



COVID-19 BUSINESS TOOLKIT
FOR PROACTIVE
CEOs & BUSINESS OWNERS

April 2020

COVID-19 has profoundly altered the business landscape

The COVID-19 pandemic has brought about unprecedented challenges to businesses of all sizes. Its swift and widespread effects have upended normal business operations, requiring business owners to act quickly to mitigate short-term disruption, while also contending with an uncertain long-term outlook.

Businesses must reshape their strategies accordingly

At Meridian Capital, we encourage business leaders to transition their response to the pandemic from a defensive to an offensive strategy. The most pressing problems that businesses face right now are operational challenges and near-term financial health. In the mid- to long-term, business owners can use a proactive strategy to position themselves for success in the post-coronavirus environment. Meridian Capital's expertise in capital markets, strategic growth, and corporate finance can help you get there.

Meridian Capital's Three-Phase Coronavirus Response Model:

I

Business Assessment and Triage

Identify and rapidly mitigate the most urgent near-term risks

II

Strategy Development

Identify opportunities to improve market position and outperform competitors in the mid- to long-term

III

Strategy Execution

Obtain and deploy the necessary resources to generate long-term value creation

Meridian Capital's focus has always been helping middle-market business owners and management teams achieve their financial, business, and personal goals. We want to help our clients address the challenges that have been caused by COVID-19 and the changes it has produced in the middle-market finance landscape.

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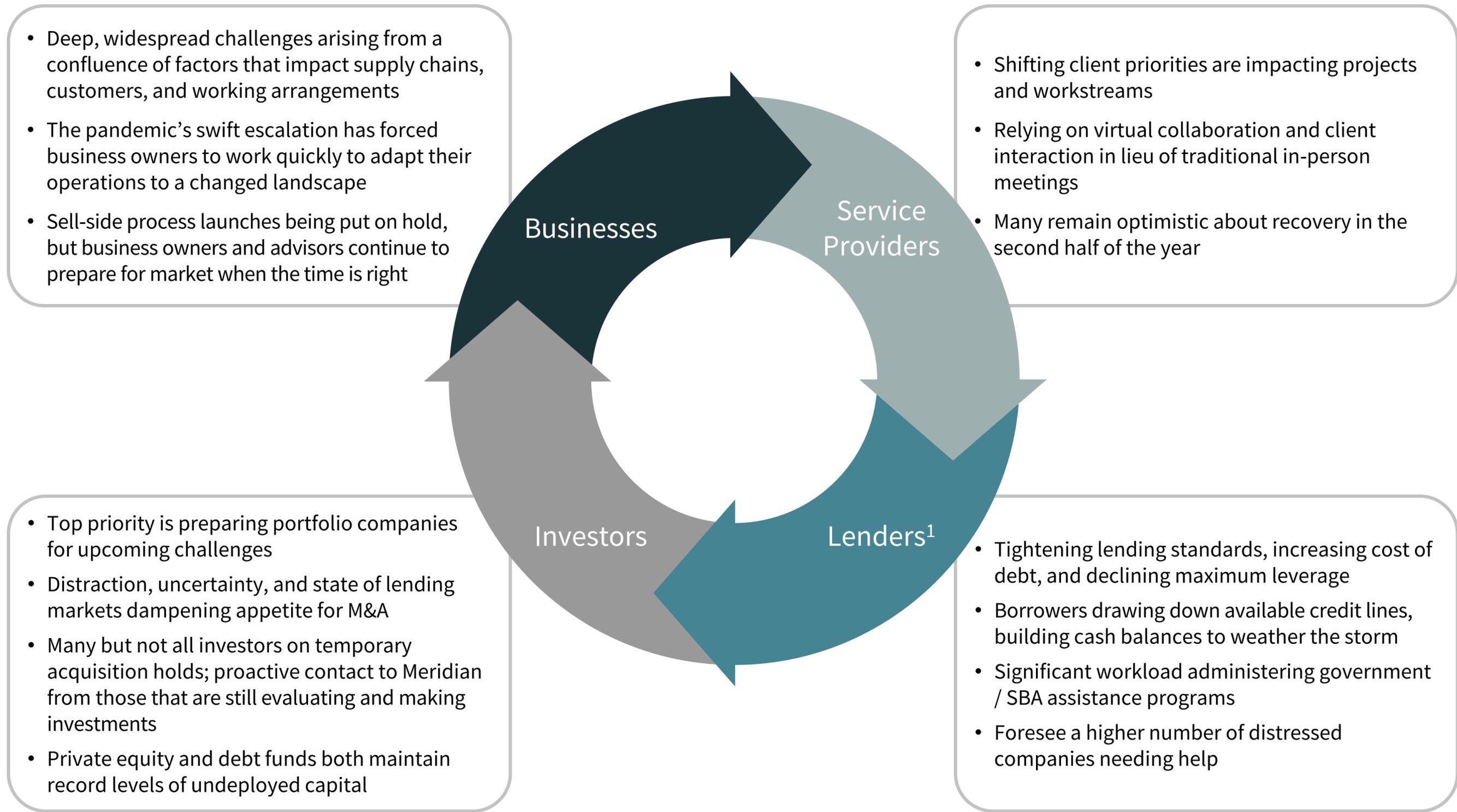
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What Are We Hearing In The Market?

