

Helping Your Supplier: Non Traditional Solutions

Partnering with Private Equity

Black Executive Supply Management Summit



February 3, 2010

Agenda

- I. The Dilemma**
- II. The Credit Crunch / Equity Capital “on the Sidelines”**
- III. The Non-Traditional Solution – Partnering with Private Equity Firms**
 - Supply Chain Study Results – Howard University
- IV. Private Equity / Procurement Partnership Rationale**
- V. How to Partner with Private Equity / Improve Supplier Relationships**
- VI. Q&A Discussion**

Appendix

- Uni-World Capital Overview
- Contact Information

The Dilemma

- Strategic suppliers are key to overall growth of large corporations
- Many suppliers are suffering in ability to keep pace w/large corporations due to credit crises
- Banks' lending criteria have become more stringent for smaller companies/suppliers
- Many smaller suppliers provide large corporations ingenuity vital for future growth
- Credit environment has made it more difficult for smaller suppliers to manage working capital, thereby adding additional stress to the overall supply chain
- Increasingly, corporations are using their own capital or adjusting payment terms to fund suppliers' operations and keep supply chain operational

Credit Crunch – Small Businesses

- There are over 5.7 million employer firms in the US; over 122,000 firms with revenues > \$10M ⁽¹⁾

Receipts Size of Enterprise	Firms
Total Employer firms	5,697,759
Less than \$100 thousand	1,291,552
\$100 to \$499 thousand	2,387,780
\$500 to \$999 thousand	819,513
\$1 to \$4.9 million	906,936
\$5 to \$9.9 million	138,195
\$10 to \$49.9 million	122,785
\$50 to \$99.9 million	15,895
\$100 to \$249.9 million	8,732
\$250 to \$499.9 million	2,880
\$500 to \$999.9 million	1,544
\$1 to 2.499 billion	1,056
\$2.5 billion or more	891

1. Source: US Census Bureau 2002

Credit Crunch – Small Businesses

- There have been 199 bank closures since Oct 1, 2000 through Jan 8, 2010 ⁽¹⁾
 - 141 bank closures in 2009
- There are approximately 7,485 depository institutions in the US; From 1994 to 2003, 3,517 mergers took place between commercial bank and thrift institutions ⁽²⁾

Changes in the Number of Lending Institutions by Asset Size in the United States

	<i>More than \$50 Billion</i>	<i>\$10 Billion to \$50 Billion</i>	<i>More than \$10 Billion</i>	<i>\$1 Billion to \$10 Billion</i>	<i>\$500 Million to \$1 Billion</i>	<i>Less than \$500 Million</i>	<i>All Banks/ BHC's</i>
30-Jun-08	34	66	100	529	657	6,094	7,380
30-Jun-07	32	74	106	498	617	6,244	7,465
30-Jun-06	34	74	108	473	591	6,391	7,563
30-Jun-05	31	70	101	449	541	6,533	7,624
30-Jun-04	26	78	104	430	491	6,712	7,737

1. Source: FDIC, January 10, 2010

2. U.S. Small Business Administration, Office of Advocacy, *Small Business and Micro Business Lending in the United States*

Credit Crunch – Small Businesses

- The ratio of smallest-loans (\$100k - \$1M) to total business loans declined from 27.6% to 12% from years 1996-2007 for banks with assets between \$100M-\$500M
 - Compared to banks with assets > \$1B saw their ratio of smallest-loans to total business loans increase from 4.4% to 6.1% and their overall market share increase from 17.6% to 55.6% ⁽³⁾

Table C. Percentage of all small firms using credit, by suppliers of credit, 1993 through 2003

