

Grow or Die

Strategic Alliances, Joint Ventures & M&A – the Route to Success?

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CAPSTONE
The Growth Engineers®

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About Your Presenter



Company Founder: David Braun is the founder and CEO of Capstone, which he established in 1995. The firm's clients range from family-owned businesses to Fortune 500 multinational companies.

Author: David is the author of *Successful Acquisitions: A Proven Plan for Strategic Growth* (AMACOM 2013), which provides a detailed and practical guide to his entire "Roadmap to Acquisitions."

M&A Expert: David has over 20 years' experience formulating proactive growth strategies in a wide range of manufacturing and service industries. As an M&A expert David has been featured on a variety of media outlets including the Financial Times, Fox Business News, CBS Money Watch and CNN Money.

Speaker: A dynamic speaker, over the past 20 years David has lectured to over 20,000 top-level business executives on the subject of M&A and successful external growth.



About Your Presenter



David Braun, CEO & Founder
Capstone Strategic



*Successful Acquisitions:
A Proven Plan for Strategic Growth*

Global Biofuel and Biodiesel Market

- Global biofuel production – 115 billion liters (2013); expected 139 billion liters (2020)
 - Ethanol production – expected 104 billion liters (2020)
 - Biodiesel production – expected 33 billion liters (2020)
 - Advanced biofuel capacity – 4 billion liters (2020)
- Leading producers – US, Brazil, China, EU, Canada
- Europe is the largest producer of biodiesel
 - Germany, France, Benelux – 64% of global supply (2012)
- Biodiesel production costs declining; growth expected

Sources: International Energy Agency, Directorate-General for Energy of the European Commission, United Nations Conference on Trade and Development, Freedonia Group

Global Biofuel and Biodiesel Market

- Overall energy demand – 37% increase by 2040
- Biofuel demand projected at 3.6% annually through 2018
- Demand drivers
 - Transportation sector, especially road vehicles
 - Alternative uses – cooking, electricity, maritime transport
 - Regulation and policy remain critical to growth
 - Environmental concerns
 - Decline in technology costs
- Changing regulations and policy shifts
 - US, EU, Brazil – Political uncertainty to slow growth
 - Non-OECD markets – Increasing policy support, rapid growth

Sources: International Energy Agency, Directorate-General for Energy of the European Commission, United Nations Conference on Trade and Development, Freedonia Group

M&A Activity – Global

	Deal Value	Number of Deals	Average Deal Size
Q1 2015	\$854 billion	9,165	\$93 million
Q1 2014	\$684 billion	9,402	\$72 million

