

Main Street Capital Corporation



Minority Equity Sale Overview

A solution to address sellers who want liquidity but are concerned that 2011 may not be the time to sell...



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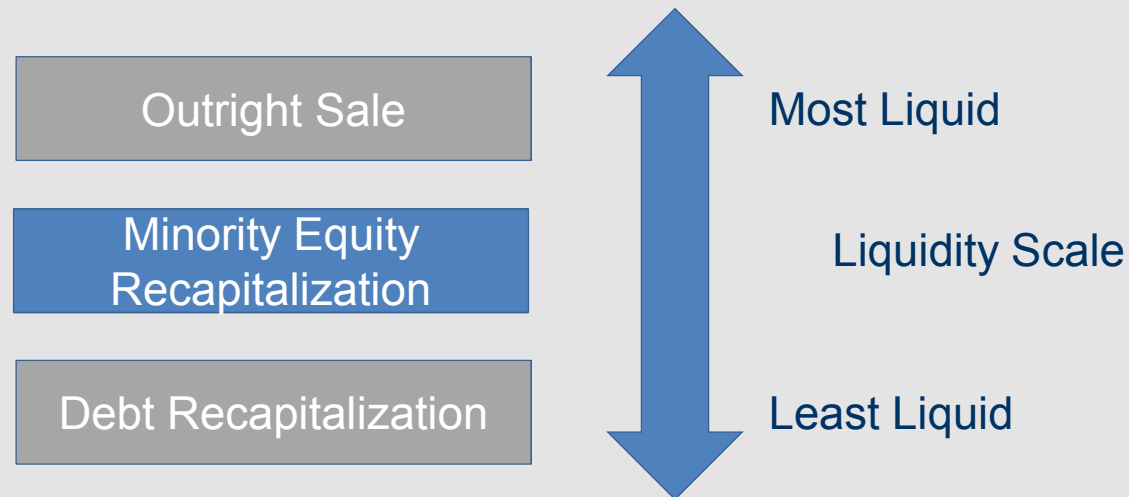
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What constitutes a minority equity sale transaction?

- Generally a sale of less than 50% of a company's equity.
- Proceeds are typically used for partial liquidity events, growth capital, and buyout of existing shareholders.
- The owners maintain operating control of the business; the minority investor has certain protections regarding its investment.
- Usually some form of leverage (debt) is used in combination with a minority equity investment, primarily to enhance the equity investor's returns.
- The company can typically negotiate the contractual right to prepay the debt and redeem the equity in the future.

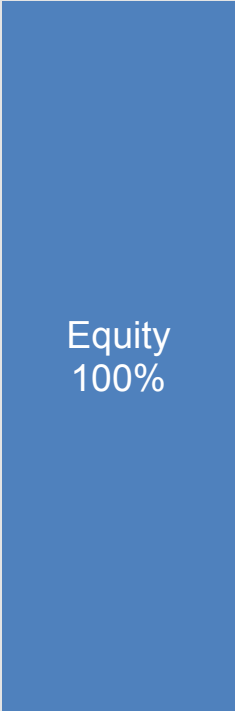
Why should a business owner consider a minority sale?

- Many companies faced a downturn caused by the difficult economic climate during 2008 and 2009 and have not recovered to historical profitability levels.
- Many shareholders are reluctant to sell a majority ownership position in their businesses for the fear that they will not realize an attractive valuation in today's economic climate.
- Liquidity options are limited for family-owned or closely held private businesses.

