



# Introduction to Private Equity and Value Creation in Lower Middle Market Buyouts

September 2023

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The Internal Rate of Return ("IRR") is the annualized implied discount rate calculated from a series of cashflows. It is the return that equates the present value of all capital invested in an investment to the present value of all returns of capital from the investment, both using the same discount rate, that will make the present value of all cash flows equal to zero. In general, IRR reflects gross return as to a particular investment as CID Capital tracks expenses and other costs borne by its funds, including the management fee and incentive allocation, at the fund level.

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# INTRODUCTION TO MIDDLE-MARKET BUYOUTS

## EXECUTIVE SUMMARY



**Steve Cobb**

Managing Partner, CID Capital

Steve serves as CID Capital's Managing Partner, and is responsible for overall firm management, internal CID human resources, and portfolio company board oversight. In addition to his firm leadership responsibilities, Steve represents CID on the boards of Giftcraft, Fit & Fresh, and LumiSource + Grandview Gallery.

He focuses on building strong consumer, service-oriented, and industrial brands. He particularly enjoys working with the CEOs of lower-middle market businesses in setting and executing strategies for growth.

Previously, Steve was a member of the Home Care finance team at Procter & Gamble, where he helped lead the growth of the U.S. laundry and cleaning products business.

Steve holds an MBA from Harvard Business School and a BA from DePauw University.

# INTRODUCTION TO LOWER MIDDLE-MARKET BUYOUTS

## EXECUTIVE SUMMARY

### Introduction to Private Equity

- **Capital Formation** – Sources of capital used to make investments
- **Fund Lifecycle** - Lifecycle of a Private Equity Fund
- **Value Creation** – How do PE firms create value for investors

### CID Capital Overview

- **Organization** – CID's structure, roles and responsibilities
- **Strategy** – CID's investment model

### Value Creation / Strategy

- **Sourcing** – Where do private investment opportunities come from
- **Sector Experience**– Overview on industry focus
- **Investment Playbook** – CID's approach to value creation