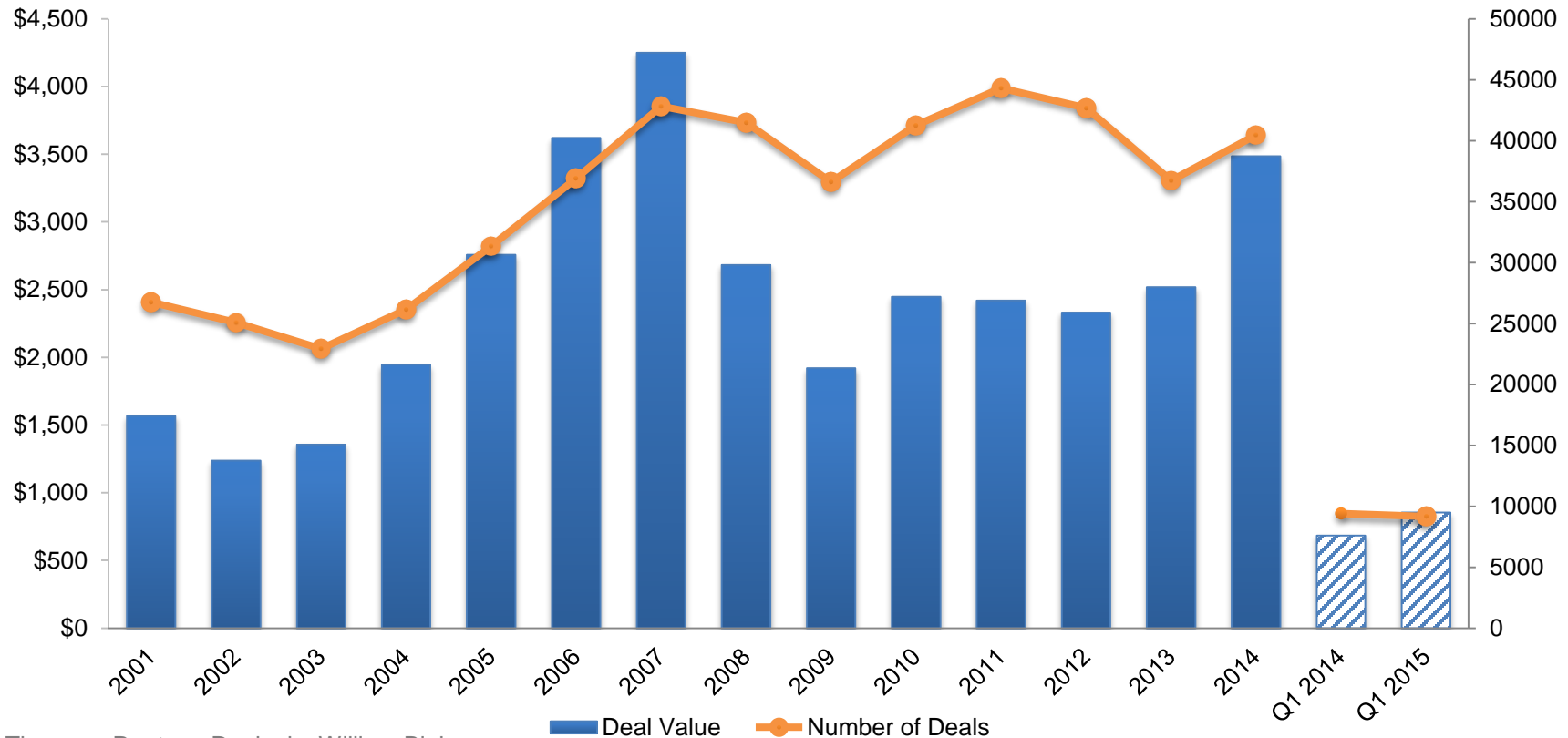
+25%

-3%

+29%

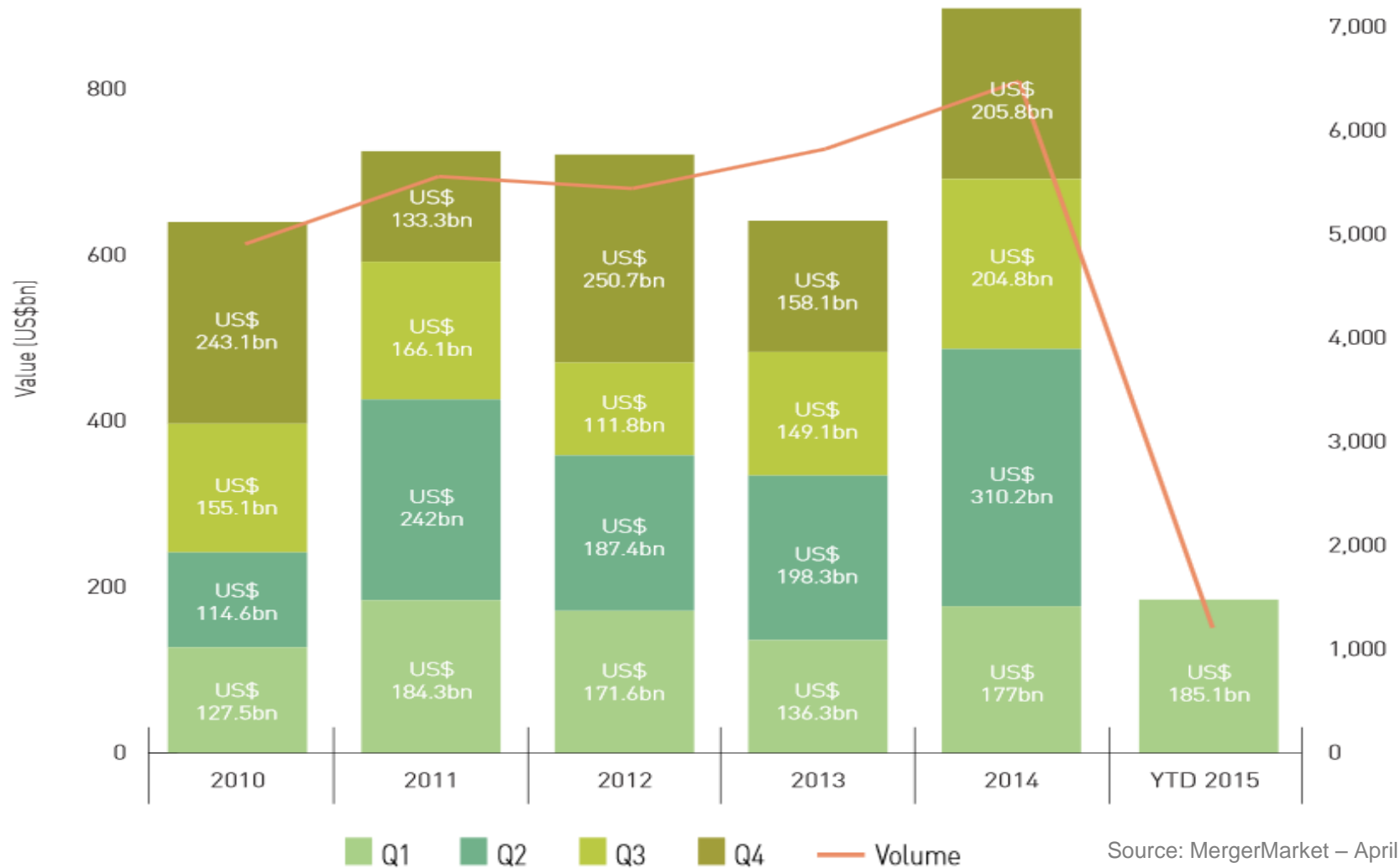
Deal Value
(\$US Billions)

