



CLAIRVEST



Electrical Generating
Systems Association

Demystifying Private Equity



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Clairvest Overview

Introduction



Introduction

Partnership

- We seek partnerships with entrepreneurial standby power firms
- Unlike most firms, we prefer minority investments (leaving management in control of their business)

Our Mission

- To partner with heavily invested management teams to help build strategically significant businesses

About Clairvest


- Top-performing private equity management firm with over \$4.3B in capital under management and more than 35 years of history
- Clairvest supports firms as they grow their companies, take on new challenges, make acquisitions, and build their legacies



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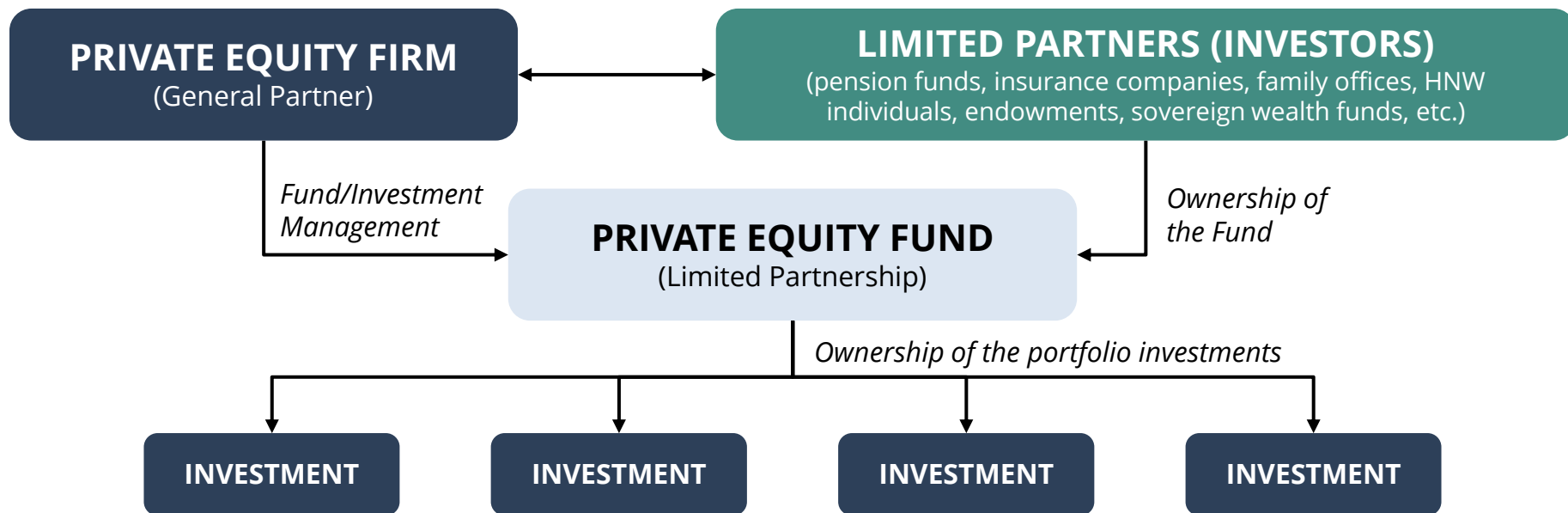
- M.B.A., University of Pennsylvania
- HBA, University of Western Ontario

Overview of Private Equity



What is Private Equity?

- Private equity (“PE”) is an alternative investment class whereby a firm invests equity capital into private businesses, typically with the desire to hold and progress the investment over a number of years
 - The capital in each fund is raised from a variety of Limited Partners (effectively silent investors) who trust the private equity firm to invest the capital and support the investment
- Capital can be utilized to provide liquidity to existing shareholders, invest in new technology, acquisitions, or working capital, and to bolster/solidify a balance sheet
- The typical PE firm will take a control, or majority, investment in a company; however, minority investments (also known as “growth equity”) alternatives exist



