

CREATING VALUE

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

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Golden Advice in Testing Times

Principles and Practices for
Ensuring Enterprise Value

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NEI Limited

ABOUT IMAP

IMAP

International M&A Partners

Chairman's Letter



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The New Normal

It is true, as one of our IMAP partners put it, that we have been turned into Zoom Zombies: online 4-6-8 hours or more a day with co-workers, partners, clients, prospects. Sure, it's not the same as having a coffee or a lunch or just being able to sit down and exchange thoughts, insights and crazy ideas with co-workers – it's actually much more intense. As executive coach Dan Sullivan puts it, social distancing these days is a complete misnomer – call it physical distancing, maybe, but we have never had more social interaction. I have spoken to almost all IMAP teams worldwide over the past couple of months and they are universally pumped-up with new ideas, new approaches, learning from their clients, finding opportunities in the wake of big challenges – in other words, just being IMAP.

A few weeks ago, IMAP published a special edition of Creating Value focused on the Covid-19 Crisis. The publication before you now goes back to fundamentals: in depth "Big Read" pieces about the importance of transforming legacy systems and another which unpacks the characteristics of a well-structured company. And we have case studies of recent collaborative IMAP transactions:

- Canadian and Argentinian IMAP partners seal a deal in the gold mining space.
- Indian and Czech IMAP partners advise an Indian tier-1 automotive supplier on acquisition of a Slovakia-based manufacturer.
- The German IMAP team helps guide a business owner who has spent decades building up a company that produces an innovative product in the consumer retail space.

So, in the "New Normal" we will travel less, and when we do travel, the experience will be more difficult. We will have more take-out, but the quality will be better. We will spend more time at home with our families, but that won't make work any easier. And, at IMAP, we will continue to help clients every day, virtually and physically, as they make the tough decisions to transform ideas into tangible change.

Stay safe.

A handwritten signature in black ink, which appears to read "J. Oniunas". The signature is fluid and cursive.

Crawl, Walk, Run: Transforming Legacy Systems to Build Enterprise Value



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Mark Fasold, Strategic Advisor to Falls River Group (FRG) – IMAP USA, talks about business transformation, detailing the proven approaches and principles that increase the likelihood of not only a successful outcome, but also a higher enterprise value.

It can be difficult to see the need to focus on increasing the value of your business if you have no immediate intention of selling. However, maximizing the value of your company is vital to ensuring that the business is salable in the future, as well as increasing your options in today's market.

Regardless of the industry, one of the key factors that impacts the value of a business is the company's

internal systems and processes. If they are unable to keep up with rapidly changing technologies, there will be negative financial and operational impacts throughout the company, which in turn lower enterprise value. The cost of older, legacy systems can be significant and will consume disproportionate resources to keep the systems working and hold back the company's ability to perform. Legacy processes and systems divert attention from the front-end of



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the business and servicing customers, hold back talented people, consume funds for more worthwhile investments, and prevent moving to the Cloud for improved IT processing.

The World of Enterprise Resource Planning (ERP) implementations is littered with failures. What can your company do to be successful?

There are no guarantees or prescribed paths to successfully transforming how your company implements and operates with a new ERP system. However, whatever your industry, there are proven approaches and principles that will greatly increase the probability of a successful outcome.

Recognize the Problem

The most important first step for success is to recognize the problem with the current operating environment and make a senior level commitment to transform how the company operates. In other words, the leadership team must create a 'burning platform' for the organization as to why such a large change is needed. Creating the organizational imperative for a transformational change involves deep introspection into how the current situation is negatively affecting the

company, along with the related costs. Another critical insight to explore is what happens if nothing is done? In most cases, the initial assessment will come as a surprise to the leadership team in terms of how poorly (and costly) the current configuration is operating.

Organizing and Assigning the Resources

The next step is organizing and assigning the necessary resources to address the 'burning platform' assessment. Resist seeing this effort as an IT project, which will lessen the chances of success. It is imperative that senior management lead the transformation effort and the lead sponsor for the effort needs to be a C-suite executive directly accountable to the CEO/Owners.

Develop a Roadmap for Success

Another important activity to undertake early on is establishing a robust and detailed roadmap for success. Roadmaps can take many forms, but the content needs to establish budgets, timelines and major events such as Go-Live and be specific on the expected outcomes, including the financial/operational impacts and ROI's. One word of caution - spend more time here than you think may be

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LEGACY SYSTEMS AND CREATING BUSINESS VALUE

necessary to fully vet the plan, or in other words 'go - slow to go - fast', as thinking through the elements of the roadmap will pay off throughout the project. Ensure you perform risk assessment/mitigation as the roadmap is executed.

The entire process that leads to the Go-Live date should take 9-15 months, depending on the scope of the effort. The software products will have a myriad of modules and functionality that will require critical scope choices for the initial Go-Live.

Set up a Governance Structure

The transformational effort will require a few levels of oversight. As a result, the governance structure is critical and if established with role clarity and who gets to decide what, the chances of success go way up. In general, there would be 2-3 layers of oversight. The most senior governance group is the executive team, that approves budgets, scope and priorities. The next level down is some form of interdisciplinary team, chaired by the C-suite sponsor, followed by the work teams that execute the ground level work, i.e. the new processes and systems. One key point - putting your best people on these teams will also increase the chances of success.

Establish Guiding Principles

The senior team in your company must come to agreement on the guiding principles that the various teams will use to execute the work. These can include such matters as: no customizing core code;

The leadership team must create a 'burning platform' for the organization as to why such a large change is needed.

use standard reports to start; successful Go-Live is the first priority vs. adherence to a schedule and even budget; pursue basics first before advanced capabilities (see Crawl - Walk - Run below); focus on industry proven ERP vs. more general enterprise products; and so on. Think of these principles as guiding strategies and key choices to set guidelines for the incredible amount of work ahead. Changing the principles requires Executive Team agreement.

Adhere to Crawl - Walk - Run Methodology

The principle of Crawl - Walk - Run is to get the basics of the new system running smoothly first and then move onto the more complicated capabilities of the new ERP system. This straightforward concept ensures the base functionality in the ERP system works without fail early on. The Walk & Run capabilities come later. Many a company has violated the Crawl - Walk - Run methodology and paid the price at Go-Live. Get ready - the software companies and people inside the company will request the more complicated features all for good reason, so saying 'not now' will de-risk Go-Live immensely and get some early wins.