Number
of Deals

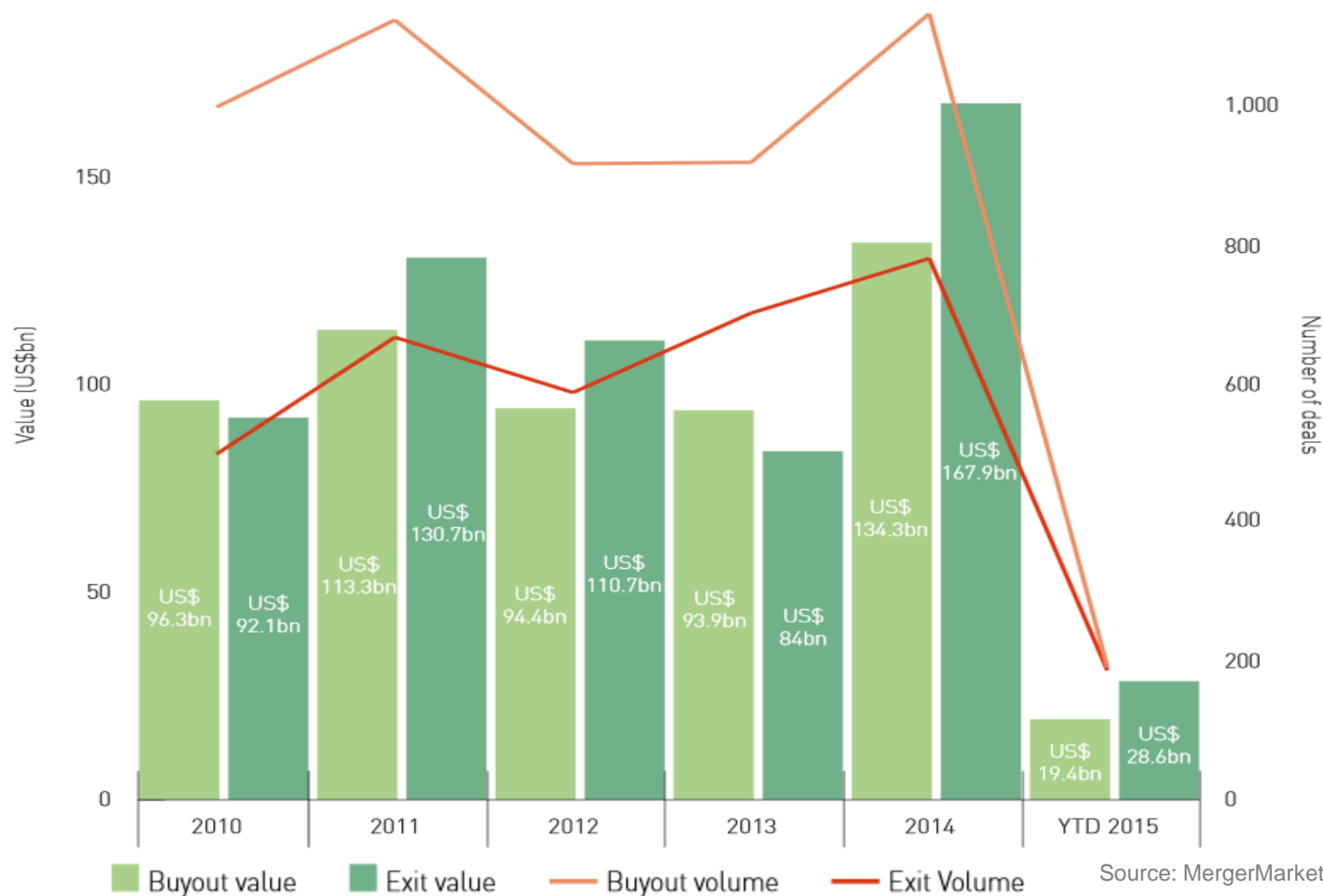


Source: Thomson Reuters, Dealogic, William Blair

M&A Activity – Europe

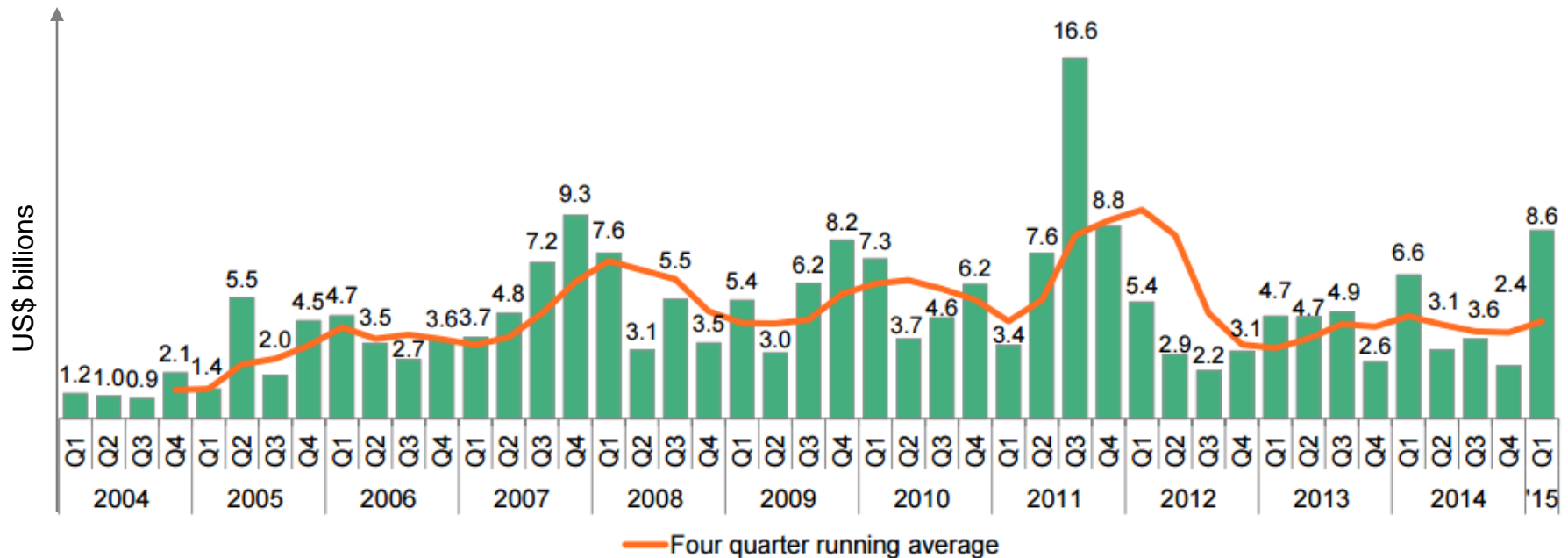


