity in the banking system, booming capital markets and a sharp increase in profits for large corporates - attributed to cost reduction, revival of exports and surge in commodity prices - has helped build a good warchest for acquisitions for large corporates.

Liquidity in the banking system, booming capital markets and a sharp increase in profits for large corporates has helped build a good warchest for acquisitions

The momentum in deal activity in technology and healthcare is good. The services sector, including hospitality and real estate is still distressed and dependent on government packages.



Ashutosh Mahesvhari
IMAP India

JAPAN

While on the surface Japan is still consumed by the COVID-19 pandemic, due to quasi-emergency restrictions, fear of increased infections due to hosting the Tokyo Olympics and extremely slow vaccination, there is strong interest in M&A on both the buy-side and sell-side.

A flurry of sell-side processes have been started by private equity since the spring

A flurry of sell-side processes have been started by private equity since the spring. Founders and owners are also seeking to sell their companies where the pandemic prevented a sale last year. Companies are also active in M&A on the buy-side, seeking both domestic and cross border deals.



Jeff Smith
Pinnacle Inc. - IMAP Japan



Entrepreneurship Through Acquisition – An Innovative Solution to Value Creation



Christian Malek, Co-CEO & Managing Partner of Novastone Capital Advisors and CEO of Novastone Capital Single-Family Office and Elena Trukhina, Managing Partner at Novastone Capital Advisors



GÁBOR SZENDRŐI
Managing Partner
Concorde MB Partners - IMAP Hungary
gabor.szendroi@imap.com

Novastone Capital Advisors in Switzerland has devised a program designed to help firms find a solution to the age-old problem of succession. IMAP Hungary talks to Christian Malek, Co-CEO & Managing Partner of Novastone Capital Advisors and CEO of Novastone Capital Single-Family Office, to find out more about the program’s origins and how it works, as well as one of its candidates, Viktor Dimitrov, a former IMAP Hungary colleague at Oriens.

The challenge of finding a successor in the SME sector is a well-known issue globally. Novastone Capital Advisors connects talented entrepreneurs, investors, and SMEs within the framework of its *Entrepreneurship Through Acquisition* program. Program participants search for and buy an SME, and then become its CEO to operate and grow the company, not only solving succession issues while protecting the capital of investors, but also ensuring continuity and value creation following the acquisition.

What is Novastone Capital and Novastone Capital Advisors?

Novastone Capital is a single-family office, based in Switzerland. Novastone Capital Advisors (“NCA”)

was founded by a group of entrepreneurs from the family office community, led by Christian Malek, CEO of Novastone Capital, to initiate and manage the *Entrepreneurship Through Acquisition* program, on behalf of Novastone Capital and its program members. Program members include European single-family offices and entrepreneurs who sponsor the program participants. Think of it as a real-life post-corporate career MBA, where highly talented executives-to-be with entrepreneurial ambitions are given the framework and support to acquire and operate a private company.

The members help the executives-to-be in three stages: during the search for an SME, with financing for the acquisition and then in pro-actively growing

the company. As the participants are 100% dedicated to the program, they are supported with a stipend to cover living expenses. Program members may also help make introductions to potential targets, as well as pay for training and program resources to help participants in their search. In Viktor Dimitrov's case, for example, this meant providing databases and networks specific to Hungary's SME space.

You work with the Search Fund asset class. Can you explain more about these funds and how this led to the concept of the Entrepreneurship Through Acquisition program?

A Search Fund is a process in which a group of investors back a talented individual to search, buy, grow and exit a company. The companies chosen are typically those facing a succession issue. Search Funds have existed as an asset class since the early 1980s and independent research from Stanford shows they have average Internal Rate of Return above 30%.

As CEO of Novastone Capital, we invested in our first Search Fund in 2013. It was one of the first Latin-American Search Funds launched and a highly successful investment. Following the exit, we became a Limited Partner (LP) of a Fund-of-Search Funds launched by one of the initial investment's co-investors.

Novastone Capital did in fact, previously endorse and fund a candidate to research a company to acquire, buy and run, yet our experience with Search Funds has been that sharing an investment where no one person has control and the process is collaborative and centralised through a program is the best approach and yields the best results.

Furthermore, I was also fortunate enough to meet a top-tier professional who opened my eyes. He believed the traditional approach of launching a Search Fund himself, and knocking on 12-15 different investors' doors raising 35-40 thousand Euros at a time, was not the solution. I agreed and it prompted me to devise and run an in-house program for Search Fund investing for single-family offices. Following the completion of my Executive-MBA at INSEAD in Lausanne, I launched the program, which reduces the inefficiencies of the traditional model without compromising the expected return.

We are the only firm building Search Fund portfolios as a program, having invented the concept.

Which geographies do you cover and do you have plans to expand?

We currently operate in two regions; Europe and North America. We started with Switzerland and Germany

We are the only firm building Search Fund portfolios as a program, having invented the concept.

and the European program has expanded to include Italy, Spain, and the UK, as well as Central and Eastern European countries such as Hungary and Poland. We expect to expand the program to France, the Nordic and Benelux countries later this year.

The European program has the capacity to take-on 12-15 participants a year. However, quality comes first; one year we might find 7, the next, we could find 20. Quality is what makes the difference and makes everything work: candidates able to attract the sponsors and convince the business owner that they are the right person to take over. There is no room for error, which is why our selection process is so rigorous. Our North American program is also live where we have our first female participant and we hope to launch in Canada very soon.

What are you looking for in an entrepreneur?

Selecting the candidates is a very challenging process. There are basic attributes such as character, being hard-working and being able to take on responsibility, that are a must. The ideal candidate would normally have a good educational background, operational experience, i.e., be running a company in a high/general manager position, and have entrepreneurial experience. In fact, many of our candidates have already co-launched a company.

The program is about trying to make a change, creating value and writing your own company story. It is not for everyone, which is why we spend a great deal of time and care selecting the participants.

Though entrepreneurs and situations differ case by case, which type of companies do your entrepreneurs look for?

In general, we have two types of candidates: those who have moved from one industry to another and are therefore, focusing on companies in 3-4 industries and others specializing in a single vertical.

The program itself is quite industry agnostic. It can work with either type of candidate. However, there are several elements in the target industry that we generally want to see. First, we want to make sure there are sufficient companies in the chosen industry. Sometimes we have a candidate who wants to buy



a hotel or a luxury brand and there are only 20-100 targets, which will not work. We want industries where there is a pool of hundreds, if not thousands of companies to search through.

Second, we favour industries that are not too capital intensive, have limited cyclicalities and are growing. Of course, when it comes to the balance sheets, they should be healthy and profitable, but otherwise we are flexible.

Third, we prefer industries within geographies known to the program participant. For example, Viktor was the standout candidate during his assessment period. As his industry knowledge and expertise is focused on Hungary, we have a participant in Hungary!

Finally, candidates will usually try to solve succession issues, because it is a mandate of the program. We particularly favour companies where, within the owner's family there is no successor; where the controlling shareholder does not want to sell to a competitor or a private equity investment fund; and where there is a personal connection between the retiree and the incoming executive. As succession is a big issue in our economy, the program is not only making a dream come true for these entrepreneurs-to-be, but also solving an issue for society. As the selection process is very strict, these business owners know, that when someone representing the program is knocking at the door, that individual comes with accreditation and quality and is sponsored by the program members with capital to follow-through on the closing of the acquisition.

Where would you like to see the program 10 years from now?

Ideally, we will become a global program. After consolidating our operations in Europe and North America, the plan is to expand to emerging markets, with regional programs. Currently we have two in mind, one in Latin-America and the other in India. There are

also other developed markets where this issue is quite important: Japan and Australia. Australia is a bit easier to access, as it is a smaller market and English is the national language. In Japan you definitely want to find an open partner, as cultural issues and differences are quite relevant.

Why emerging markets? We want to be able to support executive talents who have the skills to become entrepreneurs but have not had the means to acquire the right level of education or expertise. One of my personal dreams, for example, would be India and to be able to partner up with a local entrepreneurial family office and develop the partnership into what we are currently creating with top business schools in Europe. Furthermore, being able to offer scholarships through an education program to very talented individuals who do not have the financial wherewithal to enrol into a Executive/MBA program at a top business school and then segue them into our program.

What is your aspiration from a financial perspective? Are your expectations the same as those of a private equity?

It is very different. The motivation driving the performance of the asset class is business savviness and entrepreneurial thinking and acting. Our program is about giving entrepreneurs the opportunity to be successful, to create value. That is why we are different from the conventional private equity approach of doing deals, where overall it is more about financial engineering, trying to squeeze as much as possible out of the target company to increase shareholder return at the private equity capital provider level.

The compensation structure is also very different. The purpose of the program is to sponsor the participants to find companies and create value at the acquired company. Return-on-investment follows if and when value is created and this financial reward is shared and divided between shareholders of the exited company,

the CEO who led the company on behalf of the equity backers from our program membership base, and NCA's professionals. This allows us to continuously fund the program and access and support talent within the program on a long-term basis. So, it sounds, feels and smells quite different from a private equity fund.

You selected Viktor, our former colleague to cover CEE. What potential did you see in him?

Almost a year before he applied, he connected with us to understand the program and find out what it was about. I had the opportunity to meet him and found him to be a very nice, well-rounded professional, so I encouraged him to apply. He went through the entire selection process, which usually takes 3 months, and he was selected. I was very happy for him and think he will be a great participant, and a great CEO once he finds a company. His experience is very diverse, he has operational experience, private equity and M&A experience and international experience. He has a good education, is a hard worker, trustworthy, and highly committed to find a company. So far, he is one of the fastest participants to have attracted sponsors from our membership base.

How is the program built and structured?

We are a turn-key operation and cover the entire SME private equity investing value-chain. Novastone Capital Advisors in a way may resemble a factory set-up: we have specialized teams managing the different processes. We have a team dedicated solely to the whole selection process: to attract, select, evaluate and admit participants. The candidate's journey then begins with preparing the personal business case, presenting it to the potential sponsors from our members, and if you will, raising their own money for the project. There is a lot of training provided throughout: for example, M&A training, or how to smartly use databases and so on. When candidates start scouting for potential acquisition targets we remain in constant contact.

Our program sounds, feels and smells quite different from a private equity.

Then the due diligence and acquisition processes follow. Our Value Creation Team helps the participants to create value within the acquired company. There is also a team that manages all the program members: introductions and interviews and who reports regularly on over-all progress of the program's pool of newly endorsed candidates as executives-to-be and finally, informs them on their proprietary investment portfolios. It is a structure that took a lot of work to build, but it is exciting and rewarding to me that everyone involved becomes immediately very passionate. We are able to build on an amazing team spirit and support from our single-family office program members.

What is the Value Creation Team's role?