**INTRODUCTION TO PRIVATE EQUITY**

**CID CAPITAL OVERVIEW**

**VALUE CREATION / STRATEGY**

**QUESTIONS**

# INTRODUCTION TO LOWER MIDDLE-MARKET BUYOUTS

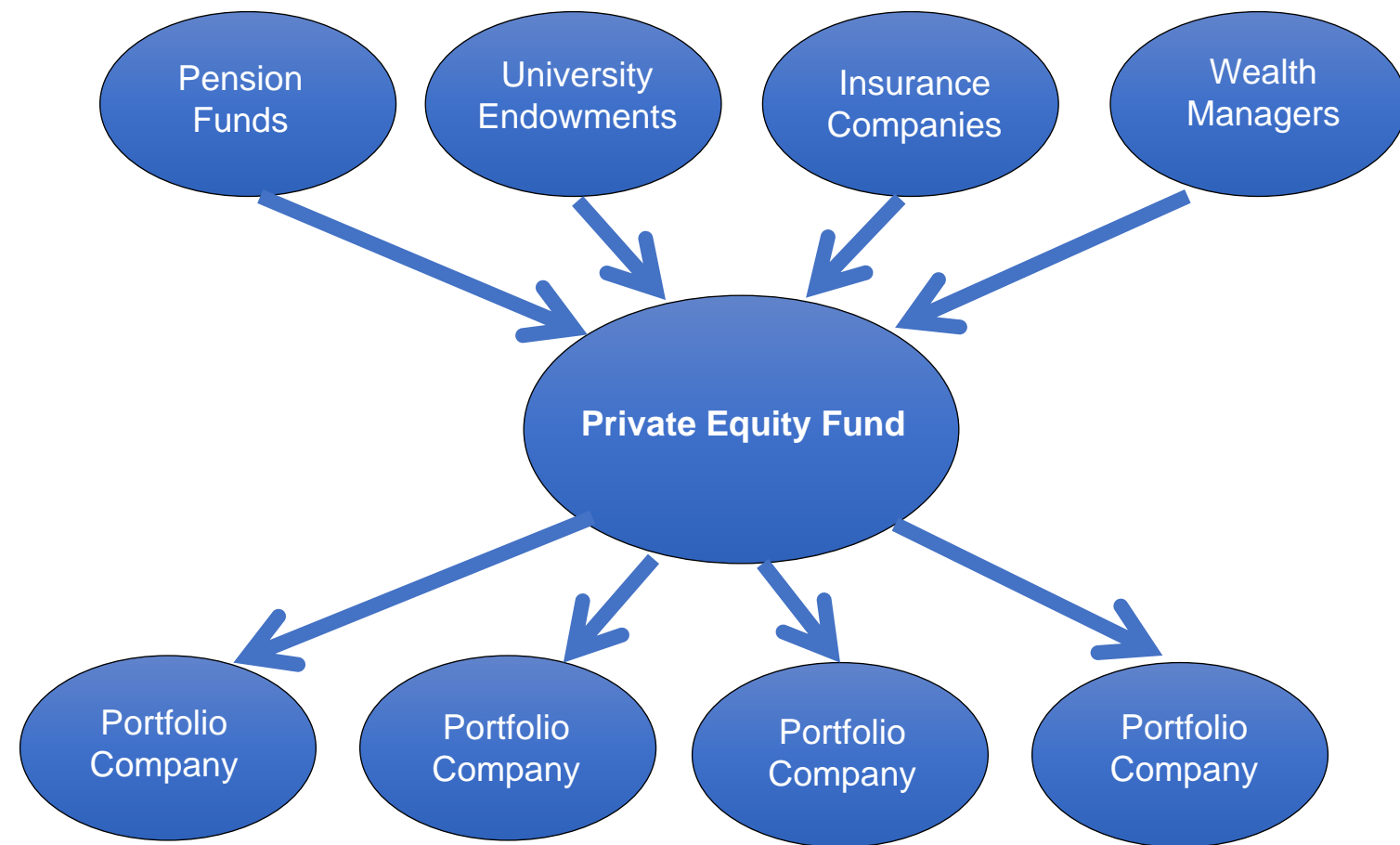
## HISTORY OF CID CAPITAL

- Founded in 1981, CID Capital is an Indianapolis-based Private Equity Fund
- Currently investing out of the firm's 11<sup>th</sup> fund, a \$186M committed equity fund focused on lower-middle market buyout transactions
- Industry focus is predominately on the industrial manufacturing, distribution, and service sectors
- CID Capital is currently the majority owner of ten companies located throughout North America



# INTRODUCTION TO LOWER MIDDLE-MARKET BUYOUTS

## CAPITAL FORMATION



- Private Equity Investors or “Limited Partners” come from an array of backgrounds
- SEC regulates the industry, including defining individual participation in private equity funds
- These are highly illiquid investments with other inherent risks from leverage and small companies, among others
- “Portfolio Companies” each generally make up 7-15% of the total fund commitment
- Investor access and allocation to Private Equity and Alternatives has increased over CID’s existence

