

# Southvest Fund VII, L.P.

# Agenda

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- Gen Cap America Overview
- Investment Strategy
- Professional Team
- Lower Middle-Market Buyout Focus
- Case Study – Material Handling Company
- Performance
- Fund Terms Summary

# Gen Cap America Overview

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- Nashville, Tennessee based private equity fund
- Six buyout funds since inception (Funds V and VI, institutional funds)
- Founded in 1988 focusing on the most profitable niche of the buyout market – lower middle-market company control buyouts
  - Manufacturing, Distribution and Services
  - Revenue \$5 – \$100 million
- Experienced Investment Team
  - The two Senior Managing Directors, Operations Advisor and CFO have over a 25 year history of working together
  - Three Managing Directors sourcing acquisitions for Funds V and VI have been at the firm since 2005, 2007, and 2008, respectively
- Expansive deal flow network established over history of firm
  - Nationwide personal relationship-based network of business brokers, intermediaries, investment bankers, accountants, attorneys and other deal sources
- Extensive operating and portfolio company management experience
- Consistent value approach when purchasing new investments

# Investment Strategy

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## Typical Portfolio Company Criteria

- Private businesses and divisions of larger corporations with revenues between \$5 million and \$100 million
- Established companies with a history of strong cash flow and proven record of success – no turnarounds or startups
  - Preference for stable, low tech businesses in manufacturing, distribution, and services
  - Preference for broad and diverse vendor and customer base
- Preference for founder / family-owned businesses
  - Model maintains existing management and employee base
  - Legacy and culture of the business remains intact
- Target quality and existing management teams (MBOs)
- Management must be willing to invest their own capital
  - All senior management teams are required to put “skin in the game”
  - Desire for ownership in the business is one of our biggest due diligence indicators

# Investment Strategy

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## Examples of Added Value to Various Portfolio Companies

- Augmented management team with outside managers
- Assisted in the hiring of a sales force
- Targeted geographic and product / service expansion through detailed analysis
- Restructured compensation plans to better align economic interests
- Replaced / upgraded internal computer systems
- Provided strategic direction and developed strategic plans through Board of Directors
- Positioned the business to attract strong interest at exit
- Enhanced profit mentality at the company
- Implemented budgeting and financial monitoring processes

# Professional Team

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- Barney D. Byrd – Senior Managing Director
  - Founded Gen Cap America in 1988
  - Involved in all private equity investments
  - Responsible for the firm’s strategic planning and investment policy
  - MBA from the Wharton Graduate School of Business and JD from Vanderbilt University
  
- Donald D. Napier, III – Senior Managing Director
  - Involved in all private equity investments
  - Responsible for oversight of portfolio companies
  - BA from University of Virginia and JD from University of Houston

# Professional Team

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- Christopher T. Godwin – Managing Director
  - Joined Gen Cap in 2005
  - Responsible for deal flow origination, deal structuring, financial analysis and due diligence, portfolio oversight, and portfolio company dispositions
  - BA from Rhodes College and MBA from University of Texas
  
- J. Matthew Lane – Managing Director
  - Joined Gen Cap in 2007
  - Responsible for deal flow origination, deal structuring, financial analysis and due diligence, portfolio oversight, and portfolio company dispositions
  - BBA from Georgia Southern University and MBA from Vanderbilt University
  
- Mark E. Isaacs – Managing Director
  - Joined Gen Cap in 2008
  - Responsible for deal flow origination, deal structuring, financial analysis and due diligence, portfolio oversight, and portfolio company dispositions
  - BS from Washington and Lee University and MBA from Northwestern University

# Professional Team

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- Andrew Ginsberg – Senior Principal
  - Joined Gen Cap in 2013
  - Responsible for deal flow origination, deal structuring, financial analysis and due diligence, portfolio oversight, and portfolio company dispositions
  - BBA from University of Georgia and MBA from Northwestern University
  
- Phil Gamble – Associate
  - Joined Gen Cap in 2013
  - Responsible for financial analysis and due diligence
  - BS from Bowling Green State University
  
- Maclin P. Davis, III – Chief Financial Officer, Chief Compliance Officer
  - Joined Gen Cap in 1988
  - BS from University of North Carolina at Chapel Hill
  
- Stephen E. Blackmon, Jr. – Operations Advisor
  - Operations advisor and board member of all portfolio companies
  - BA from University of South Carolina



# Lower Middle-Market Buyout Focus

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## Favorable Investment Climate

- Historically better returns in lower middle-market buyouts (1)
- Underserved market by the buyout community
  - Average fund size is too large to target our market
- Sizeable universe of small companies and non-core divisions of corporate parent companies
  - Over 270,000 corporations with \$5 million – \$100 million revenue vs. fewer than 18,000 corporations with over \$100 million revenue (2)
- Purchase price multiples are more attractive in lower middle-market buyouts
  - Average Enterprise Value / EBITDA multiples since 2003 (3):

<u>Enterprise Value Range (\$ millions)</u>	<u>EV / EBITDA Multiple</u>
10 – 25	5.5x
25 – 50	6.2x
50 – 100	6.7x
100 – 250	7.3x

- First round of institutional capital provides an opportunity to augment management, operations, systems, and financial reporting

(1) Source: Preqin database as of September 2015

(2) Source: IRS as of the 2012 tax year (the latest year data is available)

(3) Source: GF Data as of February 2015 for deals occurring between 2003 and 2014

# Case Study – Material Handling Company

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- Distributor of conveyor belts, components and related accessories
- August 2007 acquisition
- Partnered with COO, head of sales and five other key managers, who all invested, to buy the company from the retiring owner
- Implemented budgeting process focused on cash flow growth vs. sales growth
- Worked with the team to expand operations into Texas market creating primary growth engine for the business
- Grew EBITDA 55% during the holding period
- Sold the company in September 2014 and generated 5.2x total cash on cash gross return

# Performance (as of 9/30/15)

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	<u>Vintage Year</u>	<u>LP Commitments</u>	<u>DPI</u>	<u>Net TVPI</u>	<u>Net IRR</u>
Fund V	2005	\$94 million	1.6x	2.0x	15%
Fund VI	2009	\$160 million	0.5x	1.4x	16%

# Conclusion

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Southvest Fund VII offers investors the opportunity to...

- Invest with an experienced buyout team with a long history of working together
- Access the segment of the buyout market with the most attractive acquisition pricing – lower middle-market company buyout
- Tap into a proprietary and robust deal flow network
- Invest with a team that has a proven investment track record of success
  - Targeting strong investment returns with a low risk of loss

# Southvest Fund VII – Key Terms

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- Fund Size: \$225 million (\$250 million hard cap)
- Term: 10 years
- Management Fee: 2.0%
- Preferred Return: 8%
- GP Commitment: 2%
- GP Carry: 20%
- Investment Period: 6 years
- Legal: Proskauer Rose, LLP
- Auditors: Crowe Horwath LLP