Its main objectives are to make sure that each company does not suffer from the change of hands, that we protect the capital of our sponsors, and that the potential of each company is maximised. The team brings top-down best practices from the SME sector to guide the candidate. It also works bottom-up to look at which courses of action the candidates as CEOs would want to implement when at the helm, from accounting, growth implementation methodologies and digitalisation, to initiating organic or add-on synergies. Additionally, it also tries to maximise the support that every portfolio company should secure from its investor Cap Table. Every company normally has around 12-15 equity entrepreneurs invested, so possibilities of market expansion and other growth initiatives can be uncovered, funded and realized. The specialist teams at Novastone Capital Advisors provide and work with a setup that aims to ensure continuity at the target company level. Our program-endorsed, incoming CEO is essential and a key value-add in that regard. ■



Getting Under the Hood of Company Valuations in M&A



DR. CARSTEN LEHMANN
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Dr. Carsten Lehmann, Managing Director at IMAP Germany shares valuable insights into the key factors affecting company valuations in M&A, using the IT & Software sector as an example. Looking at the many different company segments in the digital industry, he outlines the criteria directly influencing M&A multiples, including sustainability, growth rates and the business model, and examines the increasing importance of conveying the right equity story.

“What can be digitized will be digitized!” – Products and services based on digital technologies increasingly determine the way we communicate and work. The entire industry has experienced an enormous upturn in recent years and is – compared to many sectors of the “old economy” – expected to see strong, above-average growth in the foreseeable future. This is reflected in company valuations that we observe both on the stock market and in M&A transactions. Many of the most valuable companies in the world are “digital companies” (Apple, Amazon, Microsoft, Alphabet, etc.) and their total share value has also risen significantly in relation to turnover and reported earnings.

What makes a company particularly successful? What are the key factors for high valuations? What criteria can be used to distinguish between companies valued higher or lower than others? These questions are just

as relevant beyond the IT and software industry – both for investors and for shareholders of companies who are dealing with strategic issues such as raising equity or selling their company.

Valuation of Listed IT & Software Companies

There are numerous ways to segment companies in the digital industry. At IMAP Germany, we have opted for a segmentation that considers main differences in terms of business model, type of service or product, value chain position, and company size:

- **Infrastructure and Cloud:** Providers of hardware, software and/or services that operate IT networks and cloud infrastructures (e.g., Cisco, Citrix, VMware)
- **Software as a Service (SaaS):** Companies that sell software by means of a subscription model (e.g., Adobe, Dropbox, Zendesk)

- **Application Software:** Application software vendors, regardless of business model (e.g., Microsoft, SAP, Oracle)
- **Software Development:** Companies that develop application software on behalf of third parties and sometimes also provide their own technologies (e.g., Accenture, Cognizant, Infosys)
- **IT-Service:** IT service providers, e.g., consulting, implementation, managed services, and IT outsourcing (e.g., Atos, DXC, Cancom)
- **Conglomerates:** A selection of very large software and IT companies with a broader product range and a market capitalization greater than \$100 billion (e.g., Microsoft, Alphabet, IBM)

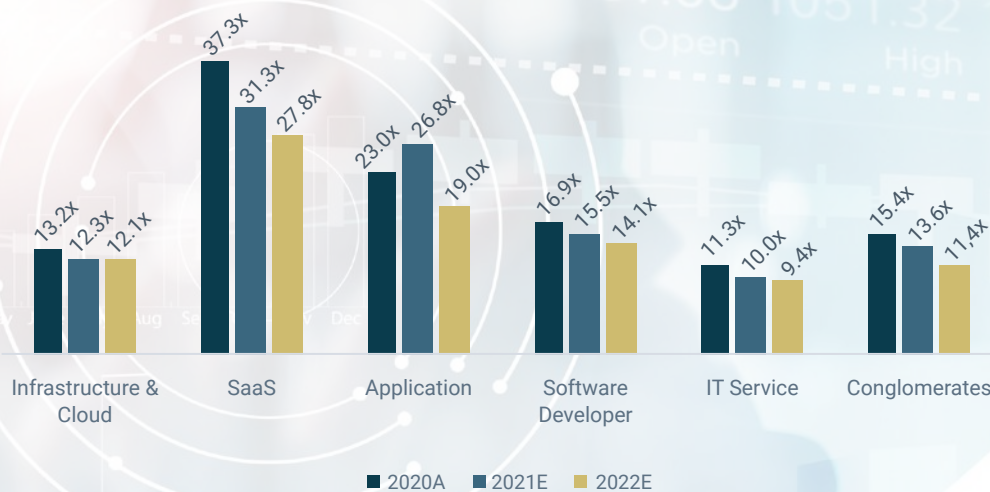
Certainly, these six groups overlap to some extent and there are many other and more detailed ways to segment companies in the industry. For example, within the *Application Software* group, we could differentiate companies that have specialized in individual “verticals”, i.e., user industries, such as Healthcare, Financial Services, or the Construction industry. Nevertheless, even this rough segmentation shows significant differences in multiples as illustrated by the diagram below that shows median EV/sales and EV/EBITDA multiples in each of our digital technology segments for the years 2020 - 2022e.

We see three main criteria through which we can try to explain these differences:

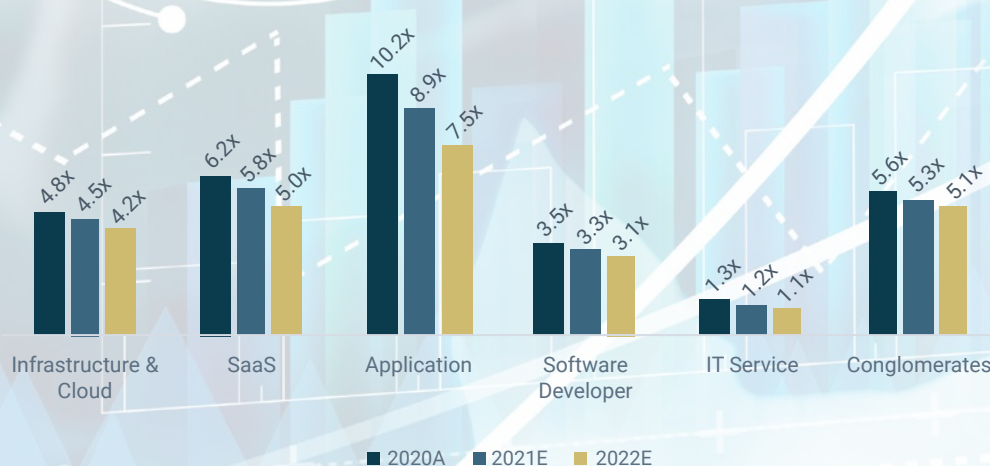
Segment Valuation

Development of the median segment valuation metrics between 2020A and 2022E

EV/EBITDA 2020A-2022E



EV/REVENUE 2020A-2022E





Criterion 1: Sustainability and Strength of Cash Flows – the Role of the Business Model and Quality

First, we must differentiate between project and product businesses. Service companies, IT consulting firms, and software developers mainly operate on a project basis meaning that long-term revenue per customer is often relatively low. Good service providers partly compensate for this by offering great service to their most valuable customers. As such, these customers effectively outsource a significant part of their IT or software development budget to a service provider over the span of several years – in IT operations this is known as managed services or “outsourcing deals”. The “economies of experience” between employees of the

service provider and employees of the client gain such significance that IT companies do indeed have long-term customer relationships and relatively predictable revenue streams. From an investor’s perspective, however, these business models remain fundamentally more susceptible to revenue fluctuations and customer loss, which is ultimately reflected in lower valuations.

Product companies, on the other hand, sell application software and often achieve long-term customer retention. Next to a superior offering, the sticky customer base results from the ability to “lock” clients into a process landscape from which separation can only be accomplished with great effort. Here, we must

Selected Public Company Valuations by Sub-Sector



Source: CIQ

➡ = Development of respective multiple from Q4 2020 to Q1 2021

Note: Median figures based on 2021

differentiate between the license sale model combined with maintenance contracts and the software-as-a-service (SaaS) model, in which software is billed either via a subscription or on a transaction basis. In the SaaS model, the software provider initially foregoes a part of the revenue that could alternatively be generated via a license but can achieve higher product margins over time if its product has strong USPs. For several years now, established SaaS companies have been achieving the highest market valuations as investors are most likely to associate them with stable, long-term cash flows and high margins.

Regardless of the business model, the quality of the IT service or the software product has a significant impact on the valuation of the company in question: The higher the quality and the more unique the product or service, the higher the margins and the more sustainable the business. Evidently, this holds true for all sectors.

Criterion 2: Growth Rates

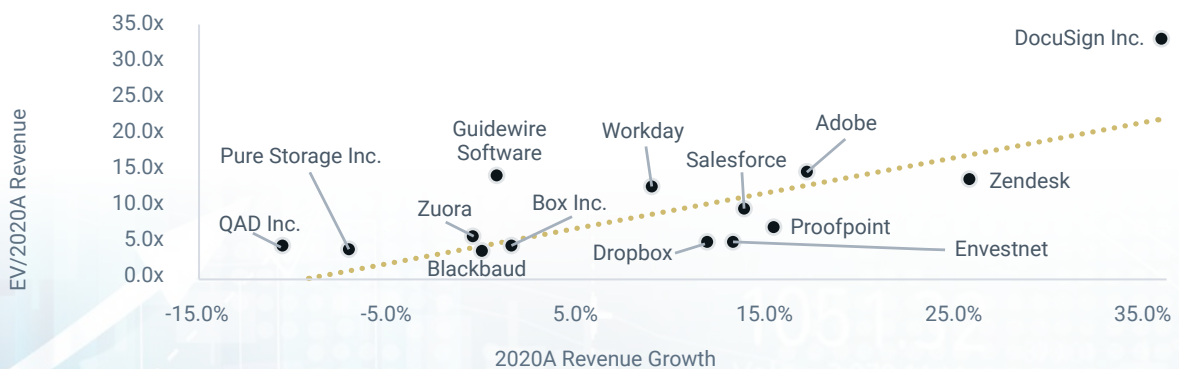
Not only in the IT and software industry but across all sectors we observe: The higher the forecasted growth

of a company, the higher its valuation (on average). Below, we use SaaS companies as an example for this phenomenon.