Software Selection

What’s available in the current software marketplace is beyond what can be imagined. The large players such as SAP, Oracle and Microsoft, have tools that are powerful and risky at the same time, given their enormity and computing power. The choice of software should be guided by the roadmap and guiding principles. Industry specific software can be researched at trade shows where you can meet with multiple software providers and hear their pitches. You will be presented to by sales and business development teams and not the practitioners that will work on your implementation, so insist on meeting the implementation team to assess compatibility and ability. Lastly, beware - software companies like to razzle dazzle you and promise the world with slick slide shows and all the Walk and Run capabilities. You have to cut through all the noise and look at the core fundamental capabilities and functionality to start.

FURTHER PRINCIPLES FOR SUCCESS

1. Prepare for the unexpected - it will happen
2. Start with basic reports & dashboards. Complexity impedes post Go-Live stability
3. Think transformative change vs. solving current pain points
4. Resist employee desire to replicate how processes work today
5. Put mechanisms in place to track progress on a weekly/daily basis
6. Develop leading indicators to spot schedule slippage
7. “De-risk” the plan ruthlessly. Remove anything not required for “Crawl”
8. Detailed cut-over plans and “dry runs” are key to a smooth implementation
9. Communicate often to the organization and get them ready for the change
10. Plan contingency dollars into the budget ~ 10-20%
11. Regularly update the Executive Team & Board - creating accountability

What happens once the system is up and running?

The benefits from a successful implementation and Go-Live are not immediate. The first few weeks will be challenging, regardless of how smoothly things went because people are adjusting to the new ERP tool and processes. This crucial hyper-care phase needs to be attended to by the power users that learned the system inside and out before Go-Live.

In reality, it takes more than 12-24 months to get the full payback and expected results. Once the system and new processes take hold and if the Crawl – Walk – Run methodology was followed, it’s almost guaranteed the benefits will exceed expectations. Remember, the more the company initially implements ERP features that are incrementally complex and harder to understand, the longer it will take to get the benefits.



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LEGACY SYSTEMS AND CREATING BUSINESS VALUE

What are the benefits for the company?

After all the work to Go-Live, including headaches, tough choices, stressful moments, and employee fatigue, what's in it for the business? What can be expected in terms of positive results and minimum expectations?

- a. Expect a 5-7year IRR in the 20-30+% range. If your business is a working capital-intensive business, the potential increased cash flow from better inventory and receivables management could be significant.
- b. Work will go away and reduced head count follows. The cost savings will be in many functional areas. There must be a disciplined approach to eliminate positions whereby the old and inefficient work processes are eliminated. Eliminating 5-10% of the positions is a reasonable target.
- c. Maintaining new systems, all-in, is cheaper in most cases, especially systems maintenance. The roadmap needs to get quite specific as to the IT infrastructure that will cease with the new ERP and the old remnants of legacy systems must be eliminated entirely.
- d. Technology resources are freed up to work on client/customer facing opportunities. The ability to turn your attention to your customers will be the significant benefit.
- e. Asset management gets easier and quantifiable improvements will be obvious (e.g., inventory cash flow gains and better AR management).
- f. Costly company owned data centers can be phased out. Cloud based solutions offer efficiencies and more bandwidth.
- g. The Company will simply run better. Employees will enjoy their work more and with 'one version of the truth' information and reports, the organization will be better informed.

A company's ERP is one of the most important factors in determining whether an M&A transaction will be a success or failure.

A successful ERP implementation will enable a company to achieve peak financial performance, enhancing its value, both intrinsically and should the business owner wish to sell, to potential acquirers.

Securing a strong position for your company in a competitive market

A company's ERP is one of the most important factors in determining whether an M&A transaction will be a success or failure. If an old legacy system is still in place, this will be a red flag to buyers. Clearly, a merger or acquisition can provide a strategic platform for future growth, but it can also accelerate enterprise software challenges. The key is to understand how the combined businesses are going to run going forward in order to understand which systems need to be kept, upgraded or retired.

What are the biggest value drivers for implementing an ERP or replacing an old legacy system?

To standardize global business operations; to ensure regulatory compliance; to make employee's jobs more efficient; to better serve customers and keep them loyal; to position the company for competitive hurdles or other market dynamics; to better track and improve the company's performance; to increase the integration of systems across varied locations; to ensure the company is well positioned for growth; and to reduce operational and reporting complexities.

Falls River Group LLC, and our IMAP partners worldwide, understand these critical ERP and legacy system dynamics and know how to best position companies in a very competitive landscape for a sale, an acquisition or the selection of a financial partner. ■

Mark Fasold is a Strategic Advisor with Falls River Group. He is the retired CFO at L.L. Bean with extensive consumer products and omni-channel retail experience. Mark continues to serve on several boards, including that of Korean based manufacturing company, Youngone Corporation, and advises business owners, boards and CEO's with his demonstrated executive ability to develop strategy, talent, systems and processes needed to create dramatic shifts in performance. He developed a global perspective through extensive international work in supply chain/ logistics, retail ventures and management of sourcing/ back office operations in Asia and Costa Rica.

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 our relationships run deep. Our thorough and disciplined process, in combination with our unmatched industry expertise, results in superior valuations, faster closings and successful client outcomes.

Unpacking the Elements of a Well-Structured Company



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Gábor Szendrői, from IMAP Hungary, outlines why owners of well-structured companies are not only better positioned to maximize the value of their company as an asset but will also have more options when deciding their future.

Based on our IMAP transaction experience, many smaller local companies unfortunately don't realize until it's too late, usually right before they sell, that a lack of operational structure decreases the company's value. Similarly, company founders or business owners who decide to retire and subsequently try to involve an independent executive in running the company, realize that too much knowledge of the company's operations is stored inside their own head. So much so, that it's impossible to pass onto someone who hasn't spent the same amount of time facing the same set of issues, in a similar position. In each of these cases, "the corporate structure" is missing.

Determining What Constitutes a Structured Company

In terms of their level of operational structuring, companies can be categorized into 2 different types: poorly or under-structured companies and well-organized or well-structured companies.

Poorly structured companies are characterized by the fact that the company is organized solely around the

founder-owner-executive, who essentially acts as a one-man band. Their opinion is sought on everything and they are almost always the decision maker; having knowledge on everything and if an issue arises, they will be involved in the solution. Maintaining relationships with client decision makers, customers subsequently call them directly with questions.