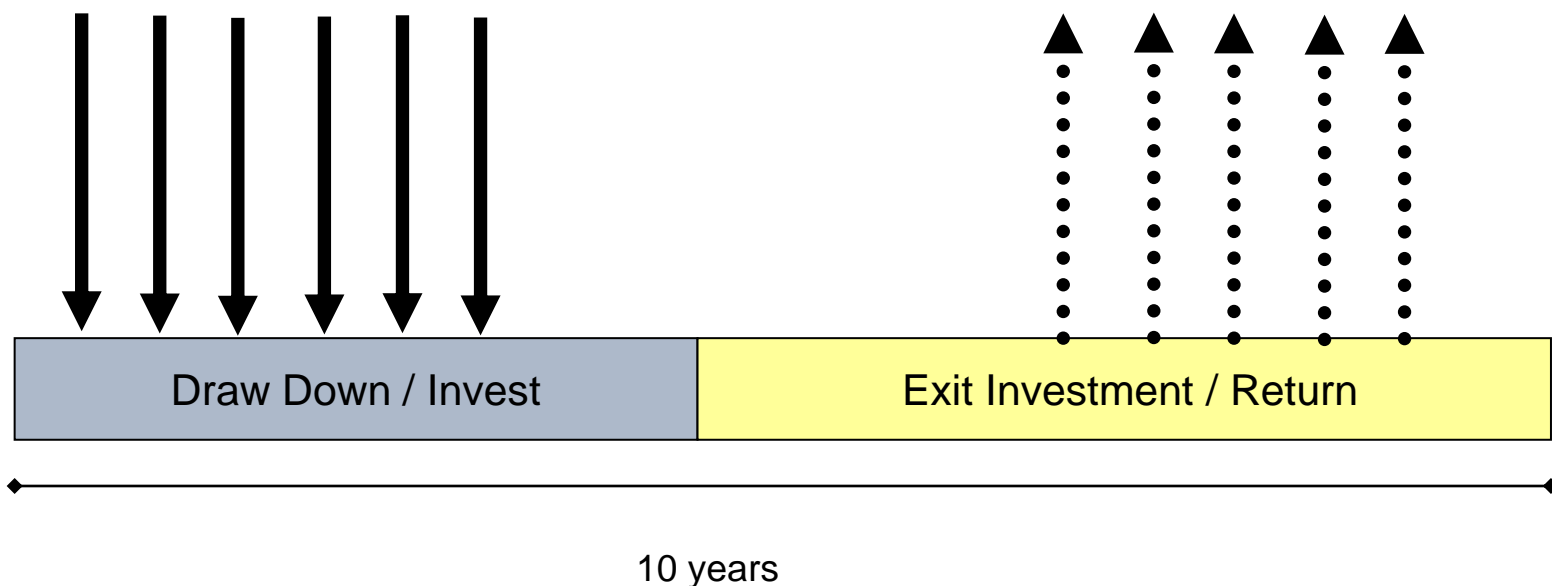


# INTRODUCTION TO LOWER MIDDLE-MARKET BUYOUTS

## FUND LIFECYCLE

Capital Calls to  
Make Investments

Return of Capital  
After Investment Exits

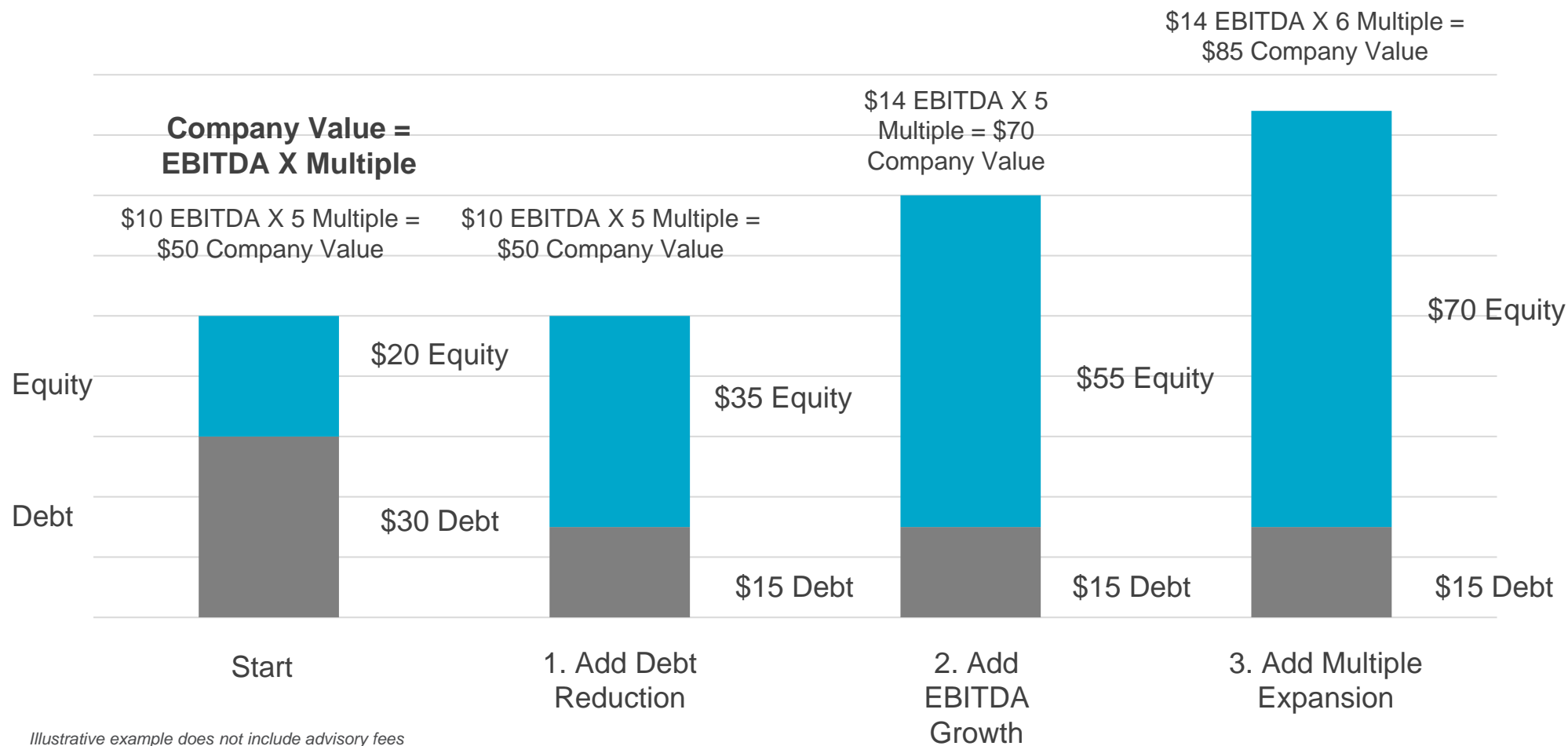


- Capital is “called” from the limited partner base to make new investments in portfolio companies
- Generally, it takes a firm 3-5 years to invest committed capital
- An investor can expect several “capital calls” per year when the Fund Manager asks for the committed capital to make an investment
- The remainder of the 10-year fund life cycle is focused on value-creation initiatives to increase shareholder returns
- During the second half of the fund lifecycle when investments are “exited” and returns are realized



# INTRODUCTION TO LOWER MIDDLE-MARKET BUYOUTS

## VALUE CREATION



**\$20** of Equity at start becomes **\$70** of Equity at the end of five years (**3.5x Return**)

*Illustrative example does not include advisory fees*



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# CID CAPITAL OVERVIEW ORGANIZATION



**ERIC J. BRUUN**  
PARTNER

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MBA, Purdue University  
BA, Purdue University  
Joined CID in 2000 with 23  
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Responsible for investment opportunity  
origination, portfolio company level human  
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Previous experience: Manager of Consecro  
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Responsible for overall firm management,  
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Previous experience: Manager at  
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**ERIC DERHEIMER**  
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MBA, Stanford University  
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Joined CID in 2014 with 18 years  
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Responsible for portfolio company leadership  
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Previous experience: Vice President at  
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Joined CID in 2014 with 16 years of investing  
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Responsible for portfolio company leadership  
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Previous experience: Member of the Corporate  
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**TOM SHAW**  
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MBA, The University of Chicago  