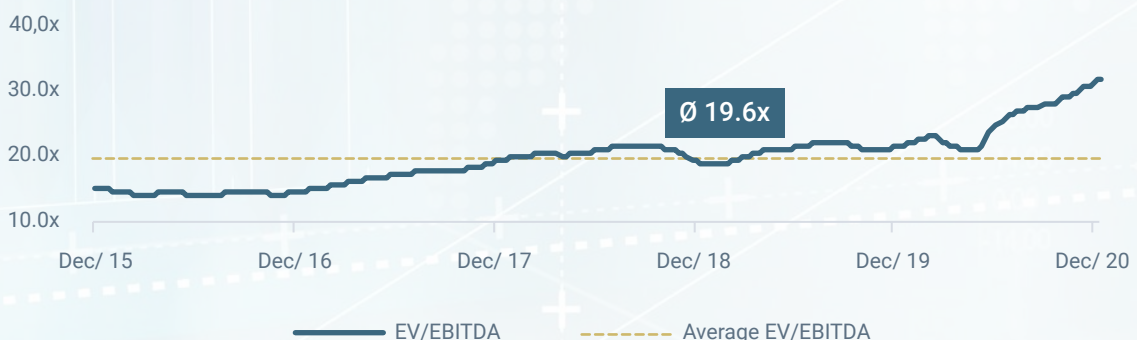
Criterion 3: Capital Intensity of the Business

When we compare *Infrastructure & Cloud* with *SaaS* or *Application* companies, we see that companies with capital-intensive business models (e.g., from the infrastructure environment) have lower valuations on an EBITDA basis than less capital-intensive firms. As opposed to capital-intensive company, the EBITDA of many software companies does not significantly deviate from EBIT, which is why it makes more sense to base the valuation on an earnings figure that showcases sustainable free cash flow after investments. Therefore, a comparison based on EV/EBIT multiples produces more accurate results than one on an EV/EBITDA basis. Just looking at EV/Revenue multiples one could assume that *Infrastructure & Cloud* companies have similar valuations to *IT Service* providers, even though they are valued significantly higher on a free cash flow after investments basis.

CORRELATION BETWEEN EV/REVENUE 2020A AND REVENUE GROWTH 2020A (SAAS COMPANIES)



5-YEAR HISTORICAL DEVELOPMENT OF EV/EBITDA MULTIPLE (APPLICATION SOFTWARE PEER GROUP)



Story Telling & Positioning

Company valuation is not based solely on the mechanistic analysis of data or figures in financial models. To understand valuations on stock markets (but also in M&A transactions!), it has become increasingly important to understand and be able to convey the “equity story” of a company. How else can we explain that companies who have never turned a profit are valued in the billions? In his book *Narratives & Numbers: The Value of Stories in Business*, Aswath Damodaran, Professor of Finance at Columbia Business School in New York, argues that the right “story” drives corporate value by providing substance for the projected financial figures. Investors demand compelling arguments to assure themselves that the investment is worth taking the risk.

In recent years, the valuation levels of IT and software companies have risen continuously. The Corona pandemic has done nothing to change this. On the contrary, social distancing and global lockdowns have increased the importance of digital offerings (both in work scenarios and in private life) and have acted as accelerators of digitization. The valuations of large, listed application software providers are proof of this: Whilst the average EV/EBITDA value over the period of the last five years was just under 20x, we currently see values of over 30x (see chart on previous page).

Valuations in Mid-Market M&A Transactions

The three criteria that influence valuations, which have been outlined above can generally also be applied to investment and takeover situations of privately held companies. Moreover, we see three additional criteria that should be considered in the valuation of small- and medium size enterprises (SMEs).

1. Size of the Company: Smaller companies (generally, with sales of less than EUR 30 to 50 million or EBITDA of less than EUR 10 to 15 million) are more unstable than larger, listed enterprises and are often more susceptible to individual success factors (e.g., management, certain individuals, particular products, customers, or suppliers).

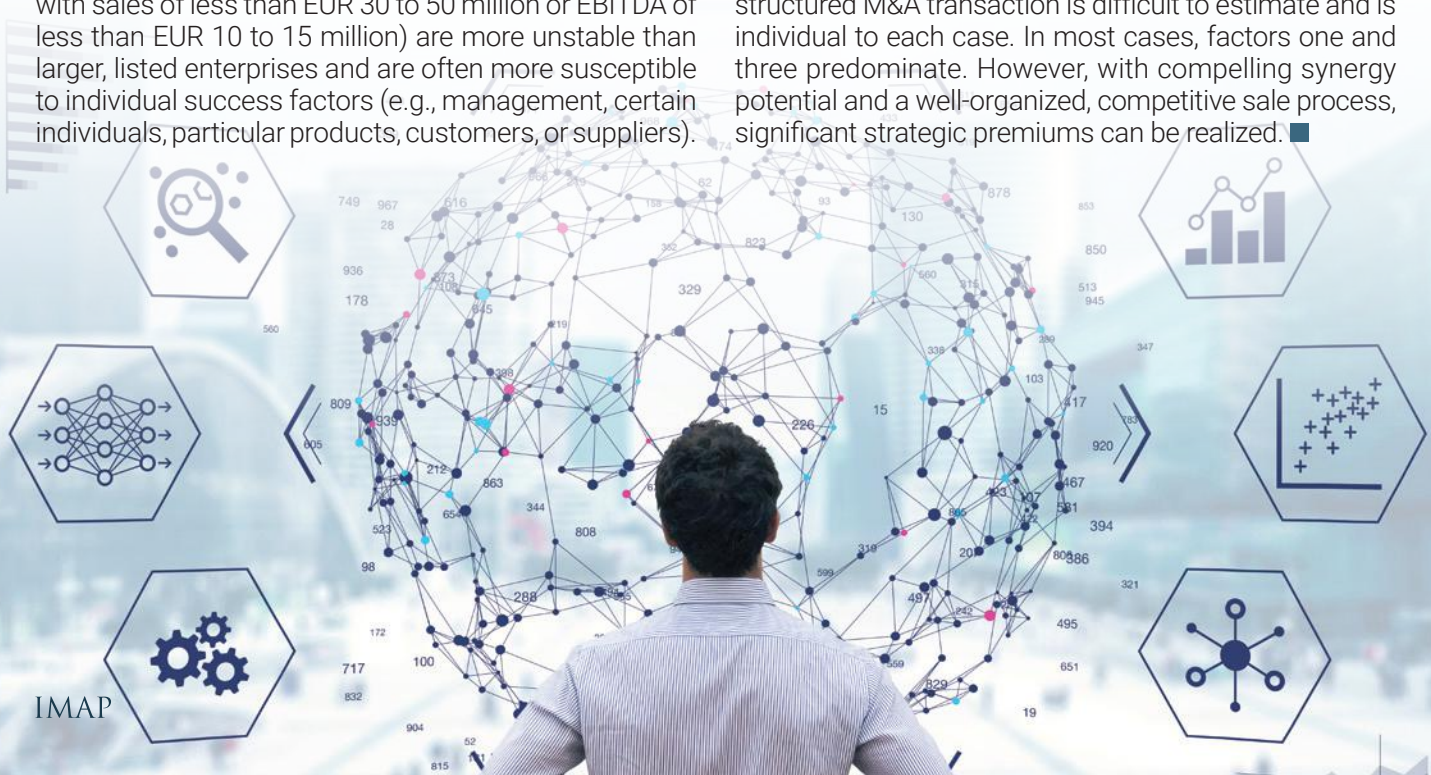
With compelling synergy potential and a well-organized, competitive sale process, significant strategic premiums can be realized.

This leads us to believe that from an investor’s point of view, discounts of around 20 to 40 percent to valuations of listed firms appear to be appropriate.

2. Shareholding and Corporate Control: The takeover of the majority or entirety of shares in a company provides corporate control and therefore, may allow the acquirer to achieve synergies with existing activities. This can justify a significant premium over a “stand-alone” valuation of the target company, which is solely based on its own predicted cash flows. Inversely, minority interests with limited influence on corporate policy are often valued at a discount.

3. Lack of Short-term Liquidity: Shares in privately held companies cannot be actively traded on a stock exchange, requiring shareholders to have a long-term investment horizon. Should shareholders wish to sell their shares, they usually need to undergo a sale process that lasts several months and the success of which is dependent on numerous factors. These include, among others, company internal success and risk factors, general market developments and the professionalism with which the process is designed and executed. Given this lack of short-term marketability alone, investors deem a discount of approximately 10 to 30 percent appropriate when compared to the valuation levels of listed companies.

The net effect of these three factors on the value of a company in the case of a majority sale as part of a well-structured M&A transaction is difficult to estimate and is individual to each case. In most cases, factors one and three predominate. However, with compelling synergy potential and a well-organized, competitive sale process, significant strategic premiums can be realized. ■



How to Increase Company Value by Making Clever Decisions in Your Supply Chain



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Mark Fasold, Strategic Advisor to Falls River Group (FRG) – IMAP USA, shares with Creating Value the guiding principles companies should follow to optimize their supply chains including the vital dos and don'ts. Using omni-channel retail as an example, he explains why a company's approach and decisions regarding its supply chain will ultimately affect every aspect of its financial position. For company owners looking to sell, this is key in terms of working towards achieving a higher valuation.

The world has experienced supply chain disruptions in many markets largely as a result of the COVID pandemic. The root cause of these disruptions is primarily the dramatic changes in both consumer and business demand and behavior for products and raw materials. Companies that had strong supply chain processes were able to react faster and with less disruption fulfilling customer demand. Supply chain processes have many discreet elements, options, and choices, however, no two are the same. While there are no prescribed formulas, there are dos and don'ts that are important regardless of the model.

Guiding Principles for All Supply Chains

The following principles apply to virtually all supply chains. Often business professionals mistakenly think of the elements as overly analytical and precise, often saying "buy more", which sounds easy, but nothing could be further from the truth. These principles should guide all supply chain decisions.

- a. Manage the “whole” first, then the components. It’s crucial to understand the end-to-end view. It’s like a chain; break a link and the chain fails.
- b. Optimizing each supply chain component will suboptimize the whole. The inter-dependency of its functions and processes is significant.
- c. Learn to live with uncertainty and variability. Dealing with issues from front to back is just par for the course.
- d. Staff the supply chain with people that can see its entirety and intuitively balance risk. People that want things clean cut, uncomplicated, and overly precise won’t do well.
- e. Setting up systems of punishment for your vendors will backfire. The manufacturer needs to have a seat at the table and be part of the broader team.

Implications of Omni-Channel Retailing

Omni-channel buying by consumers is the melding of how people shop and place orders. i.e., online, phone, retail stores, by text, and direct to business. The COVID pandemic placed the consumer front and center and wanting to shop where and when they desired, changing the buying process at a pace none of us could imagine.

Each shopping method presents challenges to the supply chain, e.g., one unit is picked and shipped for an on-line sale, yet a store needs to present depth of assortment by SKU. Packaging and tagging for the item differ depending on the purchase channel. Furthermore, the receiving, storage, and pick and pack in warehouses vary depending on where the product is going.

Warehousing to fulfill multiple channels requires significant engineering and process control. Each transaction type needs to be mapped out from

beginning (when the product is commercialized and is in the production phase) to when it is presented to the customer for sale. Legacy companies - retail store based or direct to consumer - need to re-imagine how the supply chain is configured to serve customers in this exploding omni-channel world.

It All Starts With the Product

The supply chain begins with how a product is conceived, designed and ready for production, recognizing that the product must be relevant, priced to sell, and fulfill the customer value proposition.

The merchants and product developers need to consider downstream impacts to the supply chain. A great product that is overly complex, hard to produce, and low volume, can take disproportionate time for little gain.

The supply chain cycle must provide in-season information before the following year’s same season product gets developed. Hence the importance of lead time management (see section below). Merchants need customer feedback for seasonal product introduced say in fall season for a given year before they design and develop the following year’s products. Excessive lead times are an indicator of poor supply chain processes.

