

Welcome

- Agenda for today:
 - Introduction participants
 - Developments & new board members
 - Case study StrawBerry ‘bridging the price gap in M&A dealmaking’
 - Informal gathering & networking

Board members

Global Chairman	Tim van der Meer	The Netherlands
Global Vice Chair & Chair N. America	Lee Lloyd	USA
Global Vice Chair & Chair N. America	David Suprenant	USA
Global Vice Chair & Chair Europe	Tim Rikmenspoel	The Netherlands
Vice Chair Europe	Ugo Girardi	Italy
Latin American Chairman	Seres Baum	Brazil
Asian Chairman	Raghu Marwah	India
Asian Chairman	Ben Ho	China
Latin American Chairman	Seres Baum	Brazil

Current developments

- Currently 189 members:



- M&A Meetings during all major conferences
- Tombstones on GGI-Mergers [website](#)
- Improving functionality of sharing buy and sale mandates via Dealmarket
- New board members & resignation of Helen Robinson as vice chair

StrawBerry Case

Financial Overview StrawBerry

P&L (x € 1,000)	2010	2011	2012	2013 (LE)	2014 (F)	2015 (F)
Turnover	30,000	35,000	37,000	38,500	40,500	42,000
EBIT	3,300	2,800	3,400	3,500	3,900	4,050
Balance sheet (x € 1,000)	2010	2011	2012	2013 (LE)		
Inventories		3,000	3,500	3,700	3,850	
Trade debtors		3,000	3,500	3,700	3,850	
Liquid assets		1,000	1,000	1,100	1,300	
Total assets		7,000	8,000	8,500	9,000	
Equity		3,000	3,500	3,700	3,850	
Creditors		3,000	3,500	3,700	3,850	
Debt		1,000	1,000	1,100	1,300	
Total equity and liabilities		7,000	8,000	8,500	9,000	

Valuation & transaction per 31-12-2013 (x € 1,000)

Valuation M&A member

Enterprise Value	30,000	
Liquid assets	1,100	+/+
Debt	1,100	-/-
Share Value	30,000	

Competing offers 35,000

Your max. valuation 30,000

Gap between valuation and competing offers -5,000

Introduction

StrawBerry is an international fruits and juices wholesaler based in Germany.

Case

How could you bridge the gap between your valuation and the competing offers:

- Earn out
- Earn in
- Vendor loan with equity kicker
- Recapitalization
- Other options?



StrawBerry Case

1. Earn out, Lee Lloyd & David Suprenant
2. Earn in, Tim Rikmenspoel
3. Vendor loan (with equity kicker), Tim van der Meer
4. Recapitalization, Tim Rikmenspoel
5. Other options? You?!

1. Earn Out

Lee & David

2. Earn in (by Buyer)

	Buyer Share%	Paid/Received Value/Price	Seller Share% (right to Profit)
Year 1	25%	7.5 mio	75%
Year 2	49%	7.4 mio	51%
Year 3	75%	7.6 mio	25%
Year 4	100%	<u>7.5 mio</u>	0%
Total		30 mio	151% of 3 years profit

- = average over 3 years of 50% of profit
50 % profit should be 1,700 profit to bridge ($3 \times 1,700 = 5,100$) the gap between 30,000 and 35,000 (of competing offers): last EBIT is 3,400
- after 2nd year change of decisive vote of shareholder to buyer (seller has received 126% /151% of profit by then)

Earn In (by Buyer)

- Arrangements in shareholder agreement (similar to earn out protection)
 - + no leakage of business to other legal entities of Buyer
 - + no payment of profit (dividend) other than to seller (or his consent)
 - + no intra group costs charged by Buyer
 - + voting rights seller at board/shareholder level, especially after year 2 (Seller holds 25% shares)
 - + drag along/tag along
 - + good leaver/bad leaver arrangements (Buyer)
 - + non-competition
 - + further consent of Seller for tranche 3 (decisive shareholder vote to Buyer)

Merits Earn In: Seller's perspective

Advantage Seller:

- Seller has 2 years of shareholding (with decisive vote) after closing
- Shareholding is security for payment by Buyer

Disadvantages Seller

- Difficult financial arrangements (4 tranches), performance of Buyer/Bank?
- Risk of price discussions on price future tranches of shares (despite contract)

Merits Earn In: Buyer's perspective

Advantages Buyer

- Easier financial arrangement
- Possibility to check future development company

Disadvantages Buyer

- Minority shareholder during the first 2 years;
- Performance Seller transfer future tranches (despite SPA)
- Future profit partly for Seller