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Joined CID in 2023

Responsible for portfolio company leadership  
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Previous experience: Partner at Monument  
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BS, University of Pennsylvania  
Joined CID in 2022

Responsible for new opportunity  
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Began career as a member of the  
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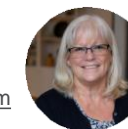
**CLINT LEER**  
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Responsible for new opportunity  
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**DEBBIE MORGAN**  
CFO / CCO

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MBA, Butler University  
BS, Coastal Carolina University  
Joined CID in 1998

Leads all efforts in compliance, accounting,  
tax, and LP reporting

Previous experience: Multiple accounting  
leadership roles



# CID CAPITAL OVERVIEW STRATEGY

## EXPERIENCED SMALL-BUYOUT PROFESSIONALS WITH A TRACK RECORD OF STRONG RETURNS

**CID's business model is focused on enhancing founder-owner companies to create enduring value as institutionally-backed businesses**

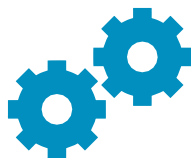
We leverage decades of experience to navigate these transactions

The lower middle market presents an opportunity for us to run our playbook, with a best-in-class team and leading third-party resources targeting professionalization opportunities across North America



### SOURCING ENGINE

Decades-long Business Development engine for sourcing under-the-radar opportunities



### PARTNERSHIP

Selected by owners needing a succession plan and strategic partner



### TRANSFORMATION

Professionalizing businesses to realize value



### RETURNS

We strive to deliver value creation on each investment from a combination of debt reduction, earnings growth, and multiple expansion



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# VALUE CREATION STRATEGY

## SOURCING

### FOCUSED ON FINDING ATTRACTIVE INVESTMENTS AT FAIR VALUATIONS



#### SOURCING ENGINE

Decades-long Business Development engine for sourcing under-the-radar opportunities



#### NATIONAL COVERAGE

CID finds new investment opportunities throughout North America; we are not restricted to Indiana or the Midwest



#### EXECUTIVE NETWORK

We work closely with industry experts in our network to source and vet new opportunities and quickly create value