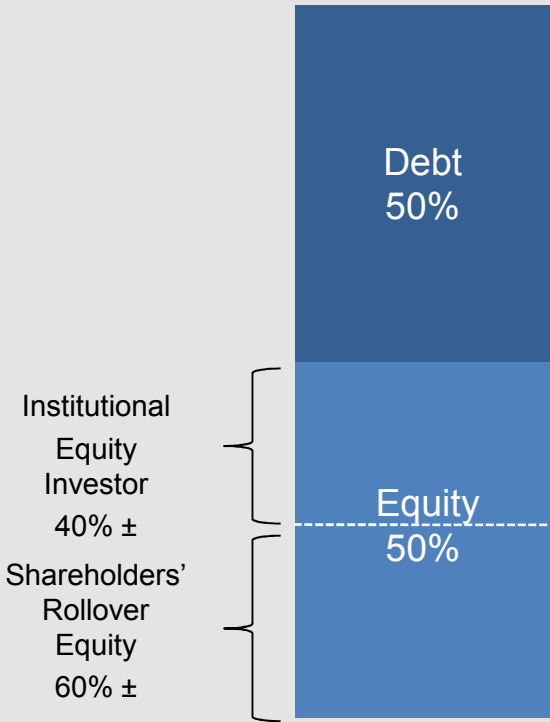


Illustrative Debt/Equity Structure

Current Structure



Post-Recapitalization

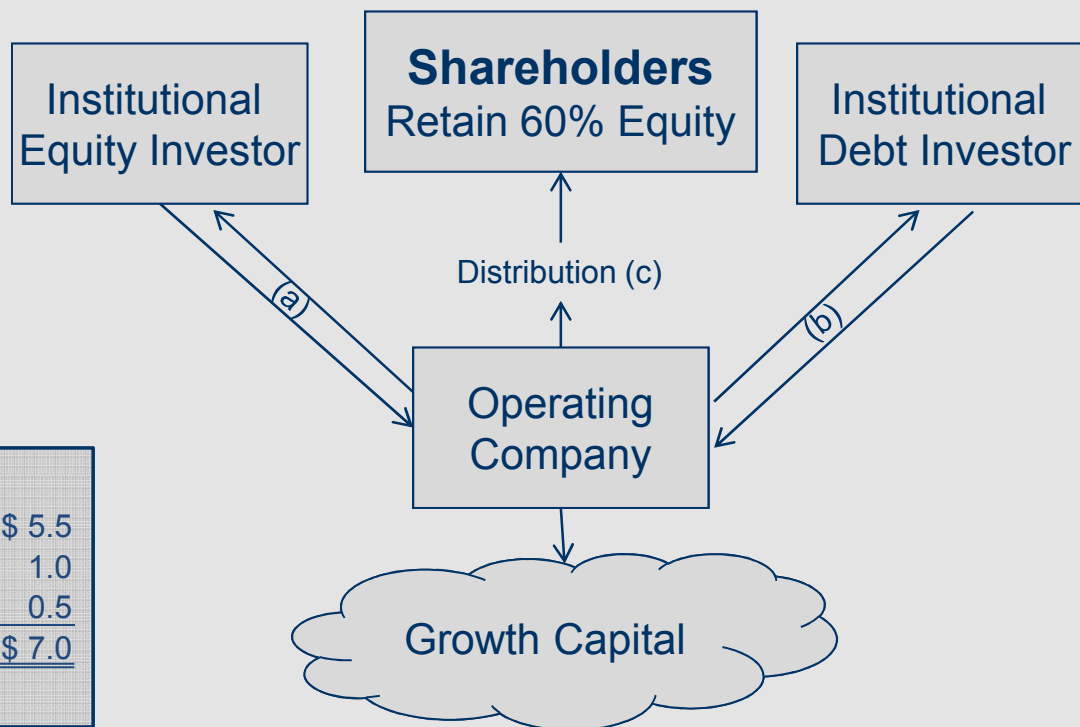


How does it work?

Example

Valuation	
EBITDA	\$ 2.0
Multiple	5.0x
EV	<u>\$ 10.0</u>

Sources		Uses	
Debt	\$ 5.0	Shareholders Distribution	\$ 5.5
Equity	2.0	Growth Capital	1.0
		Fees/Expenses	0.5
Total	<u>\$ 7.0</u>	Total	<u>\$ 7.0</u>



- (a) \$2MM investment for 40% of Company's equity*
- (b) \$5MM 1st lien debt investment*
- (c) \$5.5MM in cash distribution