Critical Choices Early on That Affect the Entire Supply Chain

The entire supply chain cycle is a series of choices that will define a company’s supply chain model. The critical choices are:

- a. Raw materials, components and related impact lead times and production capabilities for the manufacturer. An overly sophisticated raw material such as a fine yarn dyed woven material takes a lot longer to obtain than a garment dyed t-shirt. Each has a place in the marketplace but have vastly different lead times.



- b. Factory selection needs to consider many factors including capacity, re-order times, costs, logistics, capabilities, country of origin, human rights, and environmental standards. Each factory possesses certain skills that are special to that location such as garment washing, product finishing, leather cutting, and utilization. A company must have sourcing expertise in-house or use an agent that has the necessary knowledge to place products.
- c. Estimated volumes and timing of exposure to customers will drive much of the supply chain activities. Forecasting is a set of skills that have been automated in recent years and outperform human capabilities. At the same time, human input is important to assess item demand within categories and adjust forecasts to match the company's overall forecast.
- d. How long a product will be in the line greatly impacts many supply chain decisions. An item that has been in the line for years and is a proven seller can be bought very differently and more aggressively than a new, say unproven item that has unknown appeal.
- e. A product spec that details all elements of the product is a necessity. Sketches and emails are not enough. Investing in product spec software that can detail each item's specifications has pervasive, positive outcomes in a supply chain.

Lead Times - What They Mean and How to Impact?

Often businesspeople will talk about lead times as fixed and set for any particular product, whereas nothing can be further from the truth. Lead times are variable and change all the time, for example, large volume, highly seasonal products such as outerwear will have a longer lead-time than a basic apparel item that sells year-round, like a t-shirt. Small volume items will vary compared to items that a manufacturer can set up a production line for and run products through for months at a time.

As a product is developed, sourced, forecasted, and planned to sell over time, working with the vendors and developing productions plans will determine each item's lead time.

Use of Buying Offices Versus Company Owned Sourcing Offices

This is an often-debated topic and both models work.

Starting your own sourcing office is hard work and requires a long-term view to develop staff and product/factory expertise. Your own office will keep you closer to your vendors and the ability to partner. On paper it will look cheaper versus paying a commission to an agent. However, an agent relation is faster to establish and provides better access to production capabilities. Agents also bring buying power to the sourcing and costing decisions.

The decision is not just down to cost. It involves desired vendor relations, process controls and how concentrated production will or will not be - product line breadth and scope are large considerations. Likewise, location is another decision that needs to be made, depending on where production is concentrated. If production is geographically dispersed around the world, multiple offices/agents are warranted.

Working Capital Management & Inventory Management (IM)

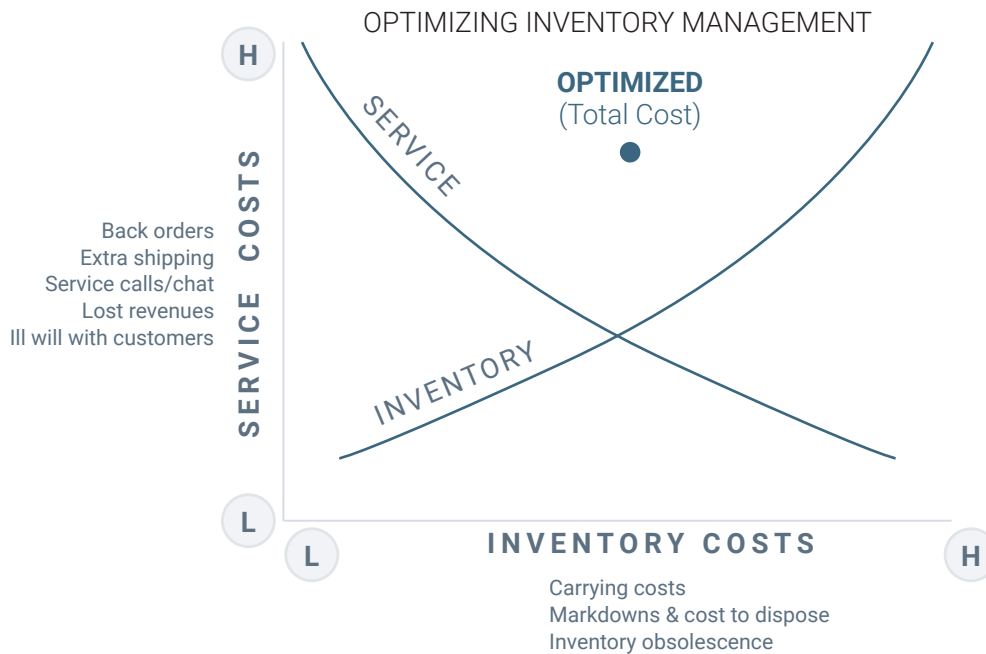
For most omni-channel consumer companies, the purchase of inventory represents the largest outflow of cash annually. This area is one of the least understood in the entire supply chain. The common "buy more" mantra is often heard when something is in short supply. However, if it's always 'buy more', somewhere else 'buy less' has to occur.

When inventories are disproportionately high or low, service levels decline, excess inventories grow, and revenues are sub-optimized, all of which are symptoms of a poor supply chain. These signs indicate it is time to focus on a disciplined end-to-end approach using forecasting & planning tools, process controls, demonstrated sourcing skills, disciplined decision making, and metrics.

The underpinning of buying inventory is expressed in the 'newsvendor inventory model' that simply states: For a newsvendor who sells papers on a street corner (from yesteryear), the demand is uncertain, and the newsvendor must decide how many papers to buy from their supplier.



NEWSVENDOR INVENTORY MODEL



If they buy too many papers, they are left with unsold papers that have no value at the end of the day; but buying too few papers, they have lost the opportunity to make a higher profit.

The dilemma for any inventory manager is how much to buy using judgement and risk insights all supported by Artificial Intelligence (AI) data and up to date systems and related processes.

Areas to explore are forecast control (matching item/SKU forecasts to company revenue projections); planning horizon for flowing goods; forecasting tools and techniques; logistics; planning with vendors; PO management and more.

One last topic related to IM is markdown and discontinued inventory dispositions, recognizing that markdowns are often one of the largest hits to the P&L. In traditional retailers the floor had to be cleared to accept new inventory and markdowns were heavy and immediate. In direct-to-consumer companies, there is less pressure to sell off excess/discontinued inventory and a cost recovery approach can be used and if planned well, can generate a nice operating profit.

Get ready for the argument that markdown sales steal from full price sales. Companies need to analyze these tradeoffs and optimize the “whole”. Old inventory must be moved and decreases in value rapidly.

Lastly, buying policies to guide the inventory manager are required, including how much on a given forecast to buy (buy-through), safety stock required to capture upside demand and provide time for recovery, exposure

assumptions (will item go forward or is it one season and done?), and how to manage minimum quantity orders for low volume items.

Supply Chain Technology

Technology tools for supply chain management have advanced incredibly in the last decade and will continue to do so at an even more rapid pace. Supply chain work is driven by people using technology for all its aspects. The software uses AI tools to track, forecast, and dollarize millions of calculations a night, constantly monitoring and highlighting changes and prompting actions.

Some software providers tout inventory management but in fact it's about tracking inventory and unit/dollar amounts. The areas least understood by some software vendors are forecasting, planning over time, logistics and PO management.

Software exists to develop product specs for most product categories and standardizing specs to vendors is a real boost to the supply chain's success. Product design software has developed recently allowing product developers to build product in 3-D including small physical models and digital representations of the product.

Lastly, there's a long-standing debate on whether to use the historical approach of open-to-buy versus the more recently developed unit-based approach. The pre internet direct marketing world has been almost exclusively unit based since it fulfills customer demand item by item as represented in print catalogs (and today on a web site).

The open-to-buy approach originated in the bricks and mortar world and very effectively managed categories of goods on and off the restricted space inside the store. Though proven and effective, I don't feel it works well in the omni-channel world that is exploding.

Supply Chain Metrics

Metrics starting with the customer experience are needed throughout the supply chain and include process monitoring, ability to fill forecasted demand, unit/category/total seasonal cost, GM forecasts/actual, and much more. The challenge is to pick metrics that work across the entity so different product areas don't develop their own and there should be 'one version of the truth' that is easily understandable to all.

Some examples:

- a. Forecast compared to actual and previous year.
- b. Category and item forecast error to recognize the uncertainty of machine or human preseason forecasts. Don't be surprised if average item forecast error exceed 30%, including repeat items.
- c. Sum of item forecast to company revenue plan - called forecast control.
- d. Percentage of projected item demand that is filled with planned inventory - i.e., forecasted fill rate.
- e. On-time delivery.
- f. Calendars that monitor due dates and process step completion.
- g. Projected and actual initial and final gross margins.

Reports need to start high (at entity level) and move to category and item/SKU levels, in a hierarchy. Avoid complicated calculations as the information must be readily understood by many people for quick decision making and reactions to actual customer demand.

So, Where's the \$ Value Gain for the Company?

A company's supply chain approach and decisions affect every aspect of a company's financial position - revenues, COGS, operating expenses, required bank lines, customer satisfaction and much more. Hence

the supply chain can have a disproportionate effect on the value of your company.

One of the largest gains will be less lost revenues while having relatively lower levels of inventory. Depending on the current state, expect to achieve 3-6% greater revenues since inventory will be available when the customer wants to buy it.

With a highly disciplined and functioning supply chain, a company should expect large reductions in inventory cash flow and better customer service and fill rates. Inventory quality in terms of saleable goods will improve and excess inventories that need to be carried or liquidated will decrease. A minimum expectation would be for a 10% decrease in annual inventory purchases with higher fill rates (and revenues).

Representative example:

\$2 billion company
60% initial gross margin
Annual inventory purchases = **\$800 million**

Based on decades of supply chain outcomes using prototypical omni-channel company data and the types of outcomes a company should expect:

Reduced inventory purchases - **\$80 million**
Improved fill rates of **4%** - **\$40 million** in revenues
Less markdowns - **\$20 million**

Annual gain in cash flow - **\$100 million**

PV at 14% cost of capital = \$500 million

Making the right decisions in terms of your supply chain is crucial and when looking to sell your company, one of the key factors a buyer will be evaluating. At Falls River Group – IMAP USA, we have the expertise and experience to help guide companies make decisions that will ultimately increase the value of their companies. ■

Mark Fasold is a Strategic Advisor with Falls River Group. He has managed supply chains around the world for over 35 years and has extensive experience in consumer products and omni-channel retail. Throughout his career in the apparel, footwear, home, and sporting goods categories, he has visited and worked with hundreds of factories around the world.

Falls River Group (FRG) is IMAP's partner in Naples, USA and is a global M&A advisor focused on creating value for clients by delivering tailored solutions, expert advice, and best-in-class execution. FRG's reach into the strategic acquirer, family office and private equity communities is vast, and its relationships run deep. Its thorough and disciplined process, in combination with our unmatched industry expertise, results in superior valuations, faster closings and successful client outcomes.