Suppliers	1993	1998	2003
Any Credit	79.1 *	82.5 *	89.0
Any Traditional Loan	59.1 *	55.0 *	60.4
Any Depository Institution	44.9 *	42.0 *	46.4
Credit Union	2.3 *	2.3 *	3.9
Thrift	4.2 *	3.3 *	5.5
Commercial Bank	40.6 *	38.2 *	41.0
Any Non-Depository Institution	20.7 *	19.8 *	26.5
Finance Company	12.4 *	13.3 *	22.1
Brokerage	0.4 *	0.4 *	0.7
Leasing	8.3 *	6.8 *	4.2
Other Non-depository	1.0 *	1.5 *	2.3
Any Non-Financial Institution	13.8 *	9.6 *	10.4
Family & Friends	8.6 *	6.0 *	6.2
Other Businesses	5.0 *	3.0 *	2.6
Government	0.6 *	1.0 *	1.3
Other	0.3 *	0.2 *	0.4
Unknown	0.0	0.2 *	0.4
Any Non-Traditional Credit	60.2 *	70.7 *	80.0
Owner Loans	17.5 *	14.2 *	16.8
Personal Credit Cards	40.7 *	46.0 *	46.7
Business Credit Cards	28.8 *	34.1 *	48.1
Number of observations	4,637	3,561	4,240

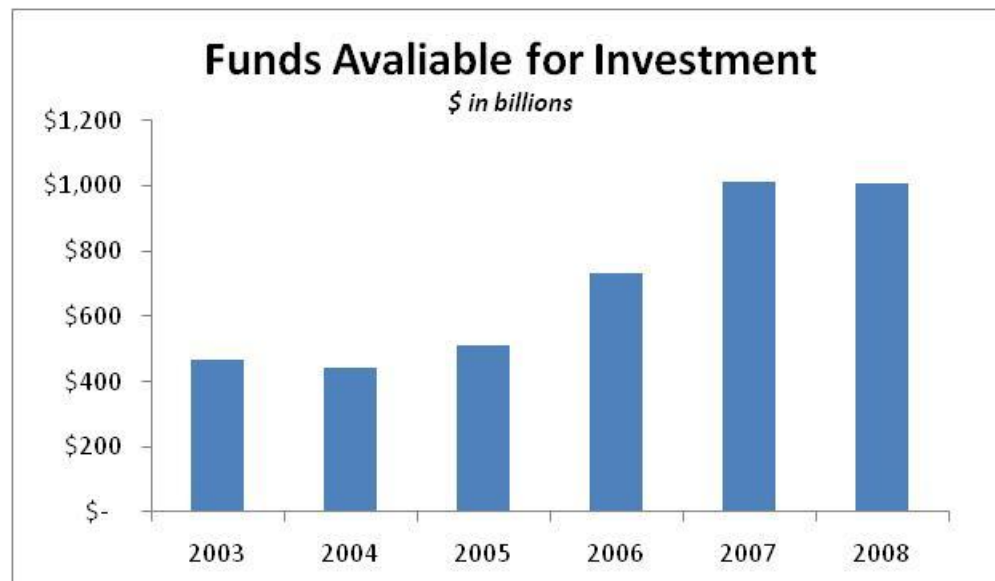
Note: *= α less than or equal to 0.05.

1. Source: FDIC, January 10, 2010
2. SBA

“Cash on the Sidelines”