The concept of a well-structured company is that the top manager only decides on the most important issues, whilst there is a structure below them, with the ability, skill and most importantly, power, to make key decisions within their own area of competence, including whether or not to request help from their superiors.

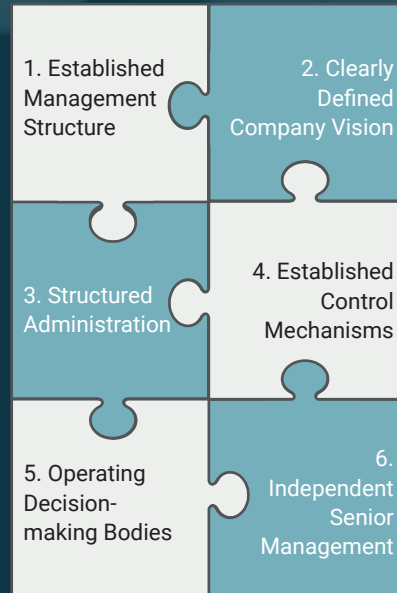
Essential Characteristics of a Well-structured Company

We have developed the 6 key elements of a well-structured company, based on the *Family Firms and their Governance - Creating Tomorrow's Company from Today's* case study by Sir Adrian Cadbury, published by Egon Zehnder, on Cadbury, the UK-based chocolate company, as well as our practical experience working

ELEMENTS THAT DIFFERENTIATE AN UNDER-STRUCTURED COMPANY FROM A WELL-STRUCTURED ONE



Company organized around the founder-owner-executive with everything decided inside the owner's head



VS.



closely with hundreds of large local mid-sized companies.

1. Established Management Structure, i.e. Middle Management

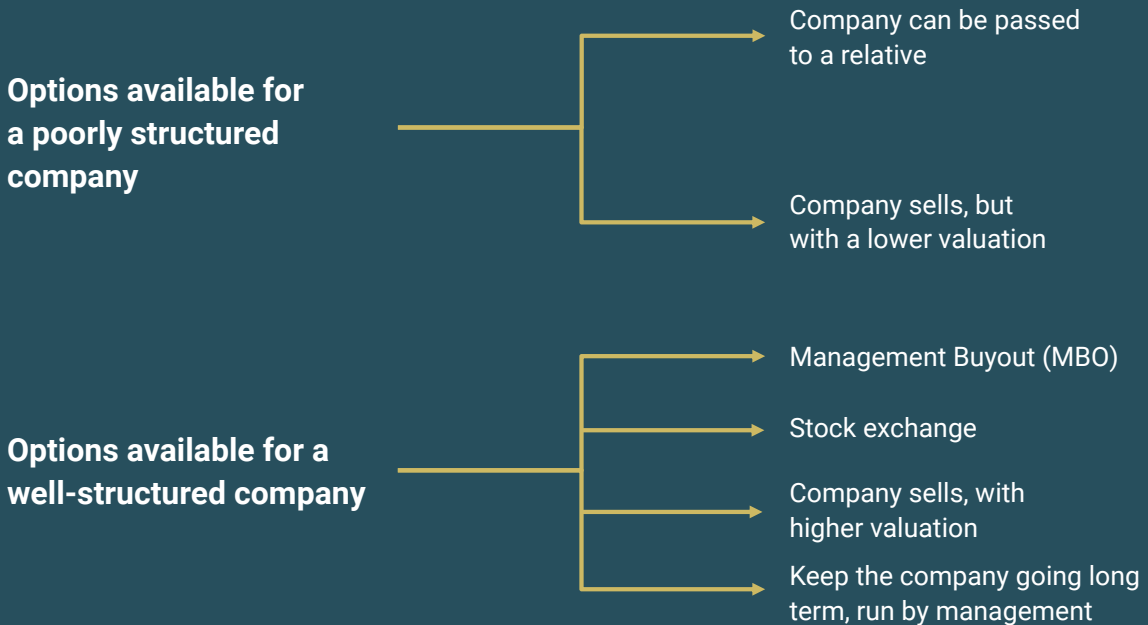
In many local medium-sized companies, the owner holds the most important customer relationships and also looks for new clients. Though there is some form of plant manager, the owner is still consulted, even for the tiniest details during the manufacturing process. Likewise, finances are handled by a family member, who often has no specialized education. There is no authorized executive team, looking to achieve optimum corporate performance, with the authority to make decisions, even in only a small, well-defined remit. Such leadership teams cost money; through analysis, we have shown that a full management team (4-5 people) in a local mid-sized company incurs a cost of at least EUR 1 million, including a CEO (depending on the jurisdiction). Therefore, this is a large cost saving, for someone not

incorporating this level of management structure into the company. However, this leads to two issues as a result: firstly, the current person/manager takes on much more work and responsibility necessary due to the lack of middle management, and secondly, whoever takes over the company would need to do the same or incur extensive additional costs by establishing their own middle management team.

2. Clearly Defined Company Vision

Many local companies lack a clearly defined company strategy. There is no well thought out 2-3-year business plan which management follows, formally defined projects, project descriptions for selected projects or project postmortems at closure. As such, many things are done ad-hoc, driven by current events and with little formalization. This may be perfectly in line with the operating model used by companies with old business habits; however, this practice is not conducive to businesses looking to sell.

WHAT ARE THE MAIN BENEFITS OF A WELL-STRUCTURED COMPANY?



3. Structured Administration

For many of our clients, we see that financial administration only means complying with accounting laws, i.e. there are no control systems, or management reports. In many cases, financial audit processes are endlessly simplified providing legal compliance only and do not serve to ensure that the owner is confident that his or her company is operating properly. This practice only works as long as all the other details are carefully stored in the business owner’s executive head and if no serious due diligence has been carried out. However, it is unsustainable the moment the ownership and management roles are separated, and the company goes up for sale. In this case, we often see that practices that do not comply with the latest legislation are discovered and the budget, energy and time required to implement a structured administration is not always available.

4. Established Control Mechanisms

Very few domestic medium and large companies have processes in place for systematic business risk analysis. Hardly any systematically follow their competitors, analyzing the concentration of their customer portfolio or their suppliers. Likewise, only a

small number systematically use different methods of financial risk management.