Utilizing Technology to Close Cross-Border M&A Deals During the Pandemic



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The COVID-19 pandemic has not only affected M&A deal activity, it has changed the way in which deals themselves are conducted. Travel restrictions and lockdowns have meant that personal interactions between the key parties have become all but impossible. Building relationships and trust in a remote working environment is a challenge but critical to successfully closing deals. IMAP Senior Writer, Claire Smedley, talked to Marcus Rex, an Associate at IMAP Sweden to discuss why technology has become a crucial tool in their transaction process and how deals can still be closed, even under lockdown.

The pandemic has forced many changes in how M&A transactions are executed, what is the most important change you have witnessed?

Had it not been for the COVID-19 pandemic, I doubt many of us would be as advanced or comfortable in our use of tools and technology such as video conferencing, in our M&A processes as we are today. Circumstances forced us to quickly find alternative solutions to new working conditions, otherwise we probably wouldn't have advanced so much for another couple of years or so, yet now it's the norm in every single deal we work on.

I believe there was one new form of technology the IMAP Sweden team had begun using even before the pandemic.

Yes. It is generally quite difficult to source good quality photos of facilities both inside and outside, which are crucial early in the process for info memorandums and management presentations etc. as well as during due diligence. Therefore, about a year or so ago we purchased our own drone. It's quite easy to fly and by simply connecting it to a mobile, we can take our own high-quality photos and no longer rely on third parties or our client to take photos for us.

TRANSACTION AT A GLANCE

CLIENT: Addvanze

SECTOR: Materials & Mining

TRANSACTION TYPE: Acquired 100% of Business Operations

BUYER: Kafrit Industries

In one of your recent materials cross-border deals, I understand your client and the buyer never physically met?

Correct. Our client Addvanze, a leading developer, producer, and marketer of color, and additive masterbatch, is in Sweden and the buyer, Kafrit Industries, a leading producer of masterbatches and compounds for the plastics industry, is based in Israel. Not only did they never meet, but the buyer also never physically saw the facilities before the acquisition and in fact, is due to see them now for the first time, one month after closing the deal.

With the element of trust so crucial in buying and selling a business, how easy was it to gain trust virtually?

Having sold the clients previous company in the same line of business back in 2007, we already had a good relationship with him. Furthermore, IMAP Sweden has a strong reputation in closing industrial transactions. We have an experienced team and understand the market. Our credentials helped to instill confidence in both parties that we would be able to achieve a successful outcome.

From the outset, there was a great deal of flexibility from all sides which was extremely important and once the process started, we held lots of Teams meetings and workshops and we were able to build up a good relationship between all the parties.

The entire process took approximately a year, as cross-border transactions generally take a bit longer than regional deals which we can close in 3-6 months. The due diligence was intense and took 4 months, and there was a lot of business talk and technical discussions and understanding how the plant worked, but it was critical in a deal like this.

How did you come to find a buyer for the plant in Israel?

The masterbatch market is large, yet everyone knows each other. For our client, finding the right buyer for his business was paramount as he was looking to ensure the long-term future of the company and its employees.

With 40+ years in the business, he also knew which companies may be interested in acquiring Addvanze.

On receiving the mandate, we reached out to our IMAP partners and both the German and US teams provided us with several names and helped with initial contact. We also had our long list from our previous transaction and after some research, found and reached out to the Israeli buyer.

What would you say was the key factor to you closing the transaction?

I think what really gave both our client and the buyer the security they were looking for to proceed with the transaction, especially on the part of the buyer who hadn't physically seen the facilities, was the live virtual tour we organized for them. One of the buyers' employees from its German subsidiary had spent one day at the facility, but nothing compares to seeing the plant for yourself with your own eyes. The client and I spent about two hours giving a virtual tour of the facilities using Teams on our mobiles. The majority of the buyers' senior management were on the call which was taped and later shared with the company chairman and board of directors. We were able to show them everything from the offices and warehouse to the machinery and changing rooms, as well as a live demonstration of the color-matching process.

The tour provided the opportunity for open conversation between the parties and was paramount in creating confidence and trust. The buyer was able to ask questions and resolve any doubts and insecurities. From the client's point of view, he was assured by the buyer's competence which confirmed that he was indeed the right fit for his business.

What would be your principal takeaway from your transaction experiences over the last year?

We can still do cross-border M&A deals, even though we can't meet. In fact, my colleague also recently closed a deal with a buyer in Norway, without having previously met the client. I admit to being a bit doubtful at first as building relationships and trust without meeting is difficult, but we made it work. Obviously for regional deals, we try to facilitate meetings between the buyers and sellers and organize site visits, but video conferencing is here to stay. Teams technology has worked really well for us. It has proven effective, efficient, and flexible, saving us time and money, and helping to streamline our processes.

Of course, it goes without saying, but it only works if you have your camera on, otherwise it's just a normal phone call – you need to be able to see the person and read their expressions and reactions whilst talking. ■



Creating an M&A Consolidation Play in the Electronic Manufacturing Sector



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TRANSACTION AT A GLANCE

CLIENT: Syrma Technology
SECTOR: Technology
TRANSACTION TYPE: Private Equity Raise
INVESTOR: Global Environment Fund

CLIENT: Syrma Technology
SECTOR: Technology and Manufacturing
TRANSACTION TYPE: Acquisition by Way of Cash-cum-Stock Merger
SELLER: SGS Tekniks

The transaction was conceived at IMAP India's HQ in Mumbai following the team's in-depth study of the electronic manufacturing services (EMS) sector in India. Though the country's consumption of electronic goods is expected to increase significantly, the team realized that the industry remains highly fragmented with a few large global players and several small to midsized domestic players. Furthermore, the domestic companies looking to scale, typically do not have adequate resources for acquisitions or for large capital expenditures. At the same time, there are a lot of PE funds, with vast investible funds that are keen to consider opportunities with potential to scale. So, the question was, could this be an opportunity for IMAP India to help domestic EMS companies consolidate through a platform funded by a PE fund.

An extensive pre-sale process followed, which focused on scanning the Indian market for suitable targets that would qualify for this type of play. Upon talking with potential companies and management, it became clear that in executing such a transaction and bringing two midsized companies together, many crucial questions would need to be tackled, including: do the consolidating businesses complement each other, are the management teams compatible, how would the

company be managed following a merger and what is the right financing structure?

For IMAP India, the initial challenges were: Identifying suitable candidates for consolidation and bringing in the right private equity fund to build the platform. Firstly, following significant investigation, IMAP India identified Syrma Technology ("Syrma") as the most suitable consolidator. Led by a young and dynamic team, Syrma provides turnkey solutions in electronics contract manufacturing and innovative products in radio-frequency identification (RFID) and magnetics and in FY 2019-20, it achieved revenues of \$55 million. Next it shortlisted SGS Tekniks, a highly reputed electronic manufacturing services provider in India, as the potential target. With its four operating founders already looking for a way to transition out of the firm, it was the ideal fit.

The transaction consisted of two processes: 1) Syrma's cash-cum-stock merger with SGS Tekniks and 2) Raising PE capital from Global Environment Fund, for the cash purchase of a strategic part stake in SGS Tekniks ahead of the merger. The transaction was not without its complexities and challenges and required the IMAP India team to manage the expectations of three parties through the complicated process. Combining Syrma and SGS' businesses created a platform in the EMS space with 4500+ employees, 110+ customers and eight production facilities across India.

A theoretic idea conceived in the boardroom of IMAP India, with three sets of transacting parties meant there were often differences and periods of uncertainties putting the entire deal at risk. However, given its inherent merit, IMAP's ability to build a consensus and the collective wisdom of the parties involved, it was pursued by all stakeholders to closure. This transaction enabled IMAP to establish credentials and relationships with key players and stakeholders in the EMS space and IMAP India hopes to leverage its experience to close similar deals in the sector. ■

IMAP Cross-Border Collaboration at its Best in M&A Mining Deal



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Stephen Altmann - Morrison Park Advisors (IMAP Canada) & Pedro Querio - FS Partners (IMAP Argentina) are co-winners of IMAP 2020 Collaborative IMAP Deal.

TRANSACTION AT A GLANCE

CLIENT: Minera Don Nicolás

SECTOR: Materials & Mining

TRANSACTION TYPE: Acquired Business Operations

SELLER: Cerrado Gold

While sector expertise plays a key role in successfully closing cross-border M&A transactions, advisors also need to be cultural mediators; to have knowledge of the local market and the ability to translate the environment and opportunity into something mutually intelligible. In this important mining transaction, IMAP Argentina and IMAP Canada's collaboration was instrumental in securing a premium outcome for both the client and buyer.

The story begins 1,625 km south west of Buenos Aires, Argentina in the Deseado Massif region, which is home to several multi-million-ounce gold and silver deposits. Minera Don Nicolás ("MDN"), an operating gold mine was owned by a group of Argentinian companies who had invested in the mine but were now contemplating an exit. IMAP Argentina, as trusted M&A advisors in Argentina had a strong relationship with the group, but no experience in mining. IMAP Canada on the other hand, were experts in the highly specialized mining sector.

While the mining industry is competitive, the volatile financial situation, both politically and fiscally in Argentina meant that several Canadian buyers were initially reluctant to enter. However, the team persevered and managed to secure a suitable buyer, Cerrado Gold, a Canadian gold production and exploration company.

The process was not without its challenges, particularly as there were 20 different sellers, represented by

5 different board members, requiring significant mediation and liaison. Under the terms of agreement, Cerrado Gold paid the selling shareholders a total consideration of \$45 million. The project currently supports 325 employees, and its mining and processing facilities are expected to produce 50,000 ounces of gold yearly and numerous exploration concessions totaling over 2700 km². With this acquisition, Cerrado immediately becomes a gold producer, which will complement ongoing exploration work at their Monte do Carmo property in Brazil.

According to Pedro Querio at IMAP's team in Argentina, if it hadn't been for IMAP Canada and in particular, Stephen Altmann's expertise in the sector and knowledge of potential buyers, they wouldn't have secured the mandate or been able to sell the business. Likewise, Stephen says that no matter where you are in the world, there is a certain way of doing business, each with their subtle differences. Having Pedro and his team's local operational experience in Argentina was integral to building trust and rapport, as well as business negotiations and communication. Having the team on the ground, managing due diligence, and coordinating site visit activity, was crucial.

The IMAP Argentina and Canada teams are currently investigating lithium projects together. With Argentina a premium region for lithium production and the electrical vehicle market receiving lots of attention globally, lithium-ion batteries are at the forefront of discussions and Stephen and Pedro see opportunities for M&A and future collaboration. ■

Mediso from Hungary Acquires Key MRI Technology in France



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More and more Hungarian companies in the diagnostics, medical implants or other devices fields are achieving great success worldwide. With the number of domestically produced devices in the Hungarian healthcare system remarkably low and products difficult to sell domestically, the companies have no choice than to compete on the global market. Two such firms recently made foreign acquisitions; Elektronika 77 in Germany and Mediso in France. Concorde MB Partners – IMAP Hungary spoke with Gergő Bagaméry, the director of preclinical product development at Mediso to discuss their recent acquisition and leading-edge nuclear medicine devices.

