

Robinson+Cole

Dividend Recapitalizations

A LIQUIDITY TOOL



Presenters



Leslie J. Levinson
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Les Levinson is co-chair of Robinson+Cole's Transactional Health Law Group and a member of both the Health Law and Business Transaction Groups, representing both private and public businesses. He maintains an active business law practice, with a concentration on the transactional, regulatory, and compliance representation of health care and life science clients, including home care and hospice companies, physician practices, hospitals, information technology and medical device companies, and health care investors and lenders. Mr. Levinson has completed more than 300 mergers and acquisitions and financing transactions.



Martin Magida
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Martin Magida is a Managing Director at Berkery Noyes, where he primarily assists clients with raising growth capital in the debt and equity markets. He also provides M&A advisory services to companies throughout the middle market. Over a 30-year investment banking career, Martin has advised clients in the technology, media, telecommunications, financial services, healthcare, and business services industries. Before joining Berkery Noyes, Martin was a Managing Director at Carter Morse & Mathias, a boutique investment bank. Prior to joining CMM in 2009, Martin was Group Head of Private Capital at Trenwith Group. His additional experience includes the investment banking groups of UBS, PaineWebber, and Unterberg Towbin, and the brokerage group of Drexel Burnham.

Presenters



Tannis Fussell

Senior Vice President,
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Tannis Fussell is a Senior Vice President in Corporate Finance at Prudential Capital Group, located in New York. She leads a team responsible for originating, executing, and managing capital investments in New Jersey, Connecticut, Eastern Pennsylvania, Quebec and Atlantic Canada. At Prudential Capital, Tannis is industry agnostic and invests across the capital structure, including both fixed and floating-rate senior debt, mezzanine debt and equity. Capital is typically provided to facilitate recapitalizations, dividends, acquisitions, refinancings, leveraged buyouts, management buyouts, and growth. Prior to joining Prudential in 2013, Tannis was an investor at Cordova, Smart & Williams, a private equity firm in New York. She began her career focusing on investment banking and private equity transactions at firms that include Donaldson, Lufkin & Jenrette and Morgan Stanley & Co.



Mike Conaton

Managing Partner, Cyprium
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Mike Conaton has over 30 years of investing experience. He is based in New York and is a founding member of Cyprium, a private equity fund providing non-controlling mezzanine and equity capital to founders, families, entrepreneurs and their profitable middle market companies in North America. Cyprium utilizes a combination of subordinated debt, preferred stock, and/or common stock to enable privately-held, non-sponsored businesses to achieve their financial and/or strategic objectives. Prior to forming Cyprium, he was a partner at Key Principal Partners, a predecessor fund manager with the same investment model. Mr. Conaton was previously a manager of alternative assets and direct investments for a private family office in San Francisco. Activities included direct equity and mezzanine investing in middle market businesses in the U.S., Asia and Europe.

Dividend Recapitalization Overview

► What is a dividend recapitalization?

- A dividend recapitalization is a transaction which introduces outside capital from a debt provider and/or an equity sponsor (i.e., a private equity firm) allowing a private company owner to create liquidity and diversify holdings while at the same time maintaining a majority or minority ownership in a company
- *The residual ownership provided by a recapitalization allows the seller to share in the future upside of the company via a “second bite of the apple” in a future sale or liquidity event*

► A recapitalization can be useful when:

- The Company has significant future growth potential
- Company owners are not yet ready to retire
- Family owners care about their legacy and want to continue keeping the business in the family name

Dividend Recapitalization Overview (Cont'd)

- ▶ **A dividend recapitalization can be a useful tool in solving a number of transaction related issues often faced by private business owners, including:**
 - Providing wealth diversification when an owner's net worth is tied up in only one asset
 - Facilitating the transfer of the business to the next generation
 - Funding tax liabilities associated with family succession
 - Allowing for the buyout of select shareholders with differing objectives
 - Attracting outside capital to fund future growth
 - Potentially resulting in a tax free reinvestment by selling shareholders