Private Equity Trend – Europe



Clean Energy M&A – Global

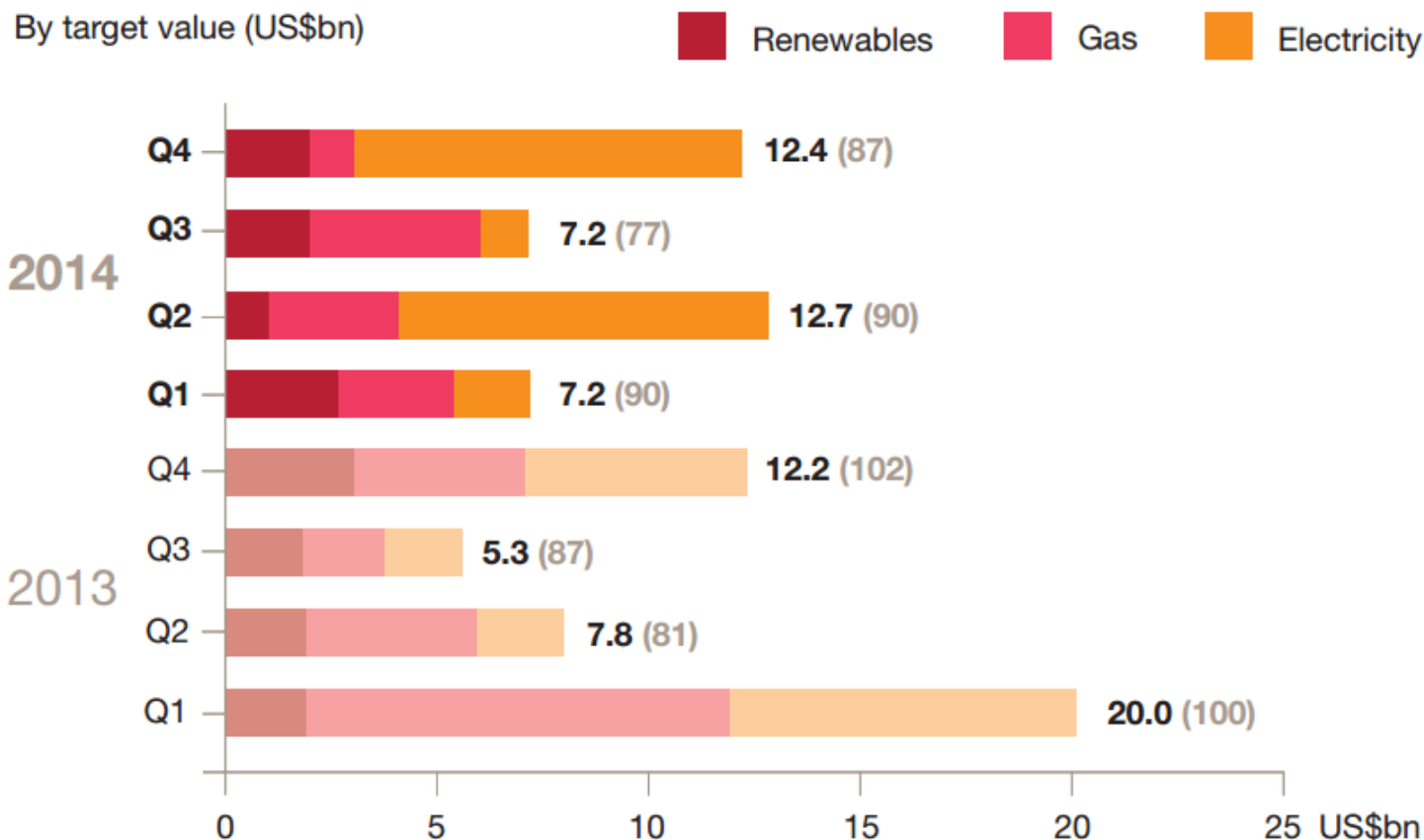
Includes Wind, Solar, Biofuels and other renewable energy transactions