Broad-based impact to businesses and the M&A environment



- Deep, widespread challenges arising from a confluence of factors that impact supply chains, customers, and working arrangements
- The pandemic’s swift escalation has forced business owners to work quickly to adapt their operations to a changed landscape
- Sell-side process launches being put on hold, but business owners and advisors continue to prepare for market when the time is right

- Shifting client priorities are impacting projects and workstreams
- Relying on virtual collaboration and client interaction in lieu of traditional in-person meetings
- Many remain optimistic about recovery in the second half of the year

- Top priority is preparing portfolio companies for upcoming challenges
- Distraction, uncertainty, and state of lending markets dampening appetite for M&A
- Many but not all investors on temporary acquisition holds; proactive contact to Meridian from those that are still evaluating and making investments
- Private equity and debt funds both maintain record levels of undeployed capital

- Tightening lending standards, increasing cost of debt, and declining maximum leverage
- Borrowers drawing down available credit lines, building cash balances to weather the storm
- Significant workload administering government / SBA assistance programs
- Foresee a higher number of distressed companies needing help

¹ For additional insights, please see our related publication *Debt and M&A Markets Amid COVID-19*

Mid- to Long-Term Middle-Market Finance Outlook

We are optimistic amid the constantly evolving situation, though the timing and exact nature of an eventual recovery remain unknown

- Procedures being put in place now to maintain business continuity and de-risk operations will have long-run benefits
- Global supply chains in earliest-impacted regions are showing signs of returning to normal course operations

Business Operations

- Private equity and debt funds, with record levels of dry powder, are well-positioned to make investments
- So far, we do not see investors materially changing their mid- to long-term investment strategies

Investors

- Core fundamentals of a strong economy including investment in innovation and steady labor force participation rates remain intact
- Mid-term impact on consumer sentiment will depend on the duration and severity of the crisis globally

Economic Fundamentals

- Reduction of interest rates to near zero will help drive deal activity once the impact from COVID-19 begins to wane
- Recently announced no-limits bond buying program aims to support smooth functioning of financial markets in the near-term

Monetary Policy

Components of a Proactive Strategy

Because every business will be impacted in a unique way, the timing of the phases will vary for each company. Meridian's services can help support short-term as well as mid- to long-term strategies

	Phase I Business Assessment and Triage	Phase II Strategy Development	Phase III Strategy Execution
Phase Goals	<ul style="list-style-type: none"> Survive and prepare for eventual return to normal operations Respond to acute business risks as quickly as possible 	<ul style="list-style-type: none"> Develop strategy for business success over mid- to long-term Assess needs and reallocate resources as appropriate 	<ul style="list-style-type: none"> Push forward on identified initiatives Defend and improve competitive position Position business for long-term success and value creation
Key Factors that Shape Strategy	<ul style="list-style-type: none"> Severity and urgency of business impact Cash position and management; access to capital 	<ul style="list-style-type: none"> Strengths and weaknesses of business Competitive landscape and relative strength of competitors People and capabilities Resources on-hand as well as those that can be obtained 	<ul style="list-style-type: none"> People and capabilities Capital requirements and access to capital Company value drivers
Potential Courses of Action	<ul style="list-style-type: none"> Meet immediate liquidity needs with an accelerated financing process Take action to maintain balance sheet health 	<ul style="list-style-type: none"> Consider a recapitalization as a defensive or offensive strategy Opportunistically pursue organic and inorganic mid- to long-term growth strategies 	<ul style="list-style-type: none"> Continue to execute on organic and inorganic growth opportunities Position your business for a successful exit

Short-term

Long-term

Overview of Options & Meridian's Relevant Experience



Meet Immediate Liquidity Needs With an Accelerated Financing Process

In an economic disruption, swift access to liquidity can be critical to protecting your business