#### DEAL SOURCING BY THE NUMBERS

975

Deals reviewed  
in 2022 – 2023 YTD

5

Platform Investments  
in 2022-2023 YTD

10

Add-on Investments in  
2022 – 2023 YTD



# VALUE CREATION STRATEGY

## SECTOR EXPERIENCE



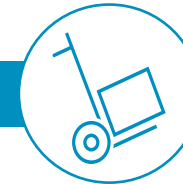
### INDUSTRIAL

- Niche manufacturers of engineered products in large, global end markets
- Focus on mission-critical, high-margin products creates stability
- Extension of manufacturing expertise into additional customers and related products
- Path to exit via larger PE funds and strategic platforms with a high likelihood of multiple expansion



### SERVICES

- Recurring revenue businesses with potential for ancillary value-added services
- Focus on “need to have it services” which gives pricing power or the ability to pass along commodity fluctuations to the customer
- Asset-light nature results in strong margins and free cash flow for deleveraging and adding service lines
- Path to exit via a network of large strategic buyers and “buy-and-build” PE platforms



### DISTRIBUTION

- Value-added distributors providing products to large, highly-fragmented end markets
- Focus on integrated customer and supplier relationships creates reliable, sticky revenue streams
- Effective balance sheet management allows for strong free cash flow generation
- Products distributed are a “technical sale” to customers which generates higher margins due to the value provided to the customer





# VALUE CREATION STRATEGY INVESTMENT PLAYBOOK

CID HAS A CONSISTENT RECORD OF IDENTIFYING, CREATING, AND REALIZING VALUE THROUGH THE TRANSFORMATION OF NON-INSTITUTIONAL COMPANIES . . .

## NON-INSTITUTIONAL COMPANY

- Lifestyle business
- Home-grown senior managers No outside board or expertise
- “Gut feel” decision-making with no formal KPI tracking
- Unaudited financials with no formal financial reporting or budgeting
- Business is focused on a narrow base of legacy customers and product
- Underinvested in systems and infrastructure

CID ACTIVELY  
TRANSFORMS  
COMPANIES

## CID-OWNED COMPANY

- Strategic plan focused on 3 levers of value creation
- Top-tier senior management Leverage board of directors / CID’s network of advisors
- Disciplined, analytical decision-making supplemented by formal reporting and KPI tracking
- Improved financial integrity through budget and audit
- Diversified strategy, customers, and products. Actively managed M&A pipelines upgraded systems and infrastructure

. . . OUR HISTORY SHOWS OUR WORK DRIVES EBITDA GROWTH, DEBT REDUCTION AND EXIT MULTIPLE EXPANSION

# CID CAPITAL OVERVIEW

## INVESTMENT PLAYBOOK

	Frequency	Commentary
CEO Succession	58%	<ul style="list-style-type: none"><li>• Thoughtful transition of company leadership</li><li>• Recruit experienced “A-Players” as successor CEO to accelerate value creation</li><li>• Sourced from CID’s executive network and national searches</li></ul>
Management Additions	100%	<ul style="list-style-type: none"><li>• Ensure there is a full management team in place with no gaps in leadership</li><li>• Mitigates “key-man-risk” by having a full management team in place</li><li>• Clear roles and responsibilities for all Executive Team members</li></ul>
Improved ERP / IT Systems	50%	<ul style="list-style-type: none"><li>• Appropriate systems in place to scale the company in the future</li><li>• Provides employees with a new level of data to proactively manage day-to-day business operations</li></ul>
Facility Upgrades	67%	<ul style="list-style-type: none"><li>• Improve production throughput and overall efficiency</li><li>• Adequate available space for future headcount and/or equipment for the business to scale</li><li>• Showcases professionalism of the enterprise during the eventual sale process</li></ul>

# CID CAPITAL OVERVIEW

## VALUE CREATION PLAYBOOK

### Frequency

100%

Board-level  
KPIs

### Commentary

- Implement clear targets and expectations for management teams to strive for
- Value creation milestones set to gauge progress and insights that help managers ensure the achievement of targets
- Progress reported to the Board

100%

New Channels  
/ Customers

- Diversify customers, end markets, and channels to demonstrate scalability
- Clear customer acquisition and/or wallet share expansion strategy
- Can be performed organically or inorganically via acquisition

75%

Financial  
Audits

- Ensure proper governance through yearly audits
- Provides investors, directors, and managers with assurance in reported financials

Execution of the above leads to consistent multiple expansion at exit



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