Current Market Trends

- Rates
- Leverage
- Term

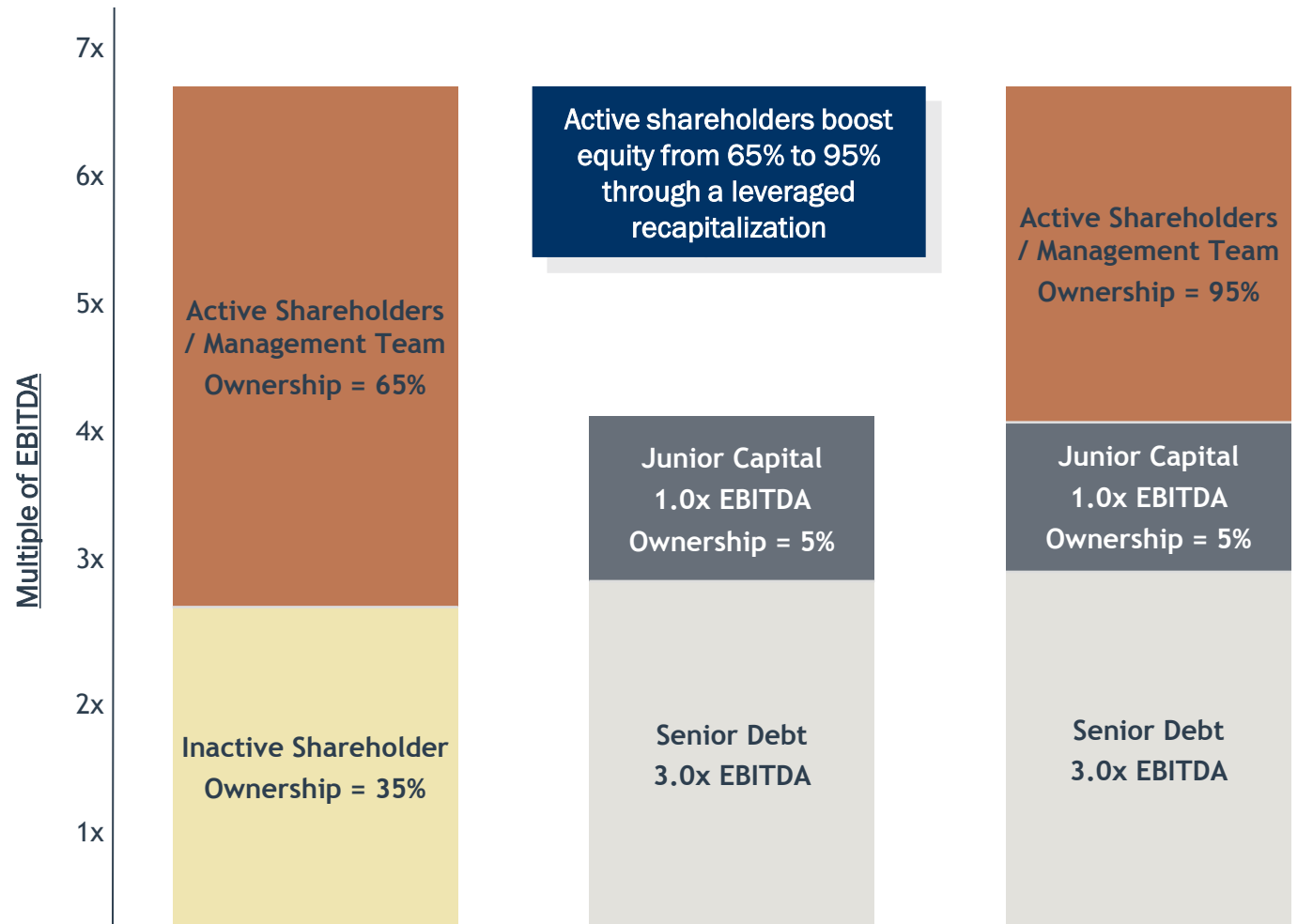
Dividend Recapitalization: Suitability

▸ **Basic suitability characteristics generally include:**

- Demonstrated history of positive cash flows
- Evidence of a strong management team
- A defensible market position
- The possibility to increase market share through inorganic growth (acquisitions)
- Realizable future growth plans
- Positive market dynamics (e.g., participating in a fragmented industry and/or the ability to enter untapped markets)
- Exit in a 3 to 7 year time frame via:
 - Sale of the company
 - Public equity offering
 - Another recapitalization