Business Strategies Supported

- Quickly obtain additional liquidity to fund overhead expenses in the case of a revenue drop, or to boost inventory in the case of a demand surge
- Provide flexibility to weather potential continued business disruption
- Stay current on existing debt and avoid covenant breaches

Market Insights & Considerations

- In addition to potential for additional liquidity from current lender, several options exist that should be explored in parallel
- Tightening lending standards – particularly among commercial banks – and increasing cost of debt
- Flexibility on loan structure and terms may be necessary depending on current capital structure
- Record levels of capital available for deployment at debt funds
- Resources such as the SBA’s Economic Injury Disaster Program and the Paycheck Protection Program can help support liquidity

Overview of Financing Options

	Bridge Financing	Asset-Based Loan	SBA Loan	Senior Term Loan	Subordinated Debt / Mezzanine
Time to Fund	4-8 weeks	6-10 weeks	2-3 months	2-4 months	2-5 months
Key Considerations	<ul style="list-style-type: none"> • Fastest route to meet liquidity needs • Very short-term 	<ul style="list-style-type: none"> • Revolving line of credit collateralized by inventory/receivables 	<ul style="list-style-type: none"> • Lowest cost for moderate capital needs 	<ul style="list-style-type: none"> • Cash-flow based • Generally carries the most restrictive covenants 	<ul style="list-style-type: none"> • Option for higher leverage requirements • May include equity-linked features
Cost	\$\$\$\$\$	\$\$	\$	\$\$\$	\$\$\$\$
Personal Guarantee	Sometimes	Generally no	Yes	Sometimes	Sometimes
Covenants*					
Diligence Requirements*					

* Greater portion of circle filled in corresponds to more stringent covenants and more involved diligence process, respectively

Case Study: Meet Immediate Liquidity Needs With an Accelerated Financing Process

Ellenos Greek Yogurt



Situation Overview

- Manufacturer of premium artisanal Greek yogurt with strong regional leadership in the Pacific Northwest
- All branded sales with high velocity and sell-through rates across key retailers and channels
- Immediate need for additional cash due to challenged balance sheet following a delayed capital-intensive plant expansion



Meridian Capital Approach

- Positioned Ellenos as an iconic premium branded, high-margin product with a loyal consumer following
- Facilitated bridge financing through outreach to 15 debt lenders and family offices, with the goal of obtaining more permanent equity financing thereafter



Outcome

- Closed bridge funding in two months and a minority equity transaction 1 ½ months later at a highly attractive valuation with minimal shareholder dilution
- With the proceeds from the bridge loan, the Company was able to complete its plant expansion while maintaining balance sheet strength



Take Action to Maintain Balance Sheet Health

Efficient working capital management and cash conservation are essential to weather the current storm and position your business for long-term financial health