5. Operating Decision-making Bodies

There is hardly any domestic medium or large enterprise that we know of, that has some form of corporate governance - whereby the owner is supported by a consultative body, a supervisory board or a board of directors. Where we have found this to be the case, the owner greatly appreciates having an external party involved in making decisions, ensuring that the opinions, experience and knowledge of others further contribute to the success of their business.

6. Independent Senior Management

The most significant indicator of a company being well-structured, is its successful appointment of a long-term independent executive, who runs the company under independent management. According to the puzzle (on p.9), the 6 levels are interconnected; however, we believe that there is also a timetable for structuring that is determined by order. In our experience, no independent executive can be appointed nor function, unless the first 5 elements have been adequately resolved.

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THE VALUE OF WELL-STRUCTURED COMPANIES

Choosing the right independent senior manager takes time and money and there isn't a recipe for success. That being said, we have observed some best practices in this space. While entrepreneurs don't necessarily like talking to advisors, this is a point in time for the company, when we would highly recommend they do so, not only in order to identify the best candidates, but also to integrate them successfully into the company's operations. While this isn't a service normally provided by investment banks such as ourselves, we recently cooperated with one of our clients in such a process. The client needed a CEO and we just so happened to know a good CEO who was looking for a new role, so we recommended him. The company owner, together with the new CEO, retained an HR consultant who, in the space of 3 months, worked with them on the integration process. This onboarding effort was essential and ensured the CEO remains with the company today.

Obviously, one of the reasons why entrepreneurs dislike the idea of recruiting a CEO is that it increases operating costs. However, if the entrepreneur doesn't receive a market-like compensation package, i.e. the compensation is in the form of entrepreneurial dividend, yet part of this is considered a salary for the role, then rather than seeing this as an additional cost, it should be seen as merely paying someone else.

The Value of a Well-structured Company for Business Owners

We see two main values, which are, of course, related but relevant in different life situations of well-structured companies. On the one hand, based on our own transaction experiences and those of our IMAP partners, we see that higher company valuations can be achieved in such cases. This is important not only for those looking to sell their company, but also for business owners seeking to maximize the value of their company as an asset.

If a business owner decides to sell, it is without a doubt, much easier to sell a well-structured company. Such companies will appeal to a much wider range of investors and when faced with competition, are more likely to achieve a better valuation.

On the other hand, it provides owners significantly more options when it comes to deciding the future of their company. In our experience, owners of poorly structured companies have only 2 options for transferring their business; either selling it cheaply or trying to pass it onto their children/relatives, which will either succeed, or potentially fail.

However, for well-structured companies, there are several options for transferring the business. It can be transferred in a managed manner to a descendant who either enters into a management position or manages the company under independent management. In the case of a company with established management, the management buy-out (MBO) option opens; that is, existing management is in many cases able to buy companies from the owner using a variety of financing alternatives. In 2019, IMAP Hungary managed 2 MBO projects in Hungary. For larger companies, a well-established structure is the key to getting listed, which can be an interesting option, that allows for a partial exit for a business owner.

In conclusion, it is our experience, that if a business owner decides to sell, it is without a doubt, much easier to sell a well-structured company. Such companies will appeal to a much wider range of investors and when faced with competition, are more likely to achieve a better valuation, compared to a poorly structured company. ■



The Gold Standard in International Transactions



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Stephen Altmann from IMAP Canada discusses co-advising Argentinian gold mining company, Minera Don Nicolas, on its sale to Cerrado Gold, with IMAP Argentina, and how by combining knowledge and expertise, they were able to successfully close the deal and demonstrate the true strength of the IMAP global team.



When my firm Morrison Park Advisors (MPA) first joined IMAP, I was initially skeptical. I couldn't see how this global partnership might work for closing deals in the mining space. With low expectations, I attended my first IMAP Conference in 2016 in Boston. I met several people there and it quickly became clear that maybe, just maybe, there was something to this IMAP relationship.

Laying the Foundations for a Successful Mandate

It was in Boston where I first met Pablo Teubal, a Partner at FS Partners (IMAP Argentina). He told me that he knew about a newly built gold mine called Minera Don Nicolas ("MDN"). It was owned and operated by a consortium of 17 shareholders (the "Shareholders") which are well established Argentine industrial companies. These Shareholders

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MINERA DON NICOLAS

acquired MDN in 2014 after the federal government led by Cristina Fernández de Kirchner (2007-2015) tightened foreign exchange controls, effectively obligating industrial companies in Argentina to invest in industries yielding US\$ revenues, including those in the mining sector. When the subsequent government led by Mauricio Macri (2015-2019) relaxed these initiatives, MDN became a non-core asset and the Shareholders started considering whether to sell its mining operations. As several months passed, Pablo kept me updated as further developments evolved.

It wasn't until early 2018 that the Shareholders started realizing that operating a gold mine was not easy, especially when it was not their core business. They decided that perhaps it was time to stop the bleeding and 4 of the Shareholder companies which owned 85% of MDN (the "Major Shareholders") were tasked to look for strategic alternatives. They subsequently conducted a 'beauty contest' and invited three investment banks to pitch their ideas.

We won the mandate, based on our combined expertise in the mining industry and doing transactions in Argentina. Together, our firms provided extensive qualifications and experience in these key areas.

MPA and FS Partners coordinated a pitch book and together presented their proposal to the Major Shareholders. As a Director of one of the companies is a family member, Pablo elected to remove himself from the execution team to avoid the perception of any potential conflict of interest and Pedro Querio, his business partner, became the main contact at FS Partners.

Following the presentation and several discussions, we eventually won the mandate, based on our combined knowledge and expertise in the mining industry and doing transactions in Argentina. Together, our firms provided extensive qualifications and experience in these key areas of expertise, which the other two contenders didn't have. In October 2018, we were engaged.

Attracting the Right Buyers in a Complicated Market Environment

The sales process took several months as we considered various structures, from joint ventures to the sale of the entire business. During this time, we were faced with many challenges; Argentina was going through a currency crisis and the Peso was devaluing at an alarming rate. While this could be argued to be good for an operating mine with US\$ revenues, the labor rates at the mine also kept going up to compensate for the devaluation of the Peso, which did not help MDN as it had been losing money for a number of months. Making matters worse, mining companies in Argentina became subject to new taxes





on exports that the Macri government introduced as part of a larger plan aimed at containing the economic turmoil. Argentina introduced an additional tax on all goods exported from the country, which materially impacted the revenue earned by MDN.