TRANSACTION AT A GLANCE

CLIENT: Mediso

SECTOR: Healthcare

TRANSACTION TYPE: Acquisition and Technology Transfer

SELLER: RS2D SAS

Mediso has evolved significantly since its founding, what was its original mission?

The company was founded by my parents, Erzsébet Zelei and István Bagaméry, following the regime change in 1990, to develop and service medical equipment. At the beginning, Mediso's operations included the maintenance, restoration, and modification of machines sold to COMECON countries by Gamma Művek, a state-owned Hungarian firm. However, realizing very quickly the machine's end-users, i.e., hospitals, unique set of requirements, it began its own product development. Just four years later, Mediso developed its first nuclear medical imaging device.

Was this the company's first acquisition?

Prior to this, Mediso took over the nuclear medicine department of previously mentioned Gamma Művek, including its key experts and we have also made several other smaller and larger technology purchases.

Mediso operates in the field of nuclear medicine, can you explain what this entails?

Nuclear medicine is the medical, diagnostic, therapeutic, and research activities performed with radioactive isotopes. It's an independent clinical area of expertise which is based on the track marker principle developed by Nobel prize laureate, György Hevesy. We perform imaging of the so-called radiopharmaceuticals introduced to living organisms, during which we can obtain quantitative and visual information about different biological processes. In the beginning, the company developed planar gamma cameras exclusively, then we began developing the single photon emission computed tomography (SPECT), followed by positron emission tomography (PET) devices, which remain our key competencies. We later expanded into CT and MRI technologies. Today, our high-end devices are capable of multimodal imaging, whereby imaging is realized by the synergistic interaction of different modalities, a good example being our unique PET/SPECT/CT three modality device.

In which markets are you currently present?

The company develops devices based on nuclear technology for human diagnostics, as well as preclinical, i.e., the examination of small animals in laboratories. Our first device developed for examining small animals was introduced in 2006, then in 2012, we introduced the world's first preclinical PET/MRI device. Mediso's products target small niche markets, a segment not taken particularly seriously by large competitors. However, using preclinical research,



Installation of an ANSTO machine at Semmelweis University in Budapest



Gergő Bagaméry (left), with his father, István Bagaméry

and the NanoSPECT/CT and NanoPET/CT product family developed by Mediso, it is possible to study the biochemical processes that are caused by diseases in small animals, along with the effects of healing procedures, therapies, and medicines. This is an extremely important field and through these activities we will surpass EUR 30 million in revenue this year. Our company and products are present in over 100 countries and our leading edge nanoScan® products are used by research institutions such as King's College London, Karolinska Institutet, John Hopkins University, and Northwestern University.

Can you share details of your recent acquisition in France?

Our first PET/MRI product was so successful that it became obvious that MRI technology has huge potential for us. Initially we built our product in collaboration with multiple developer companies yet our goal was to expand our cutting-edge PET/CT and SPECT/CT imaging diagnostic family MRI devices based on in-house technology which until then we had been purchasing. Furthermore, over the last six years, Mediso has been developing the nanoScan® MRI 3T and 7T product line within the framework of a commercial and license contract, which is recognized as a top-quality MRI device worldwide, consisting of a globally unique, completely liquid helium free, superconducting magnet.

So, in 2019, we signed a technology transfer contract with French healthcare technology company, RS2D SAS, which is a member of the Nanalysis Scientific Corp. (TSXV: NSCI, FRA: 1N1, USA: OTC: NSCIF) in which we purchased the MRI technology developed and licensed by RS2D SAS, including both the hardware and software components. The final phase of the acquisition and technology transfer completed in April 2021.

Our preclinical PET/MRI device was the first in the world.

Why is this acquisition so important to Mediso and what has it achieved?

It has always been of strategic importance, that the base technology for our devices belongs to us. We have reached a new level and besides the SPECT, PET and CT technologies developed by Mediso, MRI is now also an integral part of the imaging diagnostic devices developed by our company. It was also important from a company development perspective. During the nearly two-year-long technology transfer process, it was necessary to transform our infrastructure, and increase the MRI development department headcount to over 20 within our domestic headquarters. As a result, new markets with particularly high technological entry requirements have now opened for us.

We are market leaders in the field of nuclear medicine imaging-based research devices and with this new technology, our goal is to create multimodality imaging equipment that can track real time molecular and functional processes in the brain. The dynamic PET and functional MRI data collections on their own are already considered high-tech but undertaking both at the same time is an engineering marvel. Such a high level of integration can only be reached if all the components are developed together in-house.

What was your experience with your first foreign transaction?

The negotiation period preceding the contract signing took approximately a year. When buying such a complex technology, it is crucial that the parent company autonomously possesses all the necessary components following the IP transfer. Hence since the acquisition we have put a lot of effort into building up the MRI development team - the new technology can only work if we successfully transfer knowledge, as well as the IP. Going back to the original question, I personally enjoyed both the start of the process, which was immensely exciting from a business perspective, and from a professional point of view, the knowledge transfer phase.

What are your long-term development plans for Mediso?

The way I see it, following a quiet period during the last few years, many of the projects we have been carefully cultivating for some time will now come to fruition. By this I am referring to both product and business developments. Without giving away any spoilers, I believe the next five years are looking prosperous in every regard. ■

Leading Croatian Cleanroom & HVAC Specialist Enters European Microelectronics Market



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TRANSACTION AT A GLANCE

CLIENT: Klimaoprema

SECTOR: Industrials

TRANSACTION TYPE: Acquired Majority Control of Business Operations

SELLER: MCRT

IMAP SEE recently advised Klimaoprema, the leading Croatian provider of engineering solutions for cleanroom and HVAC systems, on its successful acquisition of German cleanroom and contamination technology supplier, MCRT. Creating Value sat down with Chairman & CEO of Klimaoprema, Sergio Galošić, to discuss the company's strategy for success, recent acquisition in Germany, and decision to move into the growing microelectronics market.

Can you tell us a little about Klimaoprema's history and your business?

As was quite normal under Yugoslav rule, we were previously owned by the government, until Croatia separated from Yugoslavia in the early 90's and our new shareholders joined. Over the years, due to the changing economic and political conditions, we've had our fair share of ups and downs, yet we have

successfully grown into one of the most respected innovative driven companies in the cleanroom sector. We have distinguished ourselves as reliable, offering customized solutions and our wide range of packages ensures we can meet all our client's needs. Moreover, our international reach is significant, and we export 95% of our products and services, the majority of which to western Europe.



Sergio Galošić, Chairman & CEO of Klimaoprema

Our headquarters are in Croatia, where we also have two factories, one of which houses 40,000m² of offices, production, and warehousing. Additionally, we have 8 companies abroad, in Russia, Hungary, Slovenia, Serbia, UAE, Bosnia & Herzegovina, and Macedonia and are in the process of opening a new company in Switzerland.

With over 550 employees, Klimaoprema's business comprises three divisions:

- *Cleanroom solutions* – offering turnkey services, from visibility studies to the CQV phase for pharmaceutical production sites. We currently work with almost all the top 10 pharmaceutical companies worldwide, including Pfizer, Novartis, Teva, Bayer, Takeda, Sanofi etc.
- *HVAC equipment production* – as one of the top 5 producers in Europe, we sell to large resellers, with western Europe our largest market.
- *Electronic solutions* – designing and producing electronics for ventilation systems.

What would you say is the secret to Klimaoprema's success?

I would say it all starts with our shareholders. We are a family-run business, with two family owners who are highly committed to creating an international reliable company dedicated to its customers and employees.

Additionally, we are a relatively young team of engineers, yet we have substantial experience in the European market. My background is in mechanical engineering and I was previously in the nuclear business, having started as an engineer developing robotics for non-destructive examination of nuclear power plants, later becoming CEO of the company. All my experience has been learnt on the foreign market, and when I joined Klimaoprema in 2016, my objective was to bring the company to the foreign market, which we have succeeded in doing.

Can you talk us through your decision for your recent acquisition of MCRT?

We are constantly investigating ways to expand, penetrate new markets and decrease risks in the business. In early 2019, we recognized that microelectronics was a growing market and with our cleanroom and pharmaceutical knowledge and experience, there was an opportunity for us to enter the microelectronic market that require production in a specific cleanroom environment. We devised our 5-year strategy, including microelectronics as an opportunity for us to explore and in late 2019, began investigating the market.



Klimaoprema New-KTB-1

At the start of 2020, MCRT's M&A advisor reached out to me directly to see if we were interested in an opportunity in the German market, with a well-known cleanroom company. They had found us in their search for a well-known company in the cleanroom business and though we deal in the pharma business, microelectronics are quite similar. We signed an NDA, began discussions and realizing that it was an extremely good fit for us, the project developed from there.

Why was MCRT the best choice for Klimaoprema?

MCRT offers a wide range of cleanroom systems, with an emphasis primarily on the design, planning, and production of so-called "mini-environments" for the Semiconductor industry and works with the world's largest manufacturers of optics, microelectronics, and nanotechnology. With our acquisition, we have gained top engineering staff, the use of advanced software packages, expanded our product range and sales capacity, and created opportunities for new employment.

You know, being in Croatia, the unfortunate reality is that it can be difficult to source highly skilled engineers in the numbers that we need. Therefore, having a company in Germany and presence in a

large-scale European market, as well as access to highly skilled engineers in our specific field, which is relatively small, is a huge advantage for us - even for that reason alone, acquiring MCRT was a great decision.

How did you come to choose IMAP Southeast Europe (SEE) as your M&A advisor and how was your experience?

We had prior experience with IMAP SEE, as they had helped some of our shareholders, who were also the owners of the HVAC company Pro-klima, to sell that company to the German group Wolf-Heiztechnik, so they recommended them to me for this acquisition. Having known the team for a while, we knew they were the right fit to help us in this important acquisition for the company.

We were extremely happy with how IMAP managed the process, especially Goran Popović and Tomislav Boban who led the charge. We didn't have any experience in M&A, so they helped us greatly and their experience in closing M&A deals in this region was crucial and we will be looking to the IMAP SEE team to support us in any future acquisitions.



Klimaoprema Panel Robot

You began the transaction shortly after the COVID pandemic broke, how did that affect the process?

It was extremely tough, involved a significant number of Teams calls, and unfortunately meant that we couldn't achieve our initial timeline. However, even with the restrictions, we were able to go to Germany to undertake the technical due diligence, which was the most demanding part of the M&A process and must be undertaken on site, unlike the legal and financial due diligence which can be managed remotely. It was difficult, but we were successful.

What would you say was the key to the success of this transaction?

We had our first physical meeting with MCRT's shareholders in October 2020, during which we shared our vision for the joint venture, and I think this was a crucial moment. They are very much a family-run business and I have a lot of experience in working in family business and we are a family-run business ourselves. They were able to see that we have the same values, as well as the knowledge and experience required to take their business to the foreign market, as they were present only in Germany at the time.