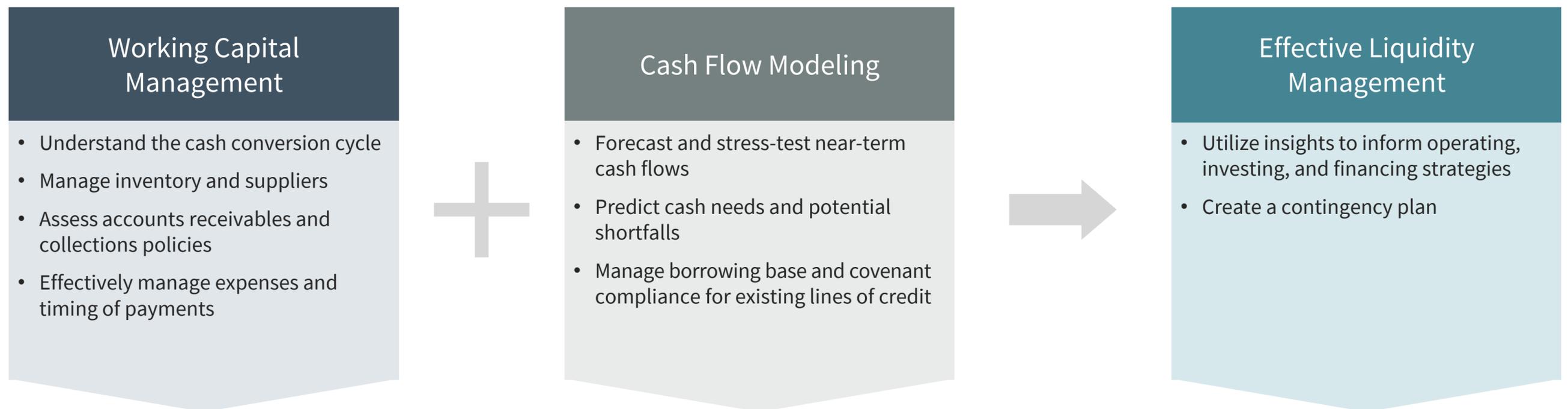
Business Strategies Supported

- Plan for near-term liquidity needs
- Maintain sufficient cash reserves
- Protect business continuity
- Improve creditworthiness and ability to repay debt
- Drive longer-term shareholder value

Market Insights & Considerations

- With tightening lending standards and increased cost of debt, prudent cash management is vital to maintaining financial health
- Slowing receivables collection and inventory movement present additional challenges to balance sheet cash management
- Resources such as the SBA's Economic Injury Disaster Program and the Paycheck Protection Program can help support liquidity

Working Capital Optimization and Cash Flow Planning





Case Study: Take Action to Maintain Balance Sheet Health

MTM Robotics



Situation Overview

- Engineer and manufacturer of advanced robotics and mobile tooling solutions for leading aerospace and defense OEMs and tier I suppliers
- Recent transition from an engineering firm to a robotics production firm created significant revenue opportunities and cash flow requirements
- Shareholders seeking incremental balance sheet strength and liquidity to facilitate business model transition and procurement of new robotics production programs



Meridian Capital Approach

- Developed detailed cash flow and capital investment model to identify capital needs
- Pursued a debt solution to maximize equity retained by shareholder
- Received multiple alternative debt solutions



Outcome

- Secured incremental liquidity and debt capital via Craft3
- Additional funding allowed MTM to more aggressively expand manufacturing capacity and pursue new customer relationships and product opportunities
- After achieving growth plan, MTM Robotics sold to Airbus in 2019 in order to accelerate R&D and product development initiatives

Consider a Recapitalization as a Defensive or Offensive Strategy

A debt or equity recapitalization allows for shareholder liquidity now with future upside potential

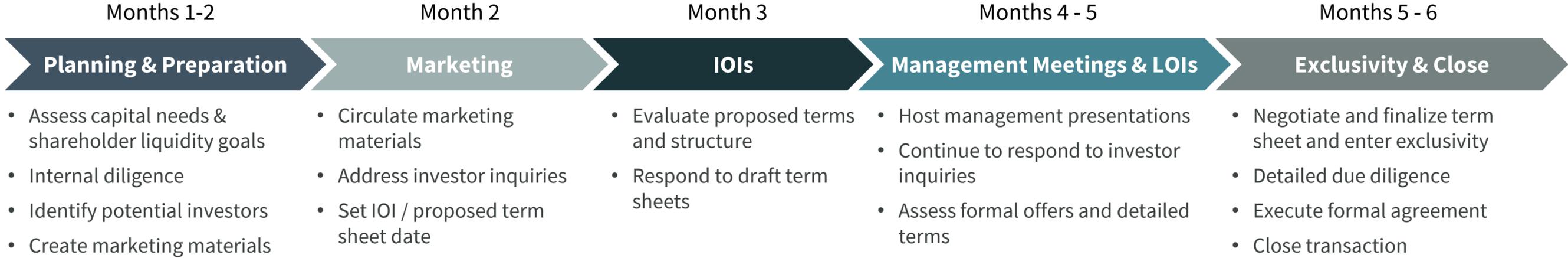
Business Strategies Supported

- Achieve near-term shareholder liquidity
- Cushion balance sheet cash
- Secure capital for investment in business
- Bring on a partner to provide strategic guidance and capital backing for longer-term organic and inorganic growth
- Effect a buyout of a minority shareholder to address differing risk tolerances and objectives
- Retain control over business
- Preserve shareholder upside opportunity in future business exit