Note: Total values include estimates for undisclosed deals

Source: Bloomberg New Energy Finance

Power & Renewable M&A – Europe



Source: PwC, *Power & Renewables Deals*

(Number of deals shown in parenthesis)

Valuation Multiples – Global

Global Multiples			
Industry	EV / EBITDA	EV / EBIT	EV / EBIT (1-t)*
Green & Renewable Energy	10.84	18.03	23.33
Oilfield Services / Equipment	7.75	13.01	17.77
Power	8.65	15.49	21.08
Coal & Related Energy	8.55	16.48	22.33

- Enterprise Value (EV) = Market cap plus debt, minority interest and preferred shares, minus total cash and cash equivalents.
- EBITDA = Earnings Before Interest, Taxes, Depreciation, and Amortization.

* (1-t) – After-tax effect

Source: Damodaran - January 2015, Investopedia

Valuation Multiples

Europe			
Industry	EV / EBITDA	EV / EBIT	EV / EBIT (1-t)*
Green & Renewable Energy	9.69	18.99	27.25
Oilfield Services/Equipment	6.71	13.98	18.08
Power	7.3	12.07	17.11
Coal & Related Energy	4.6	14.90	19.24

EV / EBITDA					
Industry	USA	Japan	China	Emerging Markets	India
Green & Renewable Energy	14.32	N/A	12.23	11.05	4.53
Oilfield Services/Equipment	6.92	11.60	14.23	9.52	6.82
Power	9.89	10.46	10.15	8.31	8.16
Coal & Related Energy	8.91	5.40	8.18	8.28	9.78

* (1-t) – After-tax effect

Source: Damodaran - January 2015

Five Options for Growth



Organic Growth

Option 1: Organic Growth

- Internal
 - Add sales staff of new channels
 - Increase/modify marketing initiatives
 - Make capital investments and invest in R&D
 - Diversify your customer base (Increase number of customers)
 - Pursue different types of contracts
- Marketing
 - Market benefits of you core technology vs. other technologies
 - Educate future customers and hold seminars for industry engineers, scientists, etc...
 - Develop outreach programs to government regulators
 - Sponsor exhibits at customers' trade shows
 - Inform your elected officials – local, regional, national, international
 - Promote appropriate certifications, accreditations or designations

External Growth

Option 2: External Growth

- Joint venture
- Strategic alliance
- Licensing agreement
- Toll manufacturing
- Minority interest
- Greenfield
- Franchise
- Import/export
- Acquisition
- Marketing agreement
- IPO
- Convertible debt

Exit the Market

Option 3: Exit Market

- Competitive landscapes require more capital
- Market forecast is grim
- Daunting regulatory requirements
- Financial (di)stress
- Personal issues
- Succession planning
- Pursue other interests
- Liquidity