Different Transaction Structures

Majority PE Recapitalization	Minority PE Investment	Debt Financing <i>(for reference)</i>
<p><u>Overview:</u></p> <ul style="list-style-type: none"> • A full or near full sale to a private equity firm <p><u>Advantages:</u></p> <ul style="list-style-type: none"> • Existing shareholders cash-out all of their value in the business • Can be the value maximizing path (not always) <p><u>Drawbacks:</u></p> <ul style="list-style-type: none"> • Future growth and value accrue to the new owners • Management and executives will most likely be transitioned • Company reputation and current employees are now governed by new owners 	<p><u>Primary Purpose:</u></p> <ul style="list-style-type: none"> • A partial sale in the business or an equity investment focused on growth <p><u>Advantages:</u></p> <ul style="list-style-type: none"> • Active entrepreneurs and operators remain in control • Receive liquidity for certain shareholders • Receive capital for growth initiatives, acquisitions, balance sheet, etc. • Gain an aligned partner in the business <p><u>Drawbacks:</u></p> <ul style="list-style-type: none"> • Part of the economics going forward are shared with the PE firm • PE firm will have select governance rights (depends on the specific deal) 	<p><u>Overview:</u></p> <ul style="list-style-type: none"> • Bank capital or other debt that funds capital requirements <p><u>Advantages:</u></p> <ul style="list-style-type: none"> • Existing shareholders maintain control of the business and 100% ownership • Can have a lower cost than equity <p><u>Drawbacks:</u></p> <ul style="list-style-type: none"> • Limited amount of capital available, depending on the size of the business • Covenants can be restrictive on growth initiatives • Reduces free cash flow due to debt amortization and interest charges • Debt subordinates equity, which can create misalignments in negative scenarios

← **High Ownership Transition**

Low Ownership Transition →

A worker wearing a white hard hat and a high-visibility green safety vest is seen from the back, holding a tablet. A drone is flying in the sky above. The background is a bright, hazy outdoor setting. A dark blue vertical bar is on the left side of the image.

Why is Private Equity Interested in the Standby Power Sector?

Promising Fundamentals

Strong Sector Tailwinds

- Power disruptions are becoming increasingly more common, increasing the necessity for backup units
 - Factors influencing blackouts include: aging utility infrastructure, extreme weather events, increasing adoption of intermittent generation sources and increasing electricity demand
 - Utilities are attempting to invest in grid stability but are restricted by affordability concerns, decarbonize efforts and their regulatory constructs

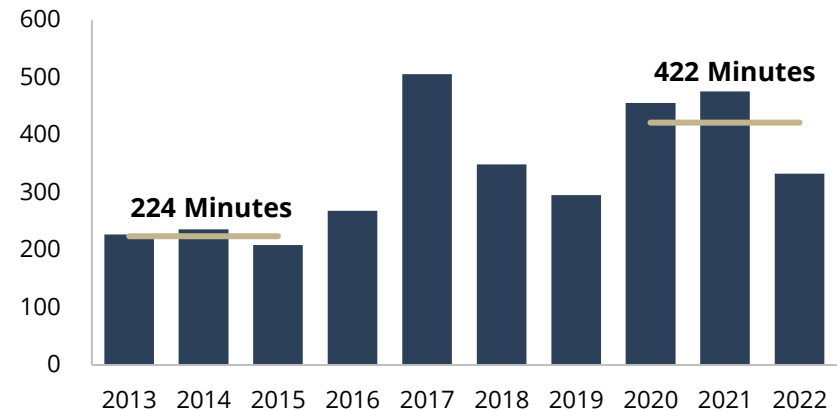
Fragmented Market

- Many dealers / distributors with overlapping service territories

Essential Service with Recurring Aspects

- Commercial and industrial use of generators is mission-critical
- Residential units are becoming more popular with the aging population and individuals investing in their home
- All segments require service, maintenance and repair work

SAIDI Metrics for the U.S. (Minutes)



Select Private Equity Backed Businesses



What are the Benefits of Private Equity?



Why Might Private Equity be Right for You?

The Benefits of Private Equity come in Two Forms

Capital to...

- Accelerate growth (organic and or acquisitions)
- Transition ownership (retiring shareholders or inactive partners)
- Reduce debt
- Invest to increase efficiency and moat
- Reduce personal risk or diversify assets (seek liquidity)

Beyond Capital...

- Advice and support
- Industry knowledge
- Human resource assistance
- Corporate finance help
- M&A help

What to Look for in a PE Partner

KEY CONSIDERATIONS WHEN CHOOSING A PE PARTNER

- ✓ **Control vs. Minority Deal**
- ✓ **Partnership Fit (seek references)**
- ✓ **Alignment of Interests (economic & strategy)**
- ✓ **Industry Knowledge**
- ✓ **Size of Deal vs. Firm Assets**
- ✓ **Exit Horizon (short-term vs. long-term)**
- ✓ **Valuation**
- ✓ **Track Record**