Market Insights & Considerations

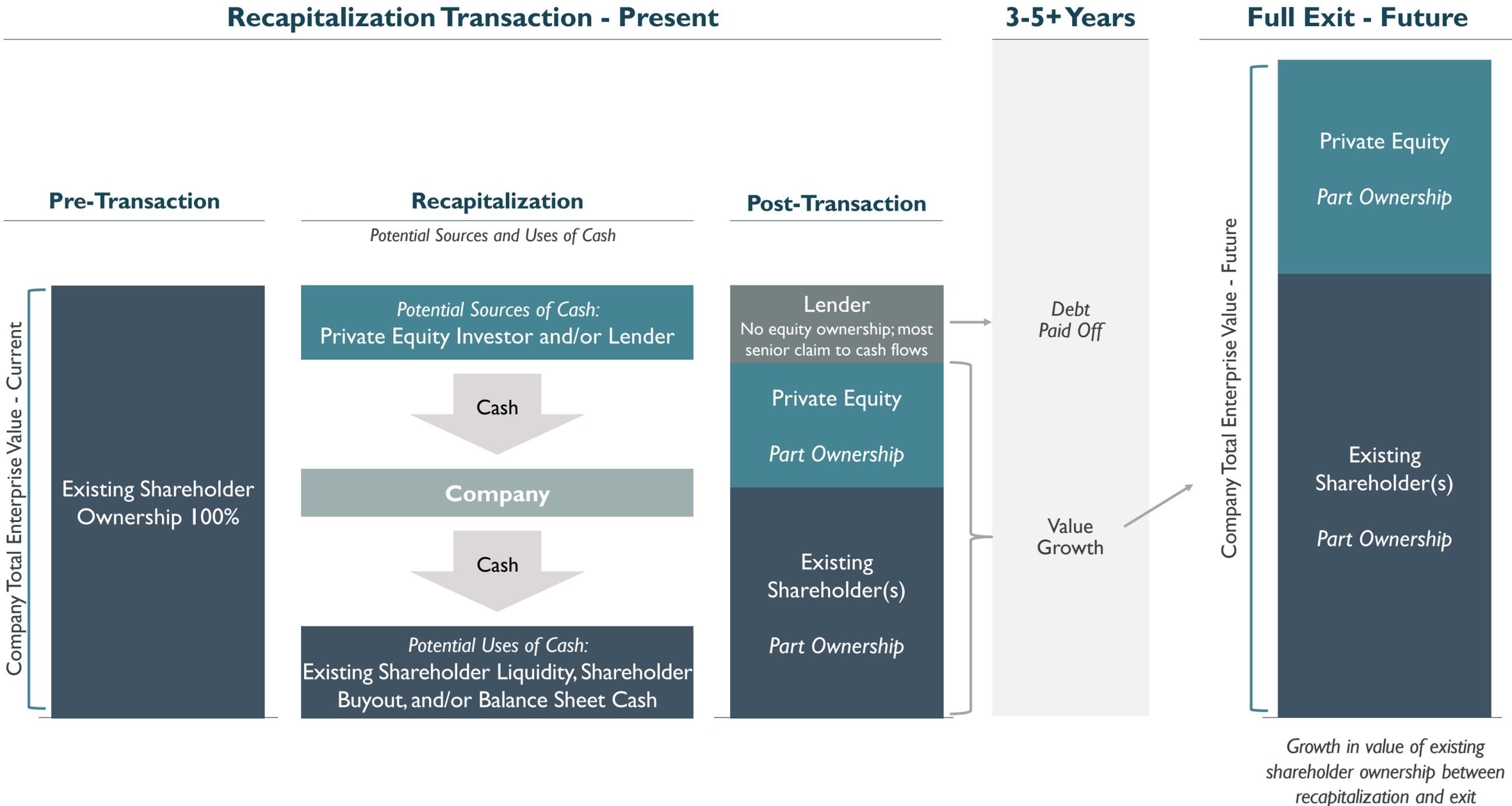
- Recapitalization can involve debt, equity, or a combination of both
- Equity and debt funds both in possession of record levels of dry powder that needs to be deployed
- Proactive contact to Meridian from private equity and debt funds that are still evaluating and making investments
- Increased interest in minority transactions among private equity
- Potentially less favorable shareholder rights and consents than historically “market” terms for minority equity recapitalizations
- Tightening lending standards and higher cost of debt vs. pre-pandemic

Process Steps & Timeline*



*Debt only – shorter timeline and less intensive investor due diligence

Mechanics of a Recapitalization



Example is hypothetical and for illustrative purposes only. Specific transaction possibilities and outcomes are not guaranteed

Case Study: Consider a Recapitalization as a Defensive or Offensive Strategy

nutpods



Situation Overview

- Manufacturer of premium, shelf stable and refrigerated, non-dairy coffee creamer products with loyal consumer following and rapid growth
- Founder and CEO seeking to raise capital to support continued growth and channel expansion, and for shareholder liquidity
- Shareholders wanted a value-add partner who would be a steward of the brand with flexibility to inject future capital