To attract buyers in such a dismal environment, we focused on two key aspects; i) seasoned and experienced miners would be better equipped to more efficiently run operations, and ii) the exploration potential in the region was huge. Our execution team approached a total of 75 different parties, including mining companies, private equity firms and other financial groups. We received and rejected some unworthy offers that were highly opportunistic and of low value. Finally, about five months later, we began having serious discussions with Cerrado Gold.

Negotiating a Favorable Price and Unique Financial Structure

Cerrado Gold quickly realized that they could make substantial changes to the operations and they believed in the significant exploration potential. Over the next few months we negotiated a financial structure that was quite unique. The Purchase Price included: i) an up-front payment of USD 15 million, ii) future payments over the next 5 years, totaling USD 30 million, and iii) bonus payments for additional mineral

reserves discovered. The unique issue was that the sellers wanted security for the future payments, but they did not want the mine as collateral. They did not want to take back the mine as it could have potential future liabilities including reclamation and closure costs potentially exceeding the then value of the mine. To compensate for this, we set up a “Sinking Fund” into which Cerrado would need to make regular monthly payments, such that sufficient funds would be deposited by the time the next payment (in 24 months) needed to be made. Failure to make these deposits would result in punitive interest costs and potential for injunctive relief.

The Purchase Price represented a fair price as it was within our calculation of the net present value of the operation, furthermore, looking at the valuation multiples of public companies with similar size operations, it was indeed a good price. For example, similar sized operations are trading at about USD 1,000 per ounce of production. Given MDN’s production is about 45,000 oz/yr, this would yield a public market valuation of USD 45 million.

Creating an Optimum Working Partnership

A key consideration we observed in being able to work collaboratively with an IMAP partner is to maintain open and frequent dialogue to ensure consistent and

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MINERA DON NICOLAS

An interesting aspect of this deal was the fee structure. In this case, the client structured our engagement letter so that when they get paid, we get paid.

quality advice to the client. MPA and FS Partners agreed to a 50/50 split on fees so that we were equally motivated to service the client. At various times we recognized and understood that one, or the other, had to lead the charge with the client. The additional advantage of having the two firms work together was being able to better understand and appreciate the cultural and language differences that came up from time to time.

An interesting aspect of this deal was also the fee structure. Typically the full success fee is payable upon closing of the transaction. In this case, the client had structured our engagement letter to essentially say that when they get paid, we get paid. As such, a portion of our success fee is payable in the years to come, when the client receives the future payments from the buyer, though we had tried to convince the client to pay a discounted success fee, at an attractive rate, on the future payments.

MATERIALS AND MINING 


CERRADO
GOLD INC.

Gold exploration and mining company
CANADA

Acquired Business Operations


Minera
DON NICOLÁS

Gold mine
ARGENTINA

IMAP
ADVISED ON SALE

The relationship we developed with our IMAP partner in Argentina turned out to be a very good one and we look forward to working with them again, as well as with working with other IMAP members. In fact, we have already had several conversations with our IMAP partners in Chile, Peru, Brazil and the US regarding mining opportunities. ■



Finding the Right Successor



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IMAP Germany recently advised the shareholders of Reisenthel Accesories (“Reisenthel”), on the sale of a majority stake in the company to Swiss-German financial investor, INVISION.

17/ CROSS-BORDER FOCUS & CASE STUDIES

REISENTHEL

Reisenthel is the leading manufacturer of shopping baskets, bags and trolleys for the shopping, travel, cosmetics and kid's segments. Due to its products many unique special features, it is subject to a high level of imitation and spends hundreds of thousands of euros every year in the fight against product piracy. With humble beginnings, the Reisenthel family has spent the last 50 years building their brand, with products characterized by innovation, award-winning functional design and high quality. Since the 1990s, the company has focused on manufacturing shopping bags, with the launch of its famous carrybag®, made from aluminum and textiles, in 2003. This contemporary evolution of the wicker basket is an absolute bestseller around the globe.

Having founded the company in 1971, nearly 50 years later, 75-year-old Peter Reisenthel was looking to retire. With his son Patrick not looking to take over the role of CEO/sole shareholder, he sought to find a suitable succession option and new trustworthy "hands" in which to leave his company, whilst maintaining a small interest in the business, stating: "One has to keep moving. This is precisely the strategy I have been implementing in my company for 50 years and why I have decided to tread new paths, let go and sell Reisenthel Accessories." At the time, Reisenthel

employed approximately 80 employees, many of whom have been with the company for 10+ years. In order to secure a long-term successful future of the company, the Reisenthel family mandated IMAP Germany to initiate a structured sales process.

IMAP Germany began by approaching potential buyers both nationally and internationally.

Reisenthel serves various niche markets in the durable consumer goods sector. However, in every niche segment, the company has different peers, mainly luggage and handbag companies, but also outdoor goods specialists. Therefore, there was no "obvious strategic buyer". Hence IMAP also reached out to private equity investors and family offices, with an interest in the consumer sector, some of which, already had portfolio companies in the sector.

The opportunity to invest in Reisenthel was very well received and a significant number of non-binding offers were made. Financial investors in particular, saw high development potential in the company for several reasons:

1. Strong brand equity

Reisenthel is positioned as a premium brand, with innovative and high-quality lifestyle products and thus, a high level of brand awareness. Reisenthel already has a strong foundation, which is important for the continuous development of the brand.

2. Pioneer of the growing trend towards sustainability

Investors shared IMAP's opinion: The trend towards a more sustainable lifestyle is playing directly into Reisenthel's hands: The company's shopping segment in particular offers customers aesthetically pleasing and functional solutions which reduce plastic consumption. This product potential could be marketed even further.

3. Internationalization


Reisenthel products are sold in circa 50 countries. To date, the majority of sales are domestic. Potential investors were sure that the product category "functional bags" is also in demand internationally and that this potential could be tapped into by Reisenthel. Further growth requires an effective internationalization strategy that can be implemented with the help of the right partner.

4. Distribution & target group

Most investors agreed: Reisenthel has a strong multi-channel sales strategy. The products are, however, also well suited for further growth in the "direct to consumer" (DTC) business, focusing on online sales and thus, potentially rejuvenating the brand to reach a larger target group.





CONSUMER & RETAIL 

INVISION

SWITZERLAND

Acquired Majority Control
of Business Operations

reisen-thel.