Assets Under Management – Private Equity Growth

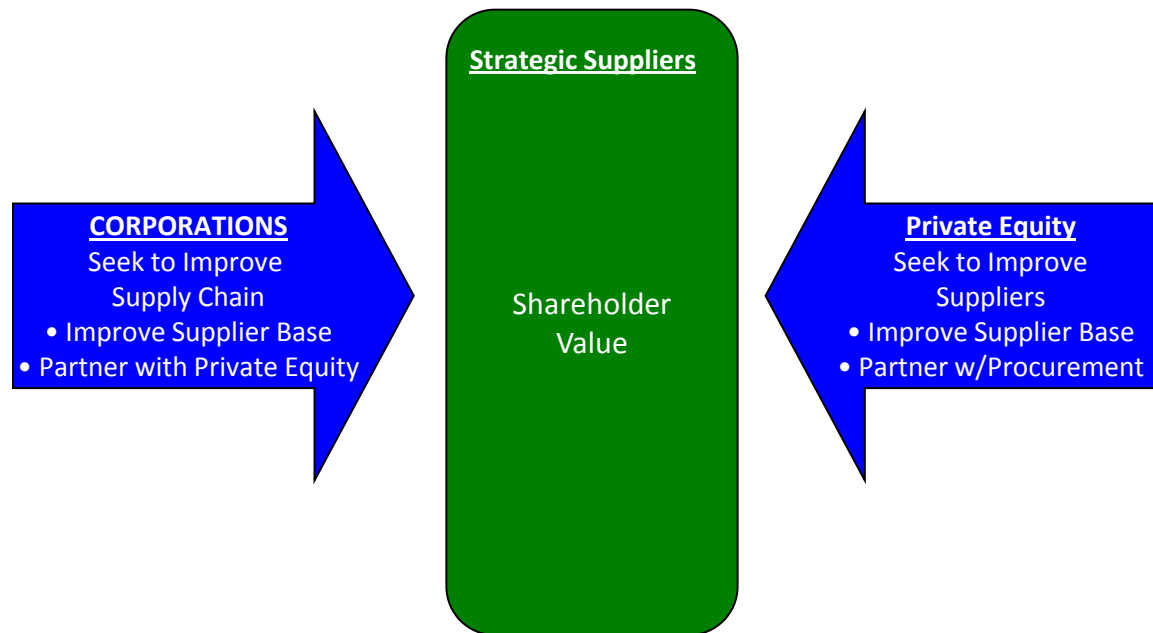
- Private equity funds under management totaled \$2.5 trillion at the end of 2008.
- Funds available for investments totaled 40% of overall assets under management or some \$1 trillion.



1. Source: International Finance Service London Private Equity Report August 2009

Non-Traditional Solution

Corporations should partner with lower middle market private equity firms (< \$500M in assets under management), to evaluate and grow strategic suppliers



Fundamental Alignment of Interest

Private Equity / Corporate Partnership Rationale

- Private equity (PE) firms have capital to invest, looking to help grow solid businesses
- PE firms have the requisite resources to evaluate suppliers, utilizing market-based approaches to evaluate supplier viability
 - PE firms with institutional investors abide by strict investment standards, therefore governance is improved through activity with PE firms
- Partnering with PE firms allows corporation to outsource much of this activity, which is not a revenue generator
 - Assess supplier health as it relates to supplier age, size, profitability, liquidity, growth prospects, creditworthiness, and overall competitive positioning via industry “target” ratios
- Partnering with PE firms provides a unique tool to enhance communication with key suppliers
- Partnering with PE provides opportunity to grow strong suppliers, not just distressed suppliers

Partnership - Value Proposition

Corporations

- Receive Dedicated Capital Towards Rationalizing Supply Chain
- Leverage Resources of Private Equity Professionals
- Enhanced Supplier Development
- Improved Efficiency / Value of Supply Chain
- Provides Institutional Equity Capital to Supplier Base

Suppliers

- Provided Access to Additional Management Talent
- Refined Corporate Selling Strategy
- Provided Financial Capital
- Provided Strategic Guidance
- Improved Corporate Governance
- Provided Greater Visibility / Communication with Corporations

Private Equity

- Provided Quality “Investment Opportunities”

Supply Chain Study – Howard



Howard University

- Howard Graduate Supply Chain Management Research Center
 - Two students participating – Dell & United Technology Summer 05' internships
- Supply Chain Initiative Process –
 - 4 Phase Process – 10 Weeks
 1. Supplier Scoping / Information Gathering – 3 Weeks
 2. Targeted Supplier Communication – 2 Weeks
 3. Preliminary Due Diligence – 4 Weeks
 4. Strategic Decision – 1 Week

Supply Study Review – Premise

Corporations, through a partnership with a private equity firm could improve the value and efficiency of corporation's supply chain

- Provide capital for suppliers
- Aid in communication with suppliers
- Assist in procurement process

Performed 2 exercises:

1. Evaluated a select number of suppliers to understand how private equity can benefit both corporation and the supplier
2. Identified diverse suppliers to perform all and/or some of a business process outsourcing functions outlined by corporation

