

Building Value Symposium

“Negotiating a Successful Deal”

A Private Equity Perspective

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Cavendish Investing Ltd.

Cavendish Investing Ltd.

- Private fund owned by Richard A.N. Bonnycastle
- Established in 1968
- Currently 30 + direct investments in both private and public companies
- No singular industry or stage focus
- Primarily equity financings from \$200k to \$3M, preferred \$500k
- Typically a passive investor
- Preferred three year investment horizon

‘Negotiating a Successful Deal’

Management, Management, Management

- Much of the assessment is subjective

Potential outcomes, PEGs will either:

- Like the deal more & will be more flexible
- Like the deal less & will look for more protection/control
- Like the deal much less & decide to do it on PEG's terms only
- Walk away

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Goal Alignment

- “Win Win” increases likelihood of success
- Not bargaining for a rug in the Kasbah
- Most PEGs negotiate in good faith
- Have contemplated compromise positions
- Remain flexible
- Avoid taking a hard-nosed approach too early

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Know your PEG

- Not all PEGs are created equally
- What type of fund are they?
- What is their investment horizon?
- Are they generally active or passive?
- Liquidity vs. Control
- Do your homework up front

‘Negotiating a Successful Deal’

Know yourself (the Investee)

- Be forthright
- We already know you are not perfect
- PEGs can structure a deal that will mitigate perceived weaknesses
- PEGs have multiple leverage points to right a perceived wrong
- Accept that you will be vulnerable

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“Warm Fuzzies” and “Red Flags”

“Warm Fuzzies”:

- Integrity
- Enthusiasm/Energy
- Ability to Motivate/Likeability
- Domain Expertise

“Red Flags”:

- Modest capital investment
- Inability to delegate
- Opposition to performance based structuring
- Rampant Nepotism

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Managing Expectations

- Answer “where do you see yourself in five years?” honestly
- Let the PEG know specifically what you expect from them
- “We want more than just money” is overused
- Walk through a template Shareholders’ Agreement early in the process

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Conclusion

- It's about Management, Management, Management
- Most PEGs are genuinely negotiating in good faith
- Look for “goal alignment”
- Know your PEG
- Know yourself
- Accept that you will be vulnerable
- Be honest about your strengths and weaknesses
- Manage Expectations

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