COLTALA™

The Coltala Group

Getting the Best Deal for Your Midsize Company

The Rise of the Holding Company

By

Edward J. Crawford

Co-founder (President)

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In the final weeks of 1879, a *New York Times* reporter was led through the laboratory of an inventor, "a short, thick-set man, with grimy hands," whose claims of "electric illumination" had been met with skepticism both by industry and by academia. The vision of electric lighting and commercial-scale power generation was that of Thomas Alva Edison, but it was not his vision alone.

With this groundbreaking technology still developing, intense competition had been building among the likes of Thomas Edison, George Westinghouse, and Nikola Tesla. Edison, already a successful businessman, needed resources beyond his own to meet the challenges of the new era.

Thomas Edison

Enter John Pierpont Morgan. Morgan had, in October of 1878, assembled a private investment group that would enable the founding of The Edison Electric Light Company* – a company that would hold "all of Edison's discoveries and supply him with the money for conducting his experiments." It was, as *The Times* put it, "the company which furnishes Mr. Edison with means."

There comes a time in the development of every established company when the need for additional "means" becomes apparent. Selling all or part of the company may be the best path forward in securing its future and the future of all of its constituents.

DECIDING TO SELL

Planning for succession and the sale of a thriving family business is every bit as essential to formulating corporate strategy as deciding what markets to enter and how to finance business operations. The more preparation the business owner has done, the greater the likelihood of an exceptionally good outcome.

In reviewing corporate and business-unit strategies, the owner must inventory the pros and cons of effecting a sale. There are a number of good reasons for selling a successful midsize business. A few of them are:

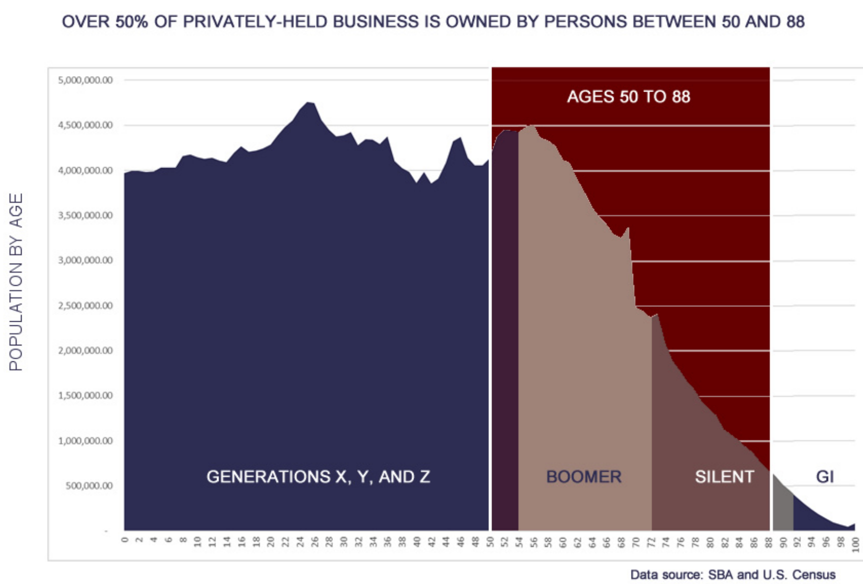
- A desire to reduce personal risk, liberate capital, and diversify assets
- Wanting to expand access to greater financial resources

- A need to scale the business to meet competitive pressures
- Planning for and implementing management succession
- A wish to bring in industry-specific operational expertise
- Securing the reputation of the brand and legacy of the business

The bad reasons for selling a family business are any that fall under the category of necessity. The old Wall Street adage applies here: *Sell when you can, not when you must.*

TIMING THE SALE

A macro-level analysis of the current market for midsize businesses will lead us immediately to supply-and-demand fundamentals and demographic considerations. U.S. Census data indicate that today over 50% of all privately-held businesses are owned by persons over 50 years of age with Baby Boomers (Americans born between 1946 and 1964) representing about 22% of the total population.



As time moves forward, we can readily predict that the marketplace will become inundated with sellers should everyone decide to exit at the same time.

OWNER EXPECTATIONS

Historically, many family and founder-owned company CEOs in the $30 million to $100 million annual revenue space have sold their businesses to private equity funds. Most often, the owner has three major goals:

1. Maximizing proceeds from the sale
2. Ensuring continuity of employment for themselves and their people
3. Securing the company's legacy

SELLING TO PRIVATE EQUITY GROUPS

Sale to a traditional private equity fund means that the business owner, assuming reasonable valuations in line with the market and industry multiples, will get the desired price. The owner will be able to reduce risk, place assets with financial advisors to diversify the family portfolio, and retain some degree of ownership, participation, and control.