Minority Recapitalization Example

****Please note that the following example is hypothetical and is intended for illustration purposes only****

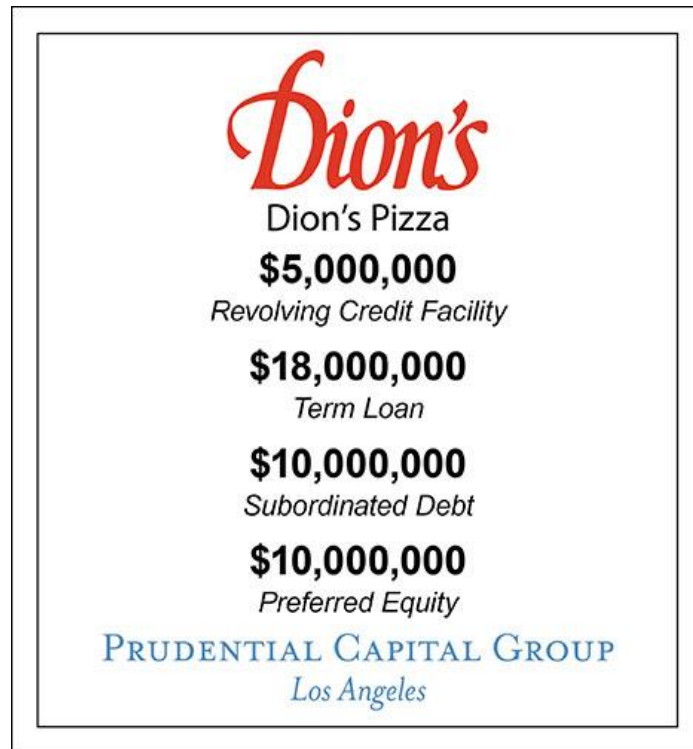


Note: Subject to the preferences of the issuer or the total amount of outside capital required to facilitate a minority recapitalization, common equity can also be substituted for or used in conjunction with junior capital.

Non-Control vs. Control

Recapitalization Characteristics	
<i>Minority Recap</i>	<i>Majority Recap</i>
<ul style="list-style-type: none">▪ Lower debt / leverage levels▪ Current owners retain operational and economic control▪ Owners perceive meaningful potential share value appreciation▪ Meaningful cash to owner at close▪ Owners concerned about legacy▪ Owners want themselves, family members and/or existing employees to remain active in the business▪ Investor selection and fit is critical▪ Strategic buyers/Competitors are not involved▪ Financial leverage benefit stays with majority owners▪ Owners/Sellers can refinance or recapitalize to own 100% again	<ul style="list-style-type: none">▪ Less concern about future leverage▪ Control transfers to new majority owner▪ PE firm uses leverage to create value▪ More cash to owner at close▪ Owners less concerned about legacy▪ All employees must be justified, including family members who are oftentimes not part of the company going forward▪ Owner / CEO impartial to control▪ Strategic buyers prominent in process▪ Competitors may be potential buyers so gain access to confidential information▪ Financial engineering benefits go to buyer

Minority Recapitalization Case Study



Business:

- Regional fast casual pizzeria

Situation:

- Founders of the business were interested in a significant liquidity event for estate planning purposes, but wanted to retain a meaningful equity position post-transaction
- Looked for financial partner with longer term perspective than typical equity fund given the time period needed to season new restaurants

Result:

- One-stop transaction consisting of \$18 million senior term debt, \$5 million revolving credit facility, \$10 million senior subordinated debt, and \$10 million preferred equity

Unique Angle:

- Ability to invest across the capital structure and patience of capital to allow owners to continue growing the business while retaining equity stake

Minority Investors: More Than \$\$

► What can an minority investor bring to the table?

- Fresh equity capital to fund liquidity/growth
- Relationships with potential customers and influencers
- Added credibility with lenders, customers, landlords, recruits
- The potential for follow-on equity infusions to enable accelerated growth and acquisitions
- Mergers and acquisitions expertise and transaction flow
- Support in accessing capital markets including the IPO markets
- Monitoring rather than managing
- Experience in helping similar companies navigate thorny issues
- Industry expertise