Supply Study Review – Conclusions

- Suppliers would like better communication with corporations
- Suppliers would like to be considered for other additional/higher margin bids, but lack capital and/or relationships to understand requirements
- Suppliers agree that scale is critical
 - Scale can provide additional cost savings and additional capability
- Both agree that partnering with a private equity firm would provide valuable resources needed to scale and leverage opportunities

Supply Study Review – Value Add

- Research team provided feedback to both corporation and supplier
- Through the process:
 - Suppliers better understood their relative positioning
 - Understood scale was key to be truly competitive long-term
 - Suppliers sought assistance in growth, best practices, etc.
- Corporation provided supplier introduction to technology group with over 480 members which led to discussion of potential acquisition targets with supplier
- Research team identified 13 new suppliers and recommended 6 to corporation
 - Corporation viewed service provided as value-add to existing procurement process

Partnership Goals

1. Understand the private equity industry
 - a) Size of private equity group (less than \$500 million)
 - b) Private equity investment focus
 - c) Size equity investments
 - d) Control or non-control investors
 - e) Long-term investors
2. Set clear goals
 1. Grow strategic suppliers, assist with internal process, joint venture, etc.
3. Set confidentiality agreements between two parties

Private Equity / Procurement Partnerships

1. Assist existing supplier base through introduction to private equity groups
2. Spin-out internal corporate resources through joint venture partnership with private equity group
3. Engage private equity group in existing procurement processes (bids)

Appendix

Uni-World Capital Overview

Fund Description

Uni-World Capital, L.P. (“UWC”) is a private equity firm focused on making leveraged buyout and growth equity investments in lower-middle market companies. We seek to partner with management teams where we can leverage our team's collective business experience, corporate relationships and strategic and financial expertise in order to help enhance a company's strategic positioning and drive profitable growth.

Fund Size

- Closed Commitments: \$60 million
- Verbal Commitments: \$33 million
- Target Size⁽¹⁾: \$150 million

Investment Size

- \$8 - \$12 million sweet spot. Will partner with like-minded PE firms and/or bring co-investors to fund larger deals.

Investment Parameters

- Type: Leveraged / management buyouts and growth equity investments
- Role: Control investments
- Minority investments with strong control rights
- Size: Minimum EBITDA of \$3 million
- Enterprise values of \$20 million to \$150 million
- Industry: Non-Food Consumer Products, Food, Value-Added Manufacturing, Mission-Critical Business Services, Financial Services
- Other⁽²⁾: Best efforts to invest 1/3 of capital in minority-owned and or women owned/operated businesses

Investment Principles

• Sector-Focused Investing

We research each sector focus to develop an analytical framework to evaluate investment opportunities. This framework is augmented by our network of senior executives and leaders within each sector. We view ourselves as an **industry buyer**, not a transactionally-driven financial buyer.

• Breakout Cash Flow Growth

We work with management to identify key initiatives designed to significantly increase the company's free cash flow generation and return on capital within three to five years, augmented with outside resources where appropriate. We are **business builders**, not passive investors.

• Transparency

We believe that clear communication, metric-based standard operating procedures and mutual accountability increase the likelihood of success. This culture of transparency facilitates a true partnership between Uni-World and our management teams, investors and financing sources.

Team

Chris Fuller, Managing Partner: 20 years experience at Harvest Partners, First Atlantic Capital, BT Capital Partners, Salomon Brothers, Banker's Trust

Jay Garcia, Partner: 20 years experience at Discovery Capital, Ramirez & Co., Suala Capital, Santander, Salomon Brothers, Smith Barney

Erik Miller, Partner: 13 years of experience at Carthage Partners, Chase Securities and Goldman Sachs

Scott Porter, Partner: 13 years of experience at Cowen Capital, SG Capital, and Chase Securities

(1) July 2010 close.

(2) UWC is certified as a minority-owned fund. This certification does not require us to invest in minority-owned businesses. While we believe UWC's diverse partnership and minority-owned status represent competitive advantages in certain circumstances, they are not primary drivers of our business.

Contact Information

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