

Case for discussion

- # 4 yr. old manufacturer of consumer products sold through installers & contractors. Vol.=\$2.2.M growing at 30%/yr. Losses since inception. Operating at negative margins. Extraordinary social agenda in place.
- # Profitability expected in Yr. 8 at \$8.5M sales; curr. plant capacity is \$6M under best conditions; forecast is >\$20M in yr. 10-11 with 10% EBT; est. Yr. 11 EBITDA=\$2.7M. Significant strategic exit potential beyond yrs 10-11.
- # Transaction: new money \$6M; pre-money value established by mgmt.=\$15M; 4 prior angel rounds, last at \$13.5M value.
- # Very large market; company is leader in field; major opportunity to capture social & “fashion” trends, large barriers to entry; capital intensive.
- # Would you invest? If yes, Why? Describe deal structure. Identify risks. If no, what issues most influence your decision? Are there terms under which you would invest?

Ray Moncrief's Five Lessons Learned

1. If the deal sounds too good, it probably is.
2. CASH is King.
3. Regular Board Meetings are a MUST. It forces management team together at least once a month.
4. Never stand "flat-footed" and wait for the situation to come to you -- always go to the situation.
5. Make immediate decisions regarding unproductive management behavior. It virtually never gets better.

Gary Brook's Five Lessons Learned

1. Obstacles caused by differences in perceived value (valuation issues)
2. Importance of the scope and depth of due diligence
3. Value of the quality of the management team
4. Benefits of a proactive board of directors
5. Primary reasons for enterprise failure.
 - Inadequate strategy
 - Lack of understanding of cost
 - Lack of timely decision making
 - Lack of understanding of distribution channel

Nat Henshaw's Five Lessons Learned

1. Know when to hold 'em
2. Know when to fold 'em
3. Know when to walk away
4. Know when to run
5. The Gambler, He broke even.