GERMANY

IMAP

ADVISED ON SALE OF COMPANY

Transaction signing with members of the Reisen-thel and INVISION teams.

Stepping down from the role as CEO, Peter Reisen-thel left big shoes that needed to be filled. This was one of the biggest challenges for IMAP Germany during the sales process as some investors were wary of trying to find the right person to follow in his footsteps. During the ongoing process, a few investors however, had found potential buy-in managers which would ensure the stable development of the company's business following the transition period.

One of these investors was Swiss-German investment company, INVISION. Since its foundation in 1997, INVISION has become one of the leading investment companies in succession situations and growth financing in Europe. Crucially, it has significant experience in the delicate business of entrepreneurial families wishing to settle their legacy. With previous investments in 50+ companies, INVISION is an expert, specifically in the German consumer goods sector and in all its investments, places emphasis on thoroughly understanding the specific needs of the company, as well as its founders, developing individual and tailor-made solutions.

INVISION acquired a majority stake in Reisen-thel Accessoires in December 2019. During the takeover process, it found a new Managing Director, Alexander

“With the help of the German IMAP team, we found a reliable and down-to-earth partner with extensive knowledge concerning consumer goods. It is particularly important to me that INVISION as the new shareholder has experience with German family businesses and therefore, understands and continues Reisen-thel's corporate culture.”

Peter Reisen-thel

Selch, who brought with him significant industry expertise, built up during many years of experience and responsibility in sales, digital business, marketing, finance and brand management. Following his appointment as CEO, Alexander quoted: “I am delighted to be taking over the management of such a strong family business. In the future, we want to work together to move Reisen-thel forward both strategically and in terms of content and to increase brand awareness both nationally and internationally.”

Rita Reisen-thel and her son Patrick initially remained part of the management team, in order to pass on the “Reisen-thel” DNA, with Rita stating: “We have built up the company with a lot of passion and want it to continue.”

Taking a role on the Board, Peter Reisen-thel commented: “My gratitude goes to my family and to our employees. Thanks to their commitment, Reisen-thel is a healthy and well-positioned company. With the help of the German IMAP team, we found a reliable and down-to-earth partner with extensive knowledge concerning consumer goods. It is particularly important to me that INVISION as the new shareholder has experience with German family businesses and therefore, understands and continues Reisen-thel's corporate culture.”

Since acquiring a majority stake in Reisen-thel, INVISION continues to support the further development and internationalization of the brand, investment in new products and sustainable growth of the company. Partner at INVISION, Martin Spirig commented: “We would like to thank the Reisen-thel family for their trust in INVISION to support shaping the future of this successful and renowned company. Through the quality, functionality and popularity of its products, Reisen-thel has developed an enormous brand power, which we plan to maintain and expand together with the founding family, management and employees.” ■

Bearing Down on Costs Through Cross-Border Acquisition



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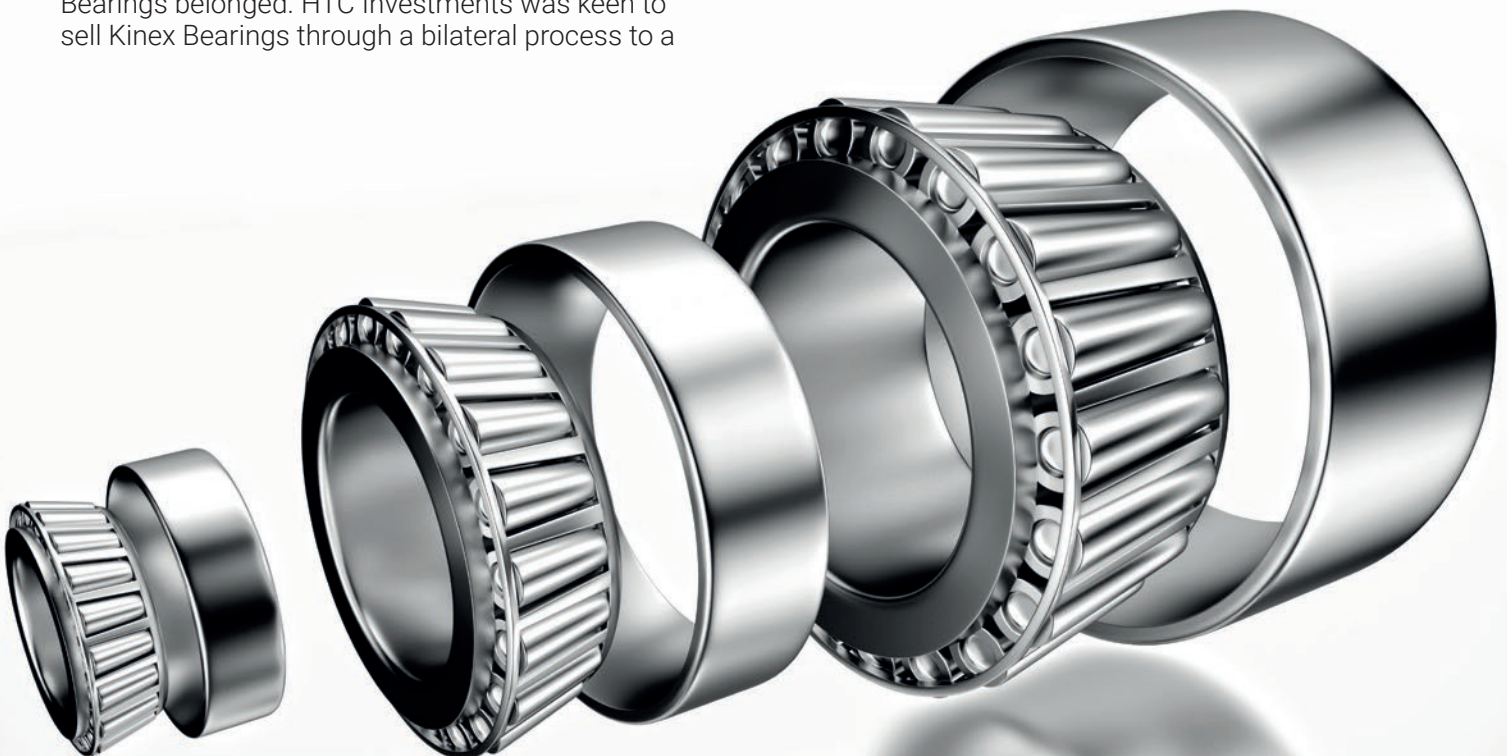
MICHAL MIŠUN
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Teams from IMAP India and IMAP Czech Republic recently collaborated to advise NEI Limited, a leading tier-1 automotive and industrial bearings supplier in India, on their acquisition of Slovakia-based bearings manufacturer, Kinex Bearings.