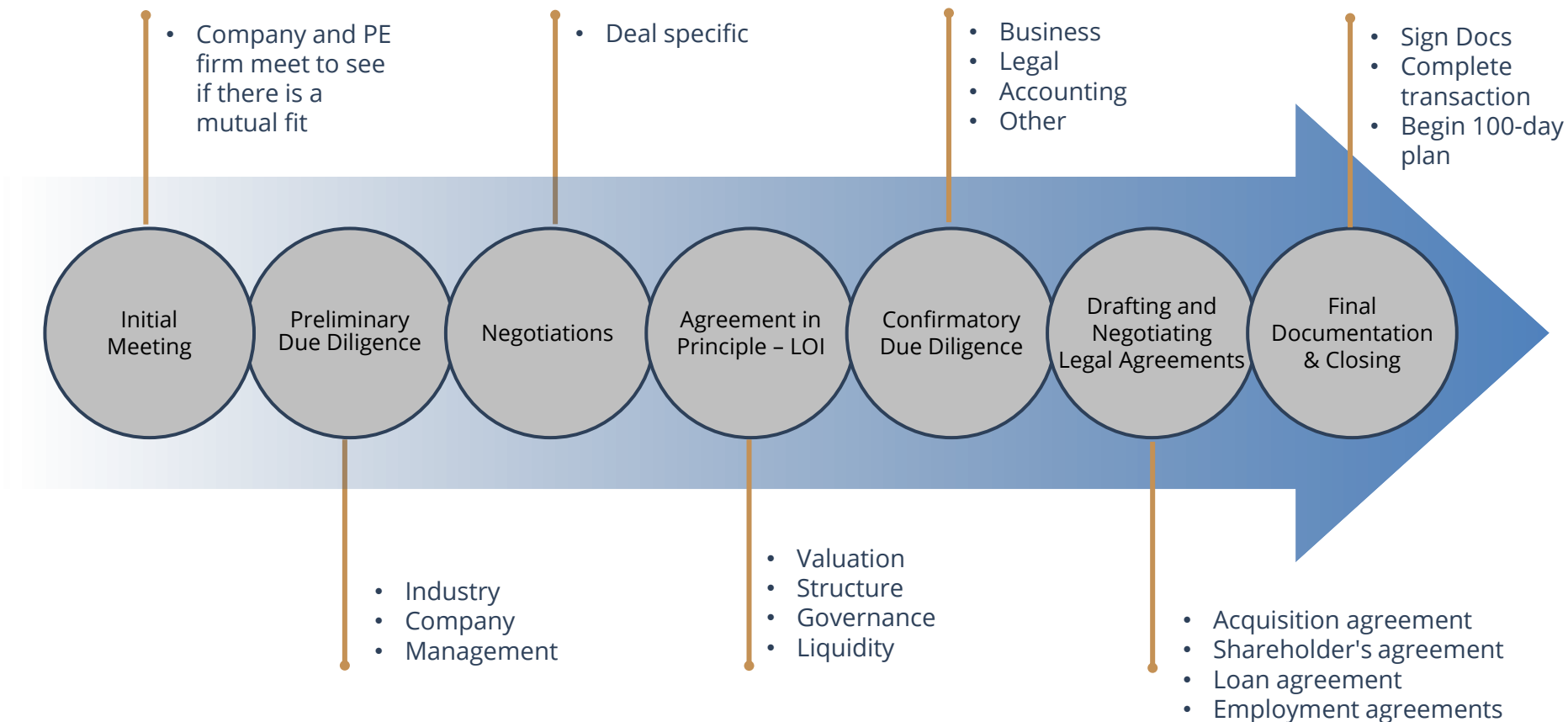
How to Prepare for a PE Partner?



How to Prepare for a Transaction

- 1 Understand your deal priorities (full sale, majority PE, minority PE, etc.)
- 2 Prepare financial statements for at least three years (audited preferred)
- 3 Prepare segmented information (by service, geography, etc.)
- 4 Understand competitive positioning in all key markets
- 5 Improve quality of financials (sale vs service, overhead management, etc.)
- 6 Understand growth strategies (important for PE deals)
- 7 Plan for management transition (important for PE deals)
- 8 Compile and digitize key legal documents (contracts, any litigation, etc.)
- 9 Provide information on other material items (business specific)

