$$$$ Our Clients Investment Approach$$$$

We follow a transparent and consistent investment approach covering three distinct phases.

1. **Pre-Investment Process**
2. **Structuring of the Acquisition**
3. **Post-Transaction**

1. Pre-Investment Process

We generate acquisition prospects through multiple channels Poland-wide including referrals from accountants, lawyers, tax advisers, online and via our team's networks.
Prospective acquisitions are analysed from both a quantitative and qualitative perspective.
Screening focuses on qualifying the prospect against our **Investment Criteria**. We complete this within a week depending on information provided to us. Typically an information memorandum and recent financials will be sufficient.
Business Due Diligence covers all aspects of the business including current operations, commercial aspects and financials although particular emphasis is placed on strategic opportunities and challenges facing the business:

- Value proposition and how it differentiates the business against competition.
- Sustainability of Revenues and the extent to which they are contractual and recurring and protected by barriers to entry or other competitive advantages.
- Scalability of the business, what sources of future growth exist and how can they be captured – organically or by bolt-on acquisition.
- Key People,how can the knowhow and relationships of the current owners and management be embedded in the business going forward.

Non-Binding Offers are negotiated with vendors. Acceptance of the offer initiates a **Term Sheet** and **Legal Due Diligence** conducted by us on an exclusive basis.
Legal Due Diligence is contained to verifying assets and liabilities that will be included or excluded from the purchase agreement and on all risks and contingencies that may have to be captured as warranties. We try to keep this process short given the financial analysis and business due diligence already completed.
Execution of the vendor's **Sale Contract** is subject to completion of all due diligence, preparation of sale and purchase agreements and final approval by our Board of Directors.

2. Structuring of the Acquisition

We may purchase the business's trading assets or the company's shares. In either case control is required meaning > 50% owned by us on completion with > 75% preferred. In our experience most owners want to exit without retaining any equity in the business. However, where the owners are also operators and effectively general managers of the business, we structure the deal to ensure that while owners exit the business, there is still some accountability for the business's prosperity post investment. We therefore look favourably on actions made by owner/operators to de-risk our investment, for example:

- Owners retain equity in the business – say 10-25% 'skin in the game'.
- Earn-out of up to 50% of the purchase consideration.
- Offer vendor finance as part of the purchase consideration.

The negotiated purchase price is normally based on a capitalization of future maintainable earnings (typically EBIT or EBITDA). EBIT multiples for lower mid-sized businesses sold in recent years have commonly been less than 3-4x although this may vary depending on the basis of settlement (for example cash up-front as opposed to tranches settled on an earn-out basis).

3. Post-Transaction

Once the transaction has completed, our focus is on immediately enhancing performance – particularly in sales and customer care functions, measurement and control of business operations and performance reporting. A General Manager is essential to making this happen. Ideally there is one in place pre-investment that continues with the business. If there isn't, during the transition to new ownership, we will find the right person. The new General Manager may come from within the business organisation, and we will look to:

- identify candidates from existing staff; and
- ensuring they are appropriately incentivized (including equity).

Alternatively we will look outside the organization:

- recruiting, often locally, as part of the transaction process and making this a condition of purchase;
- we have an existing talent pool of General Managers on hand that we can deploy; and
- leveraging our investor base and Board networks.

We then work with existing managers or new management on a project basis:

- initiating business optimization, structural improvements and growth strategies; and
- deploying standard approaches to front and back–office systems and processes including CRM, HR, finance and administration.

Finally, within our wider portfolio we look for synergies:

- from complementary businesses where there are common customers that could be cross-sold or serviced; and
- establishing a sales, marketing and promotions capability that can operate across complementary businesses (say within an industry vertical).