Minimize Costs

Option 4: Minimize Costs

- Raw materials
- Labor
- Inventory
- Energy
- Regulatory compliance

**Do
Nothing**

Option 5: Do Nothing

- BlackBerry vs. iPhone
- Book stores vs. Amazon
- Woolworths vs. Supermarkets, the Internet
- Uber vs. Taxis
- Bethlehem Steel vs. Nucor
- Smith Corona (typewriter) vs. IBM (computer)
- TWA vs. Southwest Airlines
- Local newspapers vs. Online news

External Growth: a Neglected Opportunity

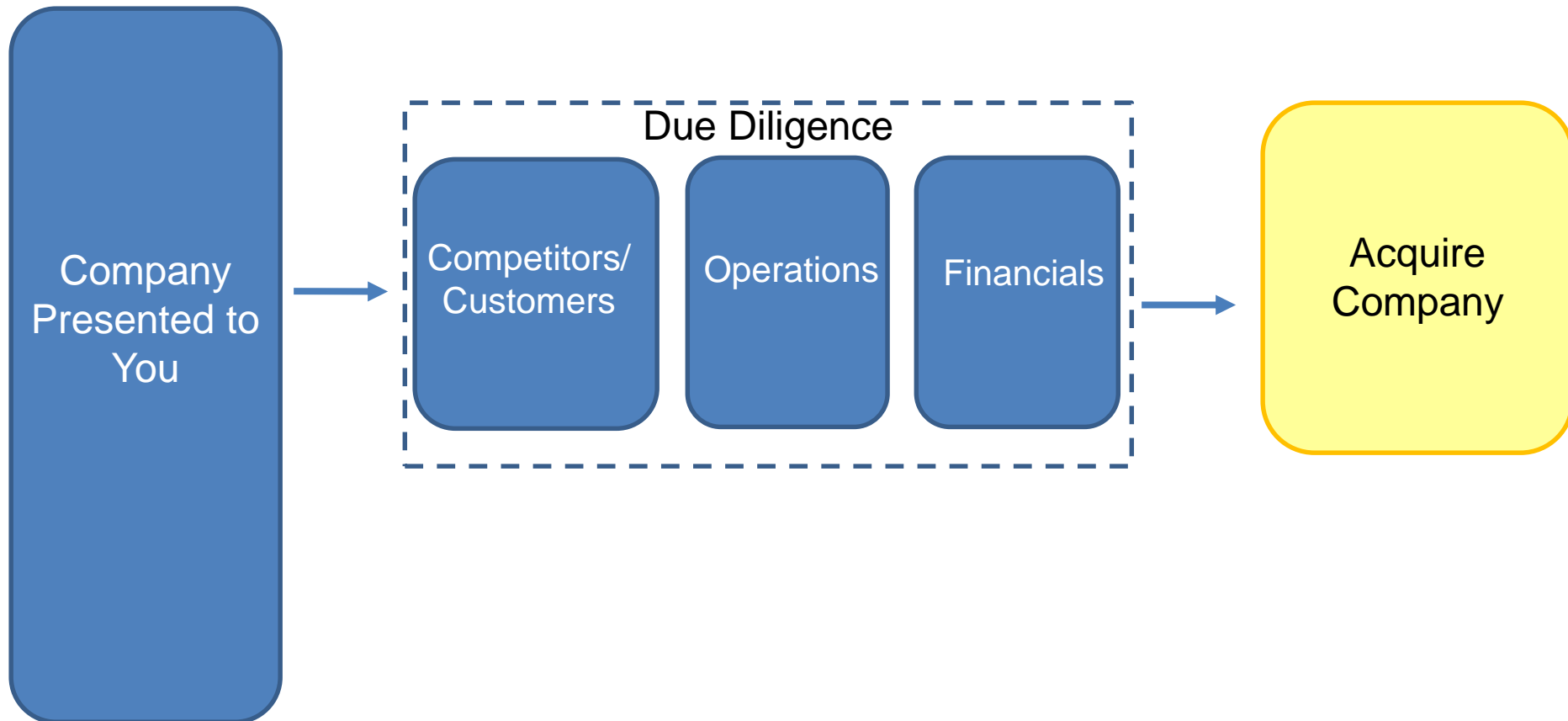
Why External Growth?

- Organic growth anemic
- Markets shifting
- Customers want more
- Motivated sellers
- Valuations lower
- PE on Sidelines