Furthermore, though the opportunity to acquire 100% of the company was on the table, we took the strategic decision to only acquire 75% of MCRT's shares. It was important for us that the shareholders remain on board and support the project and that the employees understood we were looking to partner with MCRT, and our objective is to take the business to the next level.

How are things going with MCRT following the acquisition, how are the results so far?

We placed one of our directors from Klimaoprema who had been working in the German market as the CEO of Klimaoprema Germany and he has a very good relationship with the shareholders and the feedback from the staff has been positive. The number of orders has increased over the last year and we are working on their production capacity extension as we were struggling to keep up. So, I would say so far so good, and we believe things will get even better as we improve our production efficiency.

Finally, what are your plans for Klimaoprema moving forward?

As well as continuing with our three core business areas, we will begin to develop the microelectronics line, which is a key market in Europe and continues to grow. We know that our main challenge to maintain clients and acquire new ones, is convincing them we can accompany them in their projects. Therefore, we are investing heavily in a new production area, optimizing production and product facilities. Secondly, we need to invest in people, in new acquisitions and be prepared for challenges in the market.

Alongside the microelectronics business, we intend to create a new department that will be responsible for the pharma business in Germany where we will now be present through the acquisition of MCRT, so that needs to be managed. ■



IMAP's US Partner Capstone Headwaters Becomes Capstone Partners

IMAP's US partner previously known as Capstone Headwaters - following its acquisition of Denver-based Headwaters three years ago - has changed its name to Capstone Partners.

John Ferrara, Capstone's Founder & CEO explains: "Having initially chosen the name to respect Headwaters' legacy, as time passed, we felt "Capstone Headwaters" sounded like two different firms put together, which didn't reflect who we are or what we stand for. "Capstone Partners" best expresses our corporate values and our dedication to being trusted partners to our clients, employees, and valued relationships."

An integral part of the firm's continued growth strategy, the rebranding included the unveiling of a new logo and website. With enhanced functionality, the new website – www.capstonepartners.com - showcases the full breadth of Capstone's capabilities and range of integrated services across the 12 industries it serves. Furthermore, it now includes

an extensive 'Industry Insights' section, providing owners, investors, and creditors of middle market companies access to hundreds of research reports and articles featuring market analysis and real-time trends.

According to Capstone's COO, Paul Janson, following a record three years, the COVID pandemic changed the firm's focus, shifting its priorities to protecting its people, supporting the community, and assisting clients through a difficult time: "It was truly amazing to be part of. Our team joined arms to get through the pandemic together. At the same time, our financial strength afforded us to pursue acquisitions, bring on new senior talent, and launch the next phase of our long-term growth strategy. We are true partners, and that is now reflected in our name." ■

RECOGNITION AS INDUSTRY LEADERS

Following an unprecedented year, Capstone Partners emerged as industry leaders, receiving not one, but three awards at the Global M&A Network's 3rd Annual USA M&A Atlas Awards, held virtually on May 25 and 26, 2021:

- **Investment Bank of the Year, Mid Markets**
- **Aero & Defense Deal of the Year** (Advising Sensor Concepts on its sale to Raptor Scientific, a portfolio company of L Squared)
- **Recapitalization Deal of the Year (smm)** (Advising BRC Recovery Family of Programs on its recapitalization by Veronis Schuler Steveson and NewSpring Capital)

The industry's most prestigious awards, they singularly honor best value-creating deals, outstanding firms, illustrious dealmakers, and legendary leaders from middle-market corporate, investor and deal communities from coast to coast.



Key Capital Celebrates 20 Years and a Catalogue of Wins



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Key Capital, IMAP's partner in Ireland is not short of grounds for celebration. This year marks 20 years since the firm's foundation and Jonathan Dalton, the firm's Head of Corporate Finance was named IMAP 2020 Dealmaker of the Year. Furthermore, despite the many challenges arising from the COVID pandemic last year, the team closed 5 M&A deals worth over €400 million in the Financial Services sector alone.

Jonathan Dalton puts the firm's success down to a combination of strategy and hard work, mixed with a little luck. He goes on to explain that several years ago, Key Capital took the decision to become focused on the Financial Services and Technology-Enabled Services sectors which they anticipated would have enormous appeal at a global level. This was coupled with a decision to focus on fewer deals, each with senior level involvement and attention, so as to deliver an outstanding level of service in terms of speed, de-risking, access to buyers, experience, and end results.

Focus on Technology-Enabled Financial Services Transactions

By focusing primarily on one sector, Jonathan and the team have gained unparalleled expertise and

understanding of the buyer universe and its behavior in processes, which is crucial in creating effective strategies for their clients. Successfully leveraging the knowledge gained from each transaction enables the team to bring that experience to the next client and so on, ensuring they consistently deliver an efficient, premium outcome. This is especially critical in the case of financial services transactions, which are notoriously complex, and test a team's expertise and agility in managing multiple parties and legal processes in different jurisdictions.

It has also allowed the team to develop an understanding of the range of business models in the sector, the valuation levers, and inhibitors in the eyes of investors, and the tools with which to craft a compelling equity story for each client. This,



We've been lucky to work with bigger institutional clients who demand a higher standard, and we've learnt from every deal and increased the quality of what we do.

alongside the strong relationships it has developed with the wider global buyer universe, including key European and North American private equity firms, has delivered excellent results for its clients. Fast-forward to today and the firm has secured its position as the market leader in Ireland in advising companies in the Technology-Enabled Services and Financial Services industries.

Speedier, Streamlined M&A Processes

Key Capital's success in 2020 amidst COVID demonstrates the team's ability to not only adapt to the challenging circumstances related to the pandemic, but also to capitalize, and adopt new methods and technologies to speed up and streamline processes. In fact, Jonathan shares that the team's largest and highest-profile Financial Services transaction in 2020, the sale of AA Ireland on behalf of the Carlyle

Group, was successfully completed in just 7 weeks. Requiring all-hands-on-deck, this timeline was made possible, among other factors, due to the firm's long-established philosophy to involve all levels of the team at every step of the process, resulting in the more junior members becoming experienced more quickly and a highly effective, skilled team across the board.

Another of the deals was taken on at the height of the pandemic, and unusually, without having met the client and by way of a previous client referral, an indicator of the team's credentials in the sector. Nothing however, replaces the chemistry of the early meetings with clients to really understand the business and build trust according to Jonathan.

With a positive start to 2021, and many deals underway and expected to close this year, Jonathan says he is proud that the hard work that the team has put in over a series of years has paid off, building the firm's reputation in the market, which has grown and flourished, enabling them to work on such a high caliber of deals. On being IMAP's Dealmaker of 2020, Jonathan reflected: *"Our success is largely down to being patient, resilient and tenacious - all characteristics that we as a team always try to have."* ■

Video Africa Virtual Investor Conference Drives Capital Raising Activities in Africa



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Verdant Capital – IMAP South Africa recently hosted its proprietary Video Africa virtual investor conference. Edmund Higenbottam, Managing Director at Verdant Capital shares details on the conference’s origins and explains why investor conferences such as theirs are so vital in terms of helping drive essential capital raising activities especially during the current economic crisis triggered by COVID-19.

What led to you to decide to host your own investor conference?

The first Video Africa was held last year during the first weeks of the disruption caused by the pandemic. We had been due to attend a large investor event in London, which we always attended and used as a key part of our marketing efforts, when just a couple of months before the event was due to take place, it was cancelled. This was the case for all the organized events in the first half of 2020. Investor conferences play a significant role in our annual program, where we can meet one-on-one with our clients and be at the forefront of their capital raising activities. We

were also acutely aware that many of our investors, unable to meet investees under these new and challenging circumstances and with more and more event cancellations, were concerned about their portfolios and business development, and how they would originate, source, and prosecute new deals. The capital that these institutions provide to micro, small and medium-sized enterprises (“MSMEs”) is essential and even more so during an economic crisis, therefore, we immediately took the decision to host our own investor conference, all in a virtual/video conference format, maintaining the same dates and meetings previously arranged with our clients.

Who was your target audience for the event and how was it received?

The conference was focused on fintech and microfinance and attended by capital raising clients and investor partners. It was so well received, that we immediately announced dates for 2021. At this year's conference and over a period of three days, we held more than 140 one-on-one meetings with 45 leading investors from 22 countries, as well as 18 of our selected clients, with operations in 13 countries across Africa, ranging from fintechs to inclusive financial institutions - all of which we have sell-side or capital raise mandates signed. Represented were microfinance banks, credit-only institutions, innovative credit businesses, technology-driven leasing businesses, payment companies, and insurtechs who are currently raising debt or equity through Verdant Capital.

What would you say were the key factors that contributed to the events success?

The online format, with tailored, high quality and screened one-on-one meetings, enables our clients to kick-start capital raising even under lockdown and strict and constantly changing restrictions. Furthermore, with no travel required, we managed to secure an even higher level of attendance than at your typical roadshow, which of course benefits all parties. Video Africa has proven an extremely efficient means to interact with, and ultimately invest in, leading fintechs and inclusive financial institutions from around the continent. Discussions during the event included new opportunities and new business models addressing perennial issues impacting access to financial services and the short-term challenges and medium-term opportunities presented by the COVID-19 pandemic and related lockdowns.

Why do you think investors are so keen to attend Video Africa?

Eight years ago, our goal was to become the biggest capital raising firm for mid-market financial services and microfinance in Africa, and I'm pleased to say that we have succeeded and are now the number one advisor in the private credit market. At the same time, our M&A business has doubled since we became a member of IMAP and of course M&A is a 2-legged business, and many of the capital raising activities have the potential to lead to M&A opportunities. We have worked extremely hard get to where we are, to establish a proven reputation, as well as build strong investor relationships and cement our position. We have also expanded our international reach and have access to a global IMAP team. Therefore, investors trust us to successfully deliver relevant opportunities, and our clients, to find the right investors and Video Africa is the ideal platform for this.

Are there plans for Verdant Capital to host a Video Africa 2022?

Given the success of the first two conferences, Video Africa will now be held annually, playing an important role in stimulating access to finance for institutions working within the parameters of the "new normal". The dates are already set for next year, March 8-10, 2022 and we are anticipating an even higher attendance as investors look to us to drive essential capital raising activities. In anticipation of the event becoming a regular feature of our business, we have trademarked "Video Africa". ■



Photo: Franz Philippson

Degroof Petercam – 150 Years in the Making and Original Founders Still at the Helm

This year, Degroof Petercam – IMAP’s partner in France & Belgium commemorates its 150th anniversary and boasts a rich history dating back to 1871. Nowadays, celebrating such longevity in any institution is rare and a testament to the solid foundations and fundamentals in place and even more so when you consider that Degroof Petercam remains in the hands of the original family shareholders, who still own a sizeable share of the business.