The timeline in traditional private equity is, however, rather short. The group will focus on the next three to five years of operations with an emphasis on cost containment, expansion of margins, and an increase in bottom line – all factors designed to maximize the value of the company either for sale to a strategic buyer or for an IPO.

There will also be the matter of the *fund-raising cycle*. If your company has entered the fund cycle near the end of its deal-sourcing period, you may be subject to the consequences of a group distracted by the need to source capital to be employed in the *next* fund. Attention to your company's operations may be impaired at this time as a result and relationships with customers and employees may suffer.

The owner's consequences of a sale to a traditional private equity firm are that within five years the only choice may be retirement or continuing to work for a new corporate owner.

ENTER THE HOLDING COMPANY

In contrast to the traditional private equity investor's short timeline and focus on expenses, bottom line, and the sale of the company within five years, the holding company has a much longer time horizon. Warren Buffet, for example, has said that he would only buy companies that he would be "perfectly happy to hold if the market shut down for ten years."

With *forever* as the targeted holding period, the holding company has the ability to focus on developing operational excellence that will expand margins and contain costs leading to a better bottom line. Additionally, because holding companies rely less on leverage for profit and more on developing human and financial capital, the company is able to pursue market-share strategies that will augment the top line as well. The result is that although the owner has a smaller portion of the pie, it is a smaller portion of *a larger and growing pie*.

Holding companies typically pursue companies with already-strong management teams that will stay intact as plans for succession are developed up and down the hierarchy. The terms of sale can be tailored to meet the needs of the owner. The owner can get the desired price thereby effecting risk reduction and diversification of assets *in addition to* negotiating a compensation package that will ensure continued employment as the CEO of the family company for ten to 15 additional years, if desired.

THE NEW BUYER OF CHOICE FOR FOUNDER / CEOs

Private company CEOs exploring private equity sale options today should expect managerial expertise, rock-solid financing, and time horizons ranging from decades to forever.

It's the reason we, The Coltala Group, have structured ourselves to be ***A Diversified Holding Company with a Unique Concept in Private Equity Investing.***

* *The Edison Electric Light Company eventually became the General Electric Company – the only extant member of the original Dow 12 Industrial Companies.*

ABOUT EDWARD J. CRAWFORD

Co-founder (President)
The Coltala Group

Experience

Mr. Crawford is a Co-founder and President of The Coltala Group. He has over 15 years of experience in investing, asset management and building operating teams. As a Managing Director of Avesta Holdings, Mr. Crawford led business development activities; identified capital and acquisitions, special situation opportunities and managed key investor relationships. Mr. Crawford helped build Avesta's business to include over 320 employees and $1 billion in assets and $100 million in revenue.

Honor, Courage, Commitment

Mr. Crawford was a Vice President at Goldman Sachs where he spent seven years as an advisor to numerous CEOs, institutions and private company owners. Mr. Crawford joined Goldman Sachs from the private equity firm Advantage Capital Partners (ACP), a national lower, middle-market, private equity firm. Prior to joining ACP, he served as a Peace Corps volunteer in the Dominican Republic where, at 23 years of age, he founded a four-member coffee cooperative and grew it to include more than 200 coffee farmers with access to global markets. Mr. Crawford is a trustee of the New World Symphony in Miami Beach, Florida; a trustee on the Business School Council at The Freeman School of Business at Tulane University in New Orleans, Louisiana; and a Term Member of the Council on Foreign Relations.

As a U.S. Naval Intelligence Officer, Mr. Crawford served with Special Operations Command South in Latin America. From 2012-2013, he was deployed to Afghanistan as the Tribal and Political Adviser for SEAL Teams Two and Four as part of a Special Operations Task Force. He was awarded the Bronze Star for his service.

Education

- MBA, MIT Sloan School of Management
  (MIT Sloan Leadership Fellow)
- MA, GMBA Tulane University, Latin America Studies / Finance
  (Morton Aldrich Fellow / FLAS Fellow / Cowen Scholar)
- BA, Texas Christian University / English Literature

ABOUT THE COLTALA GROUP

The Coltala Group is a diversified holding company with a unique and proven enterprise system – The Coltala Enterprise System™ – that enables high-potential, small and midsize companies to achieve optimal scale. With our deep bench of experienced industry professionals, and more than 100 years of combined experience, Coltala is well positioned to acquire and unlock the potential of family businesses and privately-held companies in the healthcare, manufacturing and branded products and services industries. We are committed to being conscientious stewards of your company's legacy and to working with you and your team to take your company to the next level.

Over a Century of Combined Experience

CONTACT EDWARD J. CRAWFORD

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