Transaction Process Steps



Case Study



Example: Right Time HVAC

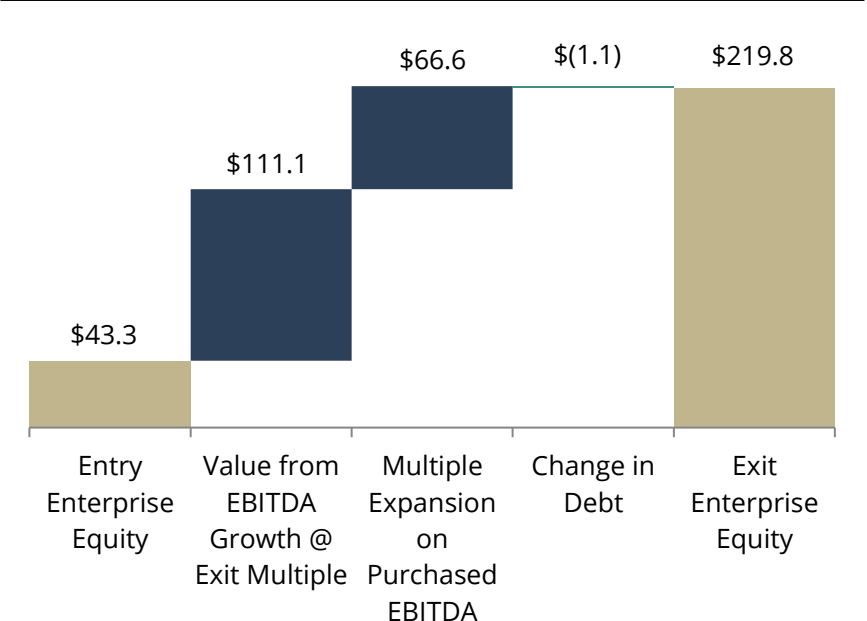


- Right Time Heating and Air Conditioning (“Right Time”), is the largest independently owned heating, ventilation, and air conditioning contractor in Canada focused on the residential replacement market
 - Clairvest invested in November 2018 by purchasing 50% of the business from the existing entrepreneurs
 - Our thesis was to i) improve the metrics of the existing branch network, ii) increase the company’s footprint through acquisitions and iii) grow market share by increasing the quantum and efficacy of their marketing
- In December 2020, Right Time was sold to different private equity firm resulting in a 4.7x MoIC and a 110% IRR

Value Creation Initiatives

Acquisitions	<ul style="list-style-type: none"> • Completed 3 acquisitions, more were under LOI at exit • Clairvest assisted the team with sourcing, diligence and structuring
Marketing	<ul style="list-style-type: none"> • Increased focus on different marketing channels to increase leads and improve marketing ROI • Geo-targeted specific service areas to improve service economics
Human Resources	<ul style="list-style-type: none"> • Hired a new CFO and Head of Marketing, built out the finance function, put in place a regional management organization • Total headcount grew from 270 employees to 390

Value Add (\$M)



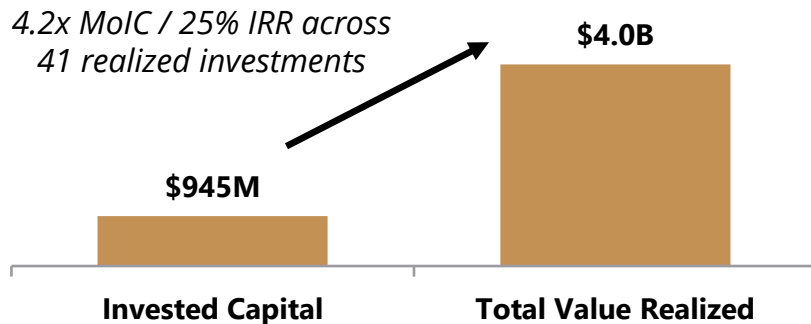
About Clairvest



Clairvest Summary

- Clairvest was founded in 1987 by a group of successful entrepreneurs looking to create a capital pool that they themselves would have wanted to access as they were scaling their businesses
 - Our founding motto was: “by entrepreneurs for entrepreneurs”
- 35 years later, Clairvest is a top-performing private equity management firm with \$4.3B of capital
- We focus on partnership and count our former partners as friends and allies
 - 3 former partners sit on our board
 - We have partnered with the same entrepreneurs multiples times (which we view as the best endorsement)

Track Record of Value Creation



Portfolio Company Awards



Our mission is to partner with heavily invested management teams to help build strategically significant businesses

How We Are Different

	Clairvest	Traditional PE
Ownership Target	Flexible (40-65%)	Control (75%+)
Style	Collaborative	Command & Control
CEO Re-investment	50%+ Rollover	<20% Rollover
CEO Governance Rights	Extensive	Minimal
Time Horizon	5-7 years	4-5 years
GP Commitment	27%	<5%
Target Leverage	2-4x	4-7x

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