IMAP and Degroof Petercam not surprisingly, share many of the same values at their core. It was IMAP’s spirit of partnership, quality of the board and level of professionalism of IMAP members that were key criteria for Degroof Petercam when it was selecting

an M&A advisory to partner with to strengthen its international reach. Likewise, IMAP has found a partner whose exemplary transaction record, high levels of trust and client commitment complement the values across the global partnership.

Degroof Petercam were due to host IMAP’s 2021 Spring Conference in Paris this April. However, this was made impossible due to COVID pandemic and instead, IMAP members from around the world joined forces for a 4-day virtual conference. With sector credentials at the very forefront of the program, the sessions encapsulated best practices from partners across the globe who even during COVID, have successfully adapted, aligned and in many cases, grown their business.

François Wohrer, Head of Investment Banking and Executive Board Member at Degroof Petercam said: "Being the oldest institutional firm in the IMAP partnership, Degroof Petercam has faced and successfully navigated many waves, peaks and troughs over the years. Since joining IMAP, we have been able to offer our clients new international M&A opportunities and together with our IMAP colleagues, we are exploring potential new areas for collaboration in equity and debt capital markets. Unfortunately, circumstances forced us to postpone our physical conference this year, but we very much look forward to welcoming our IMAP colleagues to Paris in April 2022." ■



Poster promoting a loan to support post-war restoration works as an illustration of Degroof's contribution towards economic development and society by helping financing the infrastructure works after the war

DEGROOF PETERCAM'S 150 YEAR HISTORY

The story begins with 20-year-old Franz Philippson, who beginning his career in arbitrage, quickly went on to set up the Banque Philippson and several industrial businesses. With the help of his sons Jules and Maurice, the bank played a key role in major public loan issuances, the stabilization in the Belgian Franc and the privatization of the Belgian railways. When Germany invaded Belgium and France in 1940, and the Philippson family were forced to flee, two partners, including Jean Degroof continued to manage operations and the bank subsequently changed its name to Bank Degroof. Over the following years, the bank expanded the scale of its operations, opened branches in other countries and continued to play a pivotal role in the financial industry, including making the first successful privatization in Belgium.

Degroof Petercam as it is known today, is also closely tied to two other stockbrokers Léon Libert and Émile Van Campenhout, with a history dating back to 1919 and 1927, respectively.

In 1934, after the great depression, Léon's son-in-law, Lucien Peterbroeck, begins working with him. Later, in

1966, Jean Peterbroeck, specializing in private banking and Etienne and Emmanuel Van Campenhout, experts in currency trading, international arbitrage, and institutional investor relations, would go on to play a key role in the reforming of the stockbroking profession. In 1968, they form their own company, Peterbroeck and Campenhout & Co. also known as 'Petercam'.

Over the decades, both companies have contributed to prosperity by opening doors to new opportunities with the launch of numerous IPO's, the introduction of collective investment funds and the privatization of high-level institutions.

Many years later in 2015, Degroof merged with Petercam, to become Degroof Petercam as it is known today. Employing over 1400 professionals and with c.90 billion dollars/75 billion euros of Asset under Management, it offers a unique combination of services in Private Banking, Institutional Asset Management, Investment Banking, and Asset Services. To this day, more than 70% of the company remains in the hands of family shareholders.

Vintage picture of Petercam partners pre-merger




Selected IMAP Transactions

TECHNOLOGY



SPAIN


Acquired Business Operations



POLAND


IMAP
ADVISED ON SALE

TRANSPORTATION & LOGISTICS



C.H. ROBINSON
USA


Acquired 100% of Business Operations



NETHERLANDS


IMAP
ADVISED ON SALE OF COMPANY

CONSUMER & RETAIL



Natural. Precious. And simply good.
SWITZERLAND

Acquired Majority Control of Business Operations



ITALY

IMAP
ADVISED ON SALE OF COMPANY

INDUSTRIALS



UNITED STATES

Acquired 100% of Business Operations




UNITED STATES

IMAP
ADVISED ON SALE OF COMPANY

TECHNOLOGY

Several Investors
FRANCE


Acquired Investment Interest in Seller's Business



Technologies for healthcare
FRANCE


IMAP
ADVISED ON SALES OF SHARES

BUILDING PRODUCTS & SERVICES



CZECH REPUBLIC

Acquired 100% of Business Operations



CZECH REPUBLIC

IMAP
ADVISED ON PURCHASE OF COMPANY

TRANSPORTATION & LOGISTICS



Moved by Logistics
SPAIN

Acquired Selected Assets of Seller's Business Operations



COLOMBIA

IMAP
ADVISED ON SALE OF COMPANY

BUILDING PRODUCTS & SERVICES



INDIA


Acquired 100% of Business Operations



INDIA


IMAP
ADVISED ON SALE OF COMPANY

FINANCIAL SERVICES



UNITED KINGDOM

Acquired 100% of Business Operations



UNITED KINGDOM

IMAP
ADVISED ON SALE OF COMPANY

ENERGY & UTILITIES 



CANADA


Acquired 100% of Business Operations




CONNOR, CLARK & LUNN
INFRASTRUCTURE

CANADA


IMAP
ADVISED ON SALE OF COMPANY

TECHNOLOGY 




GERMANY


Has Entered Into a Partnership With



GERMANY


IMAP
ADVISED THE SHAREHOLDERS OF RAYNET

BUILDING PRODUCTS & SERVICES 



SPAIN

Acquired Selected Assets of Seller's Business Operations



BRAZIL

IMAP
ADVISED ON SALE OF COMPANY

TECHNOLOGY 



FINLAND

Acquired 100% of Business Operations



FINLAND

IMAP
ADVISED ON SALE OF COMPANY

TECHNOLOGY 




GERMANY


Acquired 100% of Business Operations



CEMA Spezialisten für Informationstechnologie
GERMANY


IMAP
ADVISED ON SALE OF COMPANY

HEALTHCARE 




SPAIN


Acquired 100% of Business Operations



SWITZERLAND


IMAP
ADVISED ON PURCHASE OF COMPANY

MATERIALS & CHEMICALS 



ISRAEL

Acquired 100% of Business Operations



SWEDEN


IMAP
ADVISED ON SALE OF COMPANY

BUILDING PRODUCTS & SERVICES 

AEDL Senior Creditors

UNITED KINGDOM

Acquired Majority Control of Business Operations



PORTUGAL

IMAP
ADVISED ON PURCHASE OF COMPANY

INDUSTRIALS 



UNITED STATES

Acquired 100% of Business Operations



UNITED STATES

IMAP
ADVISED ON SALE OF COMPANY

ABOUT IMAP

INTERNATIONAL MERGERS & ACQUISITION PARTNERS

Consistently ranked among the Top 10 middle market M&A advisors worldwide

450+

TEAM OF IMAP PROFESSIONALS WORLDWIDE



ENTREPRENEURIAL SPIRIT

- IMAP is a partner-driven, client-focused and independent M&A advisory.
- Senior experience and hands on involvement in deals – 230 Senior Transaction/ Transaction Advisors.
- Worldwide IMAP team comprising 450+ professionals.

47

YEARS OF M&A EXPERIENCE IN THE MIDDLE MARKET



MIDDLE MARKET FOCUS

- Sell-side advisory for primarily privately held companies and spin-offs from large groups.
- Strategic acquisitions for international corporates.
- "Sweet –spot" Transaction Values \$20 – 250 million.
- Strong PE and Family Office Coverage.

60+

OFFICES IN 43 COUNTRIES



GLOBAL REACH

- Proven cross-border advisory practice.
- Global sector & project teams across 15 sector groups.
- Leveraging local knowledge and corporate access in all relevant international markets.

\$110bn

TRANSACTION VALUE LAST 10 YEARS



EXECUTION EXPERIENCE

- IMAP has closed over 2,100 transactions valued at \$110 billion in the last 10 years.

GLOBAL PERFORMANCE 2020

218

M&A TRANSACTIONS

\$12.5bn

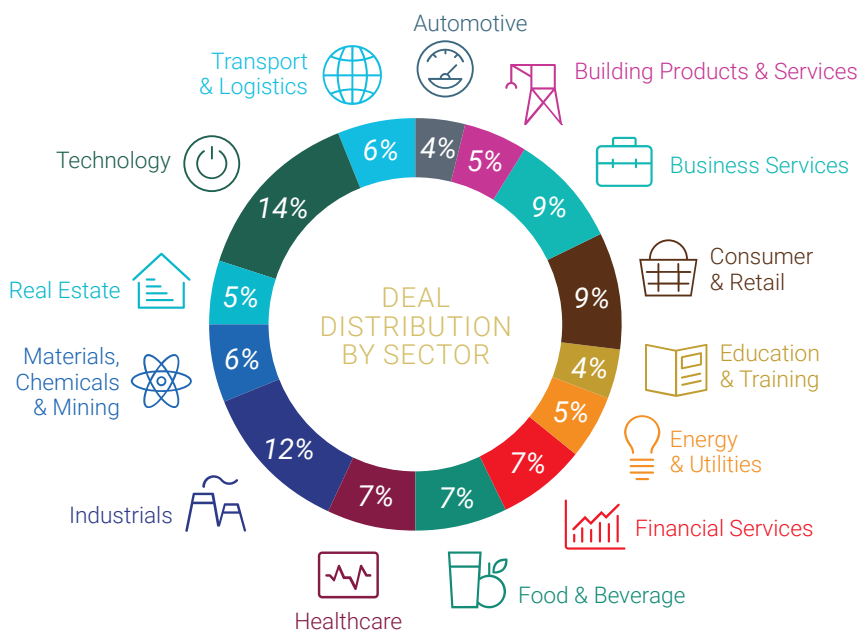
TRANSACTION VALUE

30%

CROSS-BORDER DEALS

6th

IN THE WORLD



GLOBAL PERFORMANCE

- 1 PwC
- 2 KPMG
- 3 Deloitte
- 4 Houlihan Lokey
- 5 Rothschild
- 6 **IMAP**
- 7 EY
- 8 Oaklins
- 9 Goldman Sachs
- 10 Lazard

Ranking based on number of transactions closed in 2020. Undisclosed values and values up to \$500 million. Source: Refinitiv and IMAP internal data.

GLOBAL REACH

Our cross-border experience extends across Europe, the Americas, Asia and Africa



North America

U.S.A.

Boston
Burlington
Chicago
Dallas
Denver
Detroit
Greenville
Houston
Los Angeles
Naples

New York
Philadelphia
Richmond
San Diego
San Francisco
St Louis
Tampa
Washington DC

Canada

Toronto
Vancouver

Latin America

Argentina
Brazil
Chile
Colombia
Mexico
Peru
Panama

Africa

Congo
Egypt
Ghana

Ivory Coast
Mauritius
Morocco
Nigeria
Senegal
South Africa

Asia

China
India
Japan
Thailand

Europe

Belgium
Bosnia & Herzegovina
Croatia
Czech Republic
Finland
France
Germany
Hungary
Ireland
Italy
Netherlands
Poland

Portugal
Russia
Serbia
Slovakia
Slovenia
Spain
Sweden
United Kingdom



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