3. Vendor Loan with equity kicker

Purchase price € 35 mio

Vendor Loan € 5 mio (+ bonus/malus)

Up-front € 30 mio

- Repayment of vendor loan in 2 years (2014 and 2015)
- Repayment dependent on meeting / failing forecast

Failing forecast

EBIT is only **50%** of forecast 2014 and 2015

Seller receives

- € 30 mio upfront
- Repayment of **€ 0 mio** (50% of € 5.0 mio)
- Repayment of **€ 1.25 mio** (50% of € 2.5 mio)

€ 31.25 mio + interest

Meeting forecast

EBIT is exactly as forecasted (**100%**)

Seller receives

- € 30 mio upfront
- Repayment of € **2.5 mio**
- Repayment of € **2.5 mio**

€ 35.0 mio + interest

Exceeding forecast

EBIT Exceeds forecast by 50% in both 2014 and 2015 (**150%**)

Seller receives

- € 30 mio upfront
- Repayment of € 2.5 mio + € **2.5 mio** bonus (50% x € 5 mio)
- Repayment of € 2.5 mio + € **1.25 mio** bonus (50% x € 2.5 mio)

€ 38.75 mio + interest

Vendor Loan + kicker

Advantages Buyer

- Incentives aligned
- Financing is easier

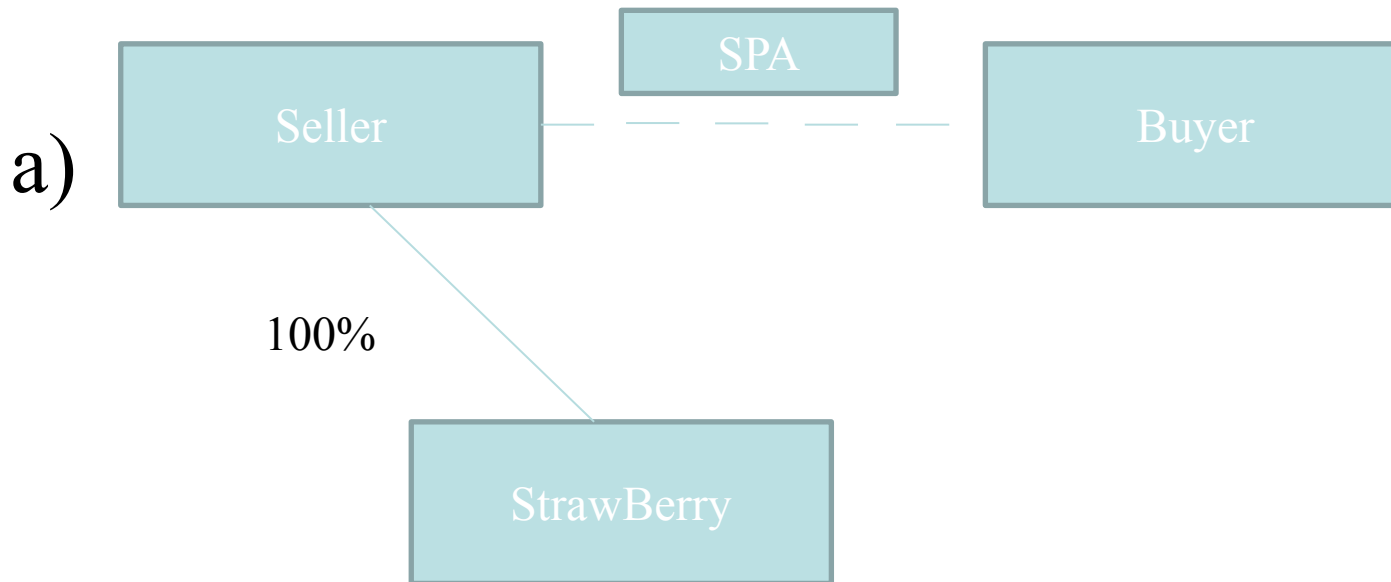
Disadvantages Buyer

- Seller shares in profit when over performing

(Dis-) advantages Seller

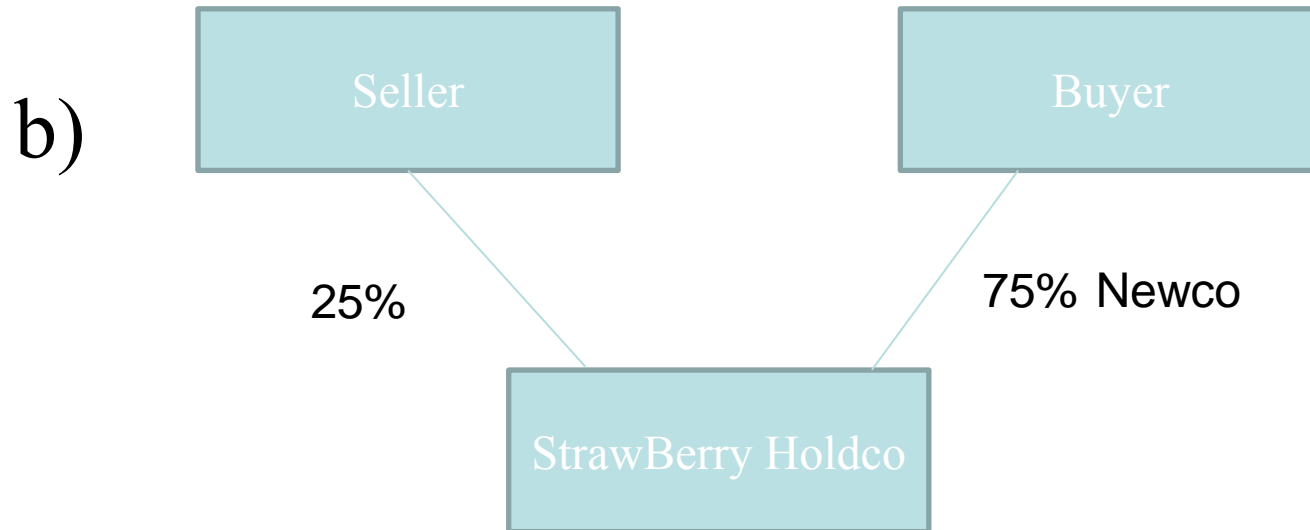
- Extra upside when over performing,
- Downside when not meeting forecast

4. Recapitalization: step 1



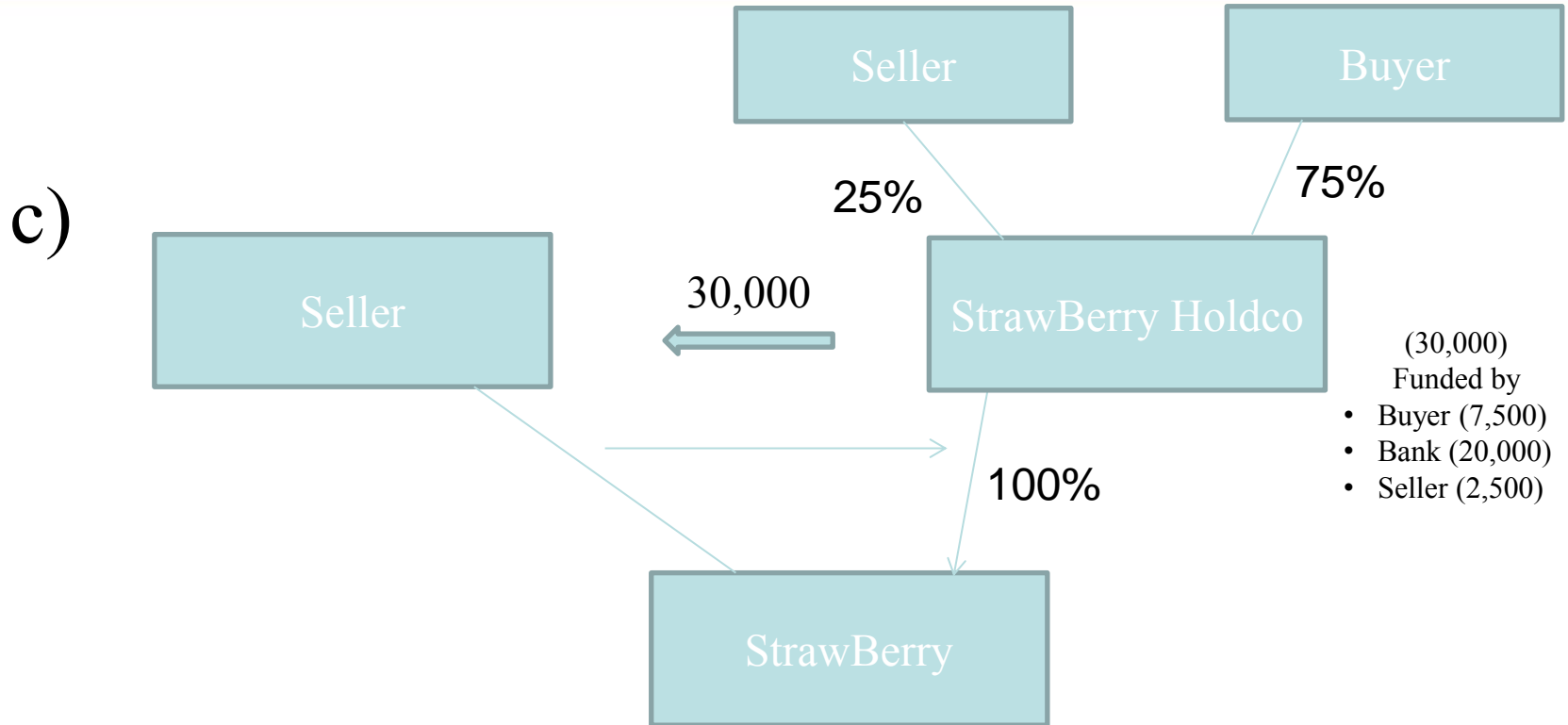
Seller agrees with Buyer on sale/purchase of StrawBerry