The Origins of a Cross-Border Acquisition

NEI Limited is a leading tier-1 supplier of automotive and industrial bearings and part of CK Birla Group, a USD 2.4 billion Indian industrial conglomerate, with whom IMAP India had formed a strong relationship. The group has a rich history of mergers, acquisitions and alliances with several renowned global companies, employing 20,000+ staff, across its 24 manufacturing units around the world. Across the globe, IMAP Czech Republic had also built up a solid relationship with HTC Investments, to which Kinex Bearings belonged. HTC Investments was keen to sell Kinex Bearings through a bilateral process to a

strategic investor, so the IMAP teams presented the acquisition of Kinex to NEI highlighting its synergies and the benefits it would bring once incorporated into NEI's larger operations. Following Board ratification, IMAP India and IMAP Czech Republic were awarded the buy-side mandate and together initiated the transaction on behalf of NEI Limited.



20/ CROSS-BORDER FOCUS & CASE STUDIES

NEI LIMITED

A Strategic Expansion Move into European Markets

NEI Limited, based in Jaipur, India, is the largest Indian manufacturer of bearings and had identified Europe as the next stage of growth in their global strategy. In order to win orders from European industries, businesses prefer companies to have a local manufacturing presence. Therefore, NEI was looking to establish a manufacturing base in Europe and develop strong linkages with its Indian operations in order to lower manufacturing costs and at the same time, expand its client base.

Based in Bytca, Slovakia, Kinex Bearings specializes in manufacturing rolling bearings for a number of end use applications. It is a leading supplier of textile bearings and European leader in the supply of cylindrical roller bearings for railway vehicles. The company operates two manufacturing units, located in Bytca and Kysucké Nové Mesto, in Slovakia.

NEI was looking to establish a manufacturing base in Europe and develop strong linkages with its Indian operations in order to lower manufacturing costs and at the same time, expand its client base.

By acquiring Kinex, NEI would now have an exceptional platform to grow in the European bearings market, specifically within the railways segment. As well as further strengthening Kinex's presence in the railway segment, NEI could at the same time can look at bringing products from its own Indian operations to market.

Identifying the Synergies to Bridge the Gap on Pricing

The acquisition process took approximately two years, which is not unusual for a deal of this type and scale. Discussions regarding valuation were lengthy as the initial difference between the asking price and bid was quite wide. In cases such as these, it was important that IMAP identified the synergy benefits for the buyer, attributing accurate values to the post acquisition synergies, which were then included in the financial model. This proved key in increasing the bid price, which was achieved following several subsequent rounds of discussions.

Seamless Cross-Border Execution

The IMAP partners from both countries worked in close collaboration to ensure seamless execution support for the client through all the transaction phases, including submission of a non-binding offer, due diligence and a binding offer and the subsequent signing of the definitive documents.



International IMAP collaboration and local support in both countries during this cross-border transaction were crucial in delivering value to the client. Likewise, perseverance was critical. It is to be expected in transactions like these, that negotiations can be both lengthy and at times, complicated. Therefore, it was imperative that the investment bankers (IMAP for the buyer and EY for the seller) ensure the whole team (client, legal advisors, diligence advisors) on both sides remained motivated.

IMAP also worked closely with lawyers from both Slovakia and India on the transaction documentation, to ensure it was watertight and securely represented any potential risks. Transactions involving plants that are 30-40 years old run the risk of potentially high environmental issues, which needs to be adequately reflected in the transaction documents.

The share purchase was completed through NEI's overseas investment company based in Zurich, Switzerland and financing was part equity and part debt from international banks.

No Substitute for Face to Face Interaction

Early in the process, IMAP recognized the inefficiency of conference calls due to language and cultural barriers. Therefore, it was collectively decided that any SPA negotiations would be undertaken face to face. To this effect, IMAP organized at least 5 visits from India to Europe during the documentation stage. In cross-border transactions, with counterparts of different nationalities and cultures, face to face interactions really go a long way to bridging the communication gap.

21/ CROSS-BORDER FOCUS & CASE STUDIES


NEI LIMITED


In the Industrials sector it is becoming imperative for European plants to reposition their value chain to lower costs.

Market Expansion and the Value Chain Driving Cross-Border Acquisitions


The acquisition by NEI reflects what is currently happening in the market. Indian companies are increasingly looking at expanding their manufacturing footprint in developed markets, increasing their ability to attract overseas customers. A well selected overseas acquisition provides two key benefits: 1) increasing linkages with Indian manufacturing operations thereby lowering costs and 2) opening new customer avenues that would otherwise be impossible to secure with India-only operations.

In terms of the Industrials sector specifically, it is becoming imperative for European plants to reposition their value chain in order to lower costs. This can be achieved by outsourcing part of the manufacturing process to lower-cost Asian