*May be the same investor

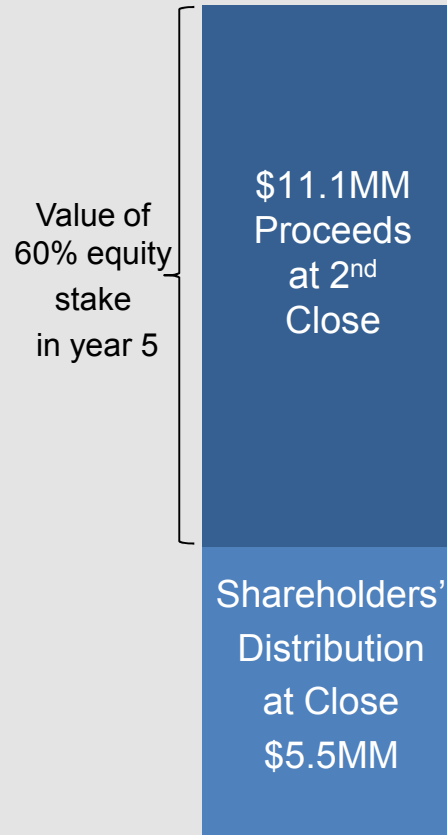
Minority Recapitalization vs. Majority Sale

Assumptions

- Company achieves 10% annual revenue growth with stable margins.
- Company sells at year 5 at 5x multiple (same as entry multiple).
- Shareholders' rollover equity achieves a 30% +/- IRR.

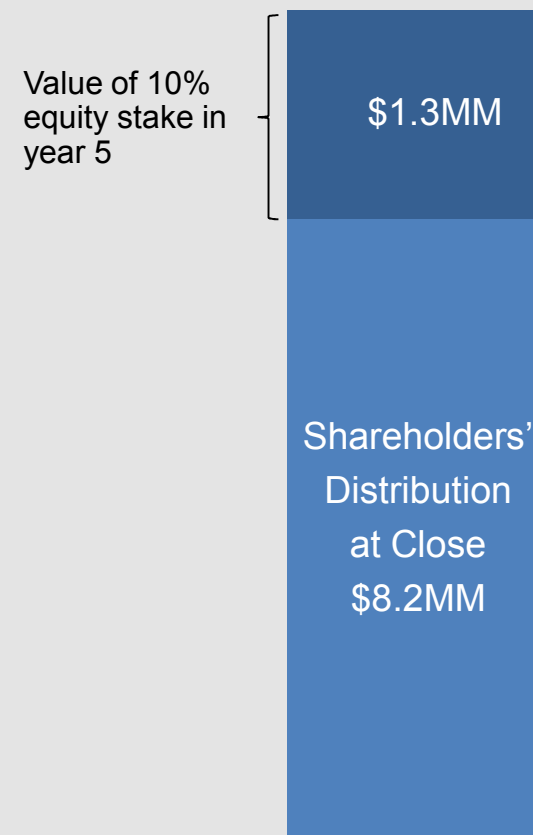
Minority Recap Proceeds

Total Proceeds: \$16.6MM



Majority Sale

Total Proceeds: \$16.6MM



Advantages of a minority sale

- Facilitates estate planning and provides tax-efficient liquidity (at least through 2012):
 - Recapitalized equity position retained by the owner is ideally postured for transfer to younger generations.
- Owners retain the majority of the equity upside in the business.
- Allows shareholders to monetize a portion of their net worth that is tied up in a closely held business and diversify into other assets (public equity/bonds, etc).
- Asset protection for uninsured business risks:
 - Protects shareholders from risks associated with losses, claims, or other contingencies which can impair the value of the business.
- The capital markets and future customers/vendors may be more receptive to companies with institutional investors.

What to expect of the institutional investor relationship...

- Business owners maintain operational control, but need approval over certain major decisions at the company. Representative examples include:
 - Issuance of new equity
 - Incurrence of additional debt
 - Entering into a new line of business
 - Sale of the company/equity in the company
 - Changes to organizational docs
 - Changes in board composition/executive compensation
- Assistance from the minority equity investor with:
 - Equity incentive plans
 - Strategic alternative analysis
 - Annual budgeting / ROI analysis
 - Potential acquisitions
- Quarterly board meetings.
- Monthly financial reports.

Why is this an attractive alternative for private company intermediaries?

- Ability to transact with business owners who are “on the fence” about selling.
- Alternative to “non-qualified owners” – those who are unreasonable about valuations for the majority sale of their business.
- Creative alternative to a sale transaction.
- Can provide for a “second bite of the apple” for the intermediary upon an eventual sale of the majority of the business.
- A way to turn a “busted auction process” into a fee generating event.

Questions?

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