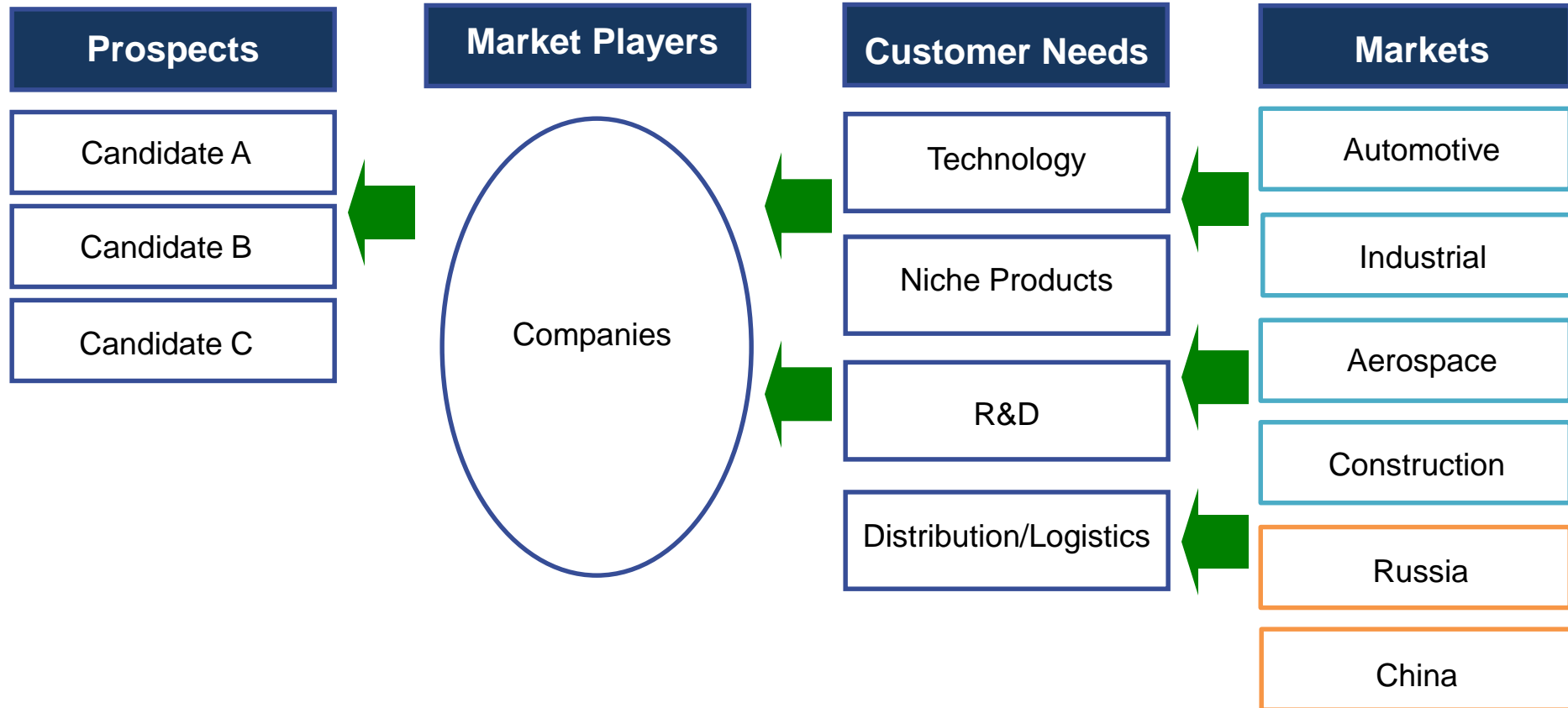
**M&A: The Old
Way vs.**

The New Way

Traditional Approach



Demand-Driven Approach



A Disciplined Process

1



2



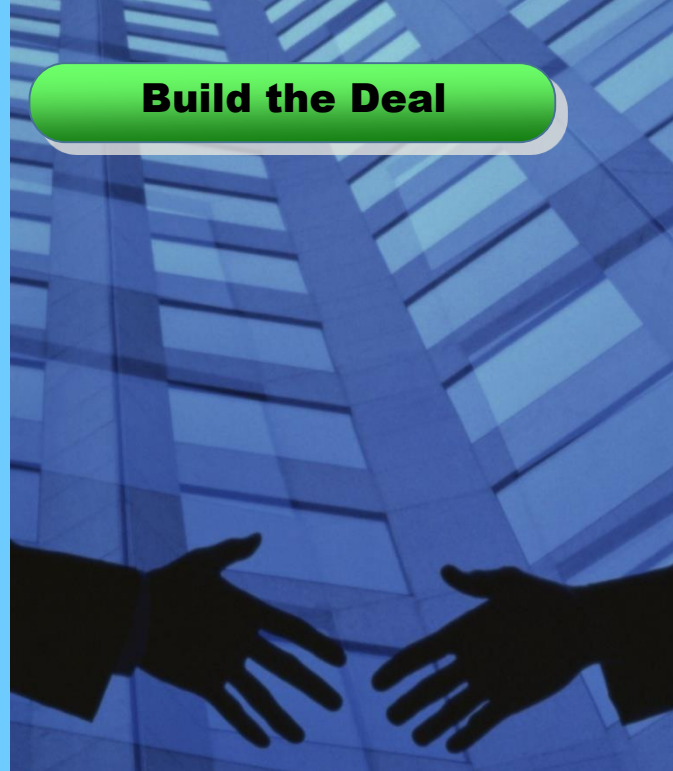
3



Build the Foundations

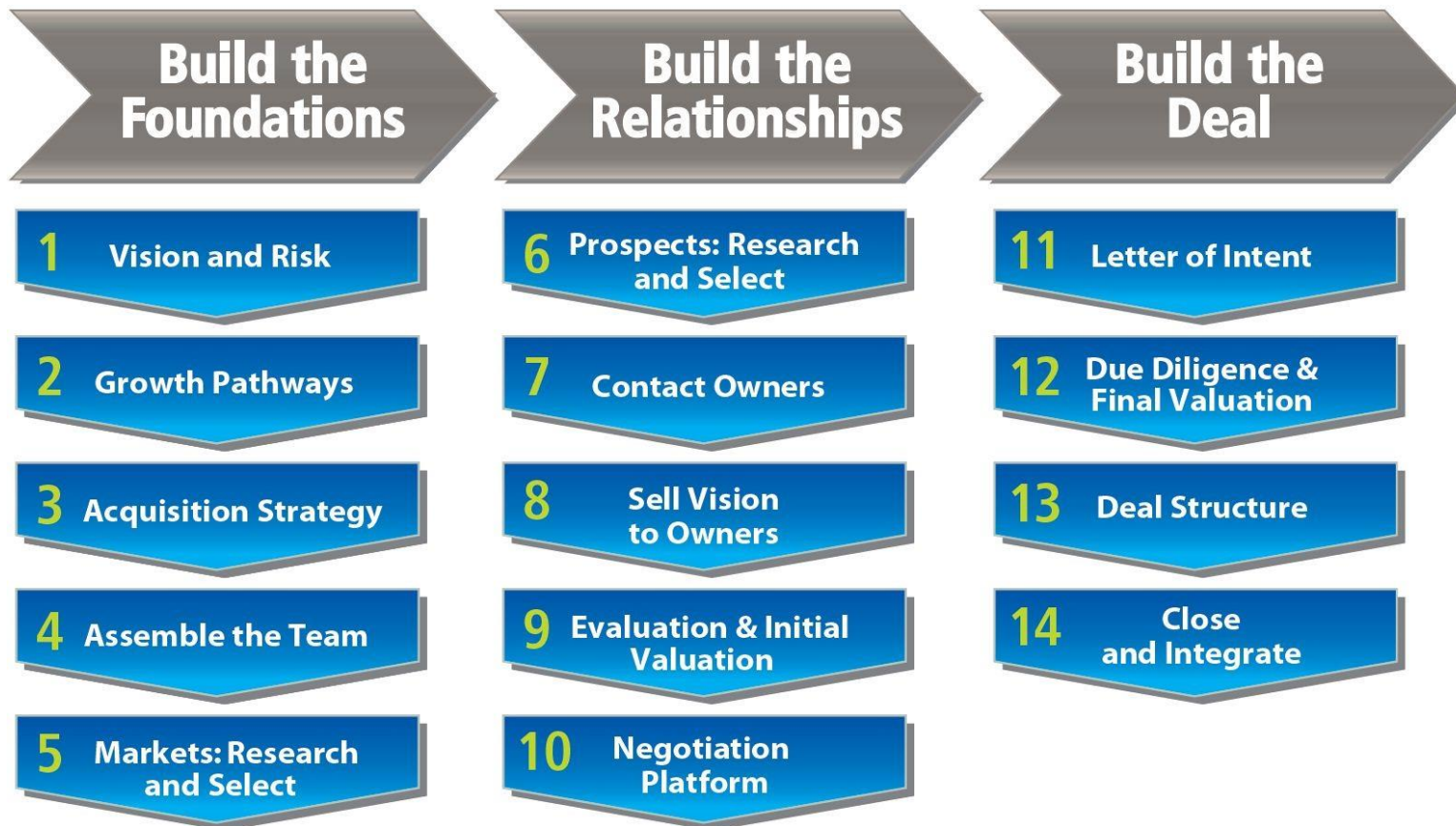
Build the Relationship

Build the Deal



THE CAPSTONE ROADMAP TO ACQUISITIONSM

From Beginning To Beginning



"Have one reason to buy, and many companies to choose from."

"Every company is for sale — for the right equation."

"It is far more expensive to buy the wrong company than overpay for the right one."

Why Acquire?

Common Reasons to Buy

- Top Line Growth
- Follow Customers
- Leverage Technologies
- Consolidate
- Stabilize Financials
- Expand Customer Base
- Expand Talent
- Defensive
- Position for Future

**Have
ONE reason**

Top 5 Take-aways

1. Examine Your 5 Options for Growth
2. Consider External Growth
3. Be Demand Driven
4. Use a Systematic Process
5. Have One Reason to Buy



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