INDUSTRIALS 

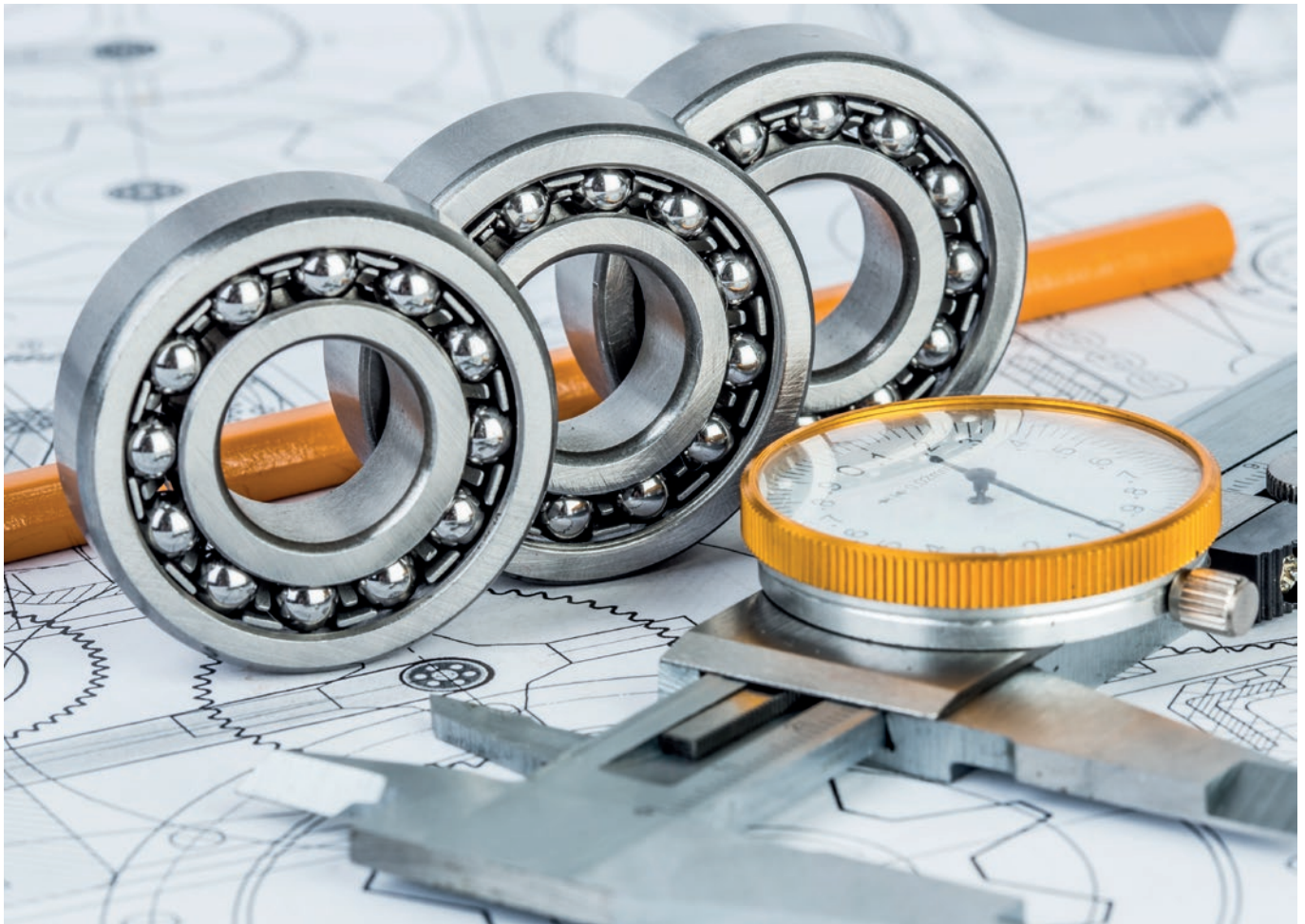

Leading supplier of automotive and industrial bearings
INDIA

Acquired 100% of
Business Operations


European supplier of railway and automotive bearings
SLOVAK REPUBLIC

IMAP
ADVISED ON PURCHASE OF COMPANY

countries. For IMAP this opens up new opportunities and there is potential for replicating this in other markets; Asia to Europe and Asia to North America acquisitions hold a lot of promise. ■



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.

\$13bn

CLOSED DEAL
VALUE 2019



EXECUTION EXPERIENCE

- IMAP has closed over 2,100 transactions valued at \$90 billion in the last 10 years.

GLOBAL PERFORMANCE 2019

234

M&A TRANSACTIONS

\$13bn

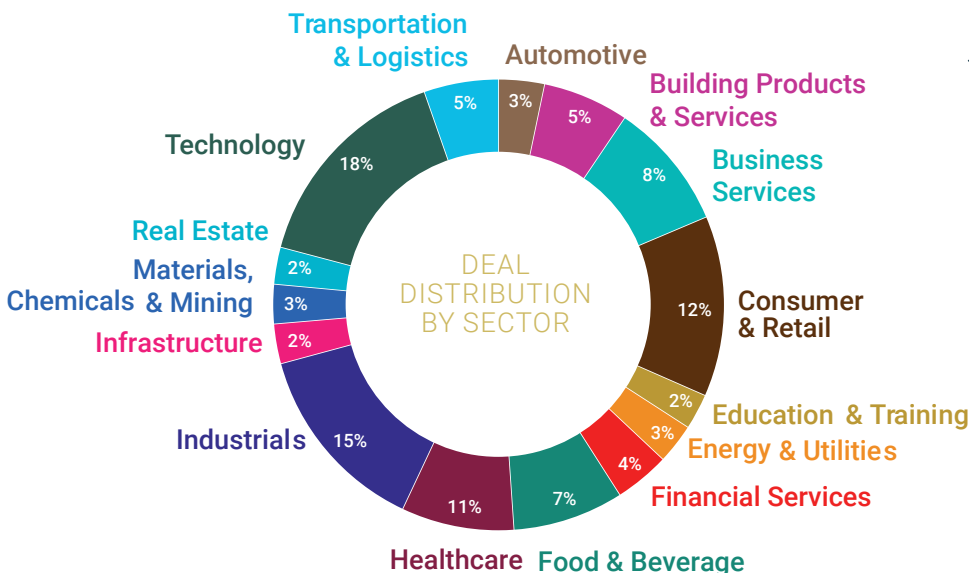
TRANSACTION VALUE

32%

CROSS-BORDER DEALS

7th

IN THE WORLD



GLOBAL PERFORMANCE

- 1 PwC
- 2 KPMG
- 3 Deloitte
- 4 Rothschild
- 5 Ernst & Young
- 6 Houlihan Lokey
- 7 **IMAP**
- 8 Goldman Sachs
- 9 Lazard
- 10 Linclon International

Ranking based on number of transactions closed in 2019. 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

450+

PROFESSIONALS
WORLDWIDE

43

COUNTRIES

60+

OFFICES



North America

U.S.A.

Atlanta
Boise
Boston
Burlington
Chicago
Dallas
Denver
Detroit
Greenville
Greenwich
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 & Central

America

Africa

Congo

Egypt

Ghana

Ivory Coast

Mauritius

Morocco

Nigeria

Senegal

South Africa

Asia

China

India

Japan

Europe

Belgium

Bosnia & Herzegovina

Croatia

Czech Republic

Finland

France

Germany

Hungary

Ireland

Italy

Netherlands

Poland

Portugal

Russia

Serbia

Slovakia

Slovenia

Spain

Sweden

Turkey

United Kingdom