Meridian Capital Approach

- Positioned nutpods as a high-growth asset benefitting from strong industry tailwinds
- Emphasized strength and unique value proposition of nutpods brand



Outcome

- Identified ultimate partner who had industry expertise, held a shared vision for nutpods, and had experience creating \$100M+ brands
- Closed minority equity recapitalization transaction at a premium valuation
- Achieved significant shareholder liquidity while maintaining control stake



Case Study: Consider a Recapitalization as a Defensive or Offensive Strategy

Subsplash



Situation Overview

- Subsplash offers a comprehensive mobile and internet platform that engages and connects communities including leading churches, ministries, and other for-profit and not-for-profit entities worldwide
- Having recently enhanced its platform with integrated giving capabilities, Subsplash was seeking a partner that could support continued growth initiatives
- It was crucial that the partner share the Company's vision and values and that the Founder and CEO remain a key decision-maker



Meridian Capital Approach

- Identified and thoroughly vetted a wide universe of prospects, including financial, strategic, and faith-based organizations
- Highlighted Subsplash's best-in-class technology platform, loyal and growing customer base, and strong unit economics



Outcome

- Completed an equity placement with a financial sponsor at an extremely attractive valuation, providing shareholder liquidity and financial backing for future initiatives
- Founder and CEO retained a significant level of ownership and control
- The Company is successfully pursuing a growth-through-acquisitions strategy and is well-equipped to further its goal of helping churches enhance their reach, engage their communities, and fuel their mission

Capitalize on a Strong Financial & Market Position With Buy-Side M&A

Companies with strong capital positions are now able to take advantage of buyer-friendly market dynamics

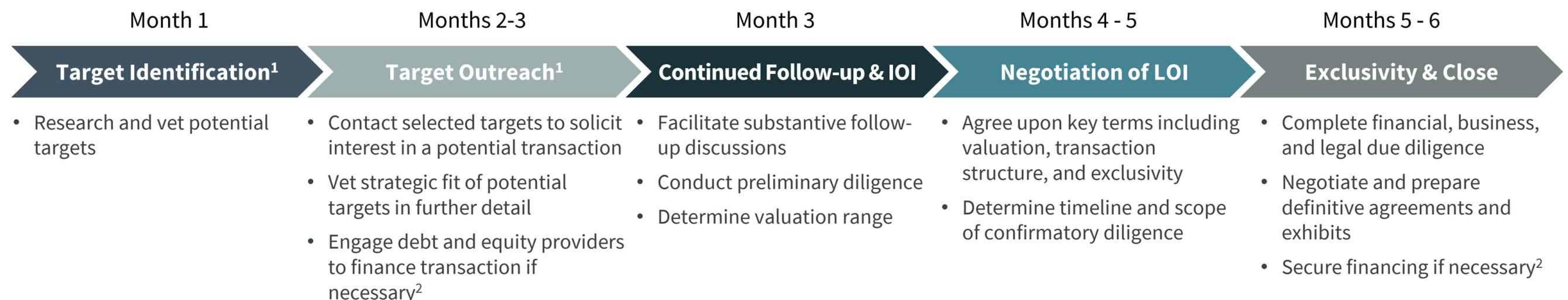
Business Strategies Supported

- Opportunistically pursue affordable, accretive acquisitions
- Defend and improve competitive position
- Position business to outperform competition post-pandemic
- Pursue longer-term strategic initiatives such as diversifying product/service offerings or achieving vertical integration
- Targeted approach as well as broad searches for potential targets

Market Insights & Considerations

- Prices generally more affordable than pre-pandemic, particularly for otherwise good businesses that are now struggling or distressed
- Acquisition financing more difficult and expensive to obtain; equity comprising a larger portion of the purchase price
- Social distancing adding logistical difficulties to M&A processes
- Managing internal bandwidth/balancing time required for M&A initiatives with ongoing business management
- Risk/reward tradeoff must be carefully considered in uncertain environment

Process Steps & Timeline



¹ Targeted approach – shorter timeline than broad search and lower level of target vetting and outreach

² Need for financing depends on buyer's financial position and objectives

Meridian's Customized Approach to Buy-Side M&A

End-to-End Transaction Support with a Thoughtful, Tailored Approach



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Finding the Right Investment

Leverage extensive network to thoroughly vet potential targets



Strategic Advisory

Hands-on partnership in deep investment analysis and diligence



Negotiations and Legal Support

Ongoing commitment throughout negotiations and final legal flow