Recapitalization: step 2



Seller and Buyer found a new (holding) company as a buyer

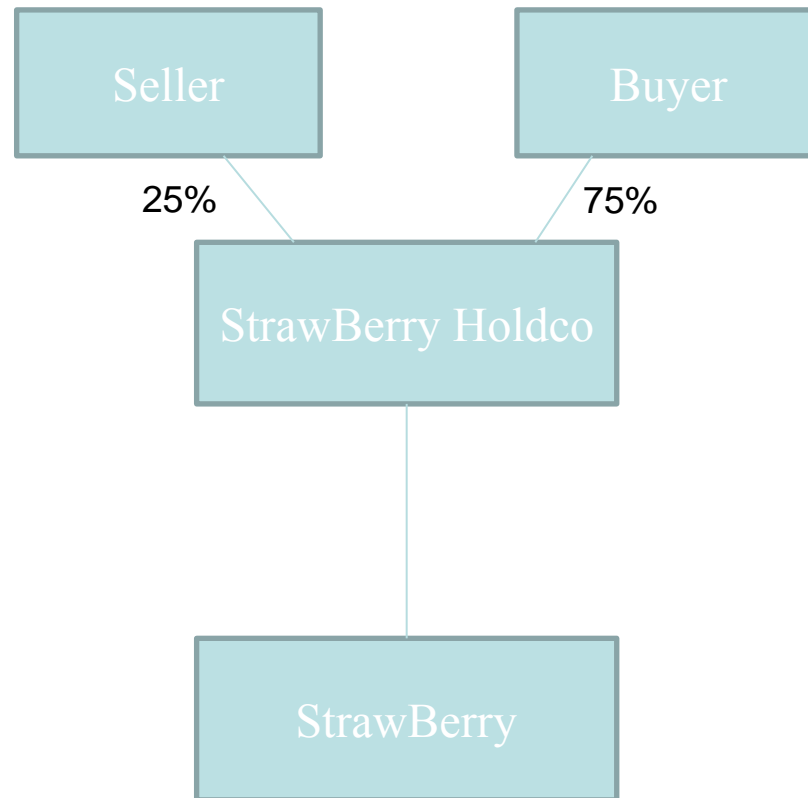
Recapitalization: step 3



Seller sells 100% Strawberry to Strawberry Holdco, Seller still holds indirectly 25% through Strawberry Holdco

Recapitalization: step 4/final situation

d)



Merits Recapitalization

Advantages

- Easier funding of the transaction because of involvement of Seller (both financially and commercially)
- Tax advantages (depending on country, e.g. for interest on financial arrangements)
- Involvement of Seller is also sign of confidence for Buyer
- Seller secures most of the current value and goodwill (75% and more), but can still profit of future added value to StrawBerry : this can also bridge the gap between the valuation and competing offers

Disadvantages

- Seller profits of banking arrangement and funding of Seller (however, would the deal have been possible without seller's involvement)
- Buyer is not the sole owner/shareholder of StrawBerry



Other options

Discussion

Network drinks at the hotelbar

Tribute to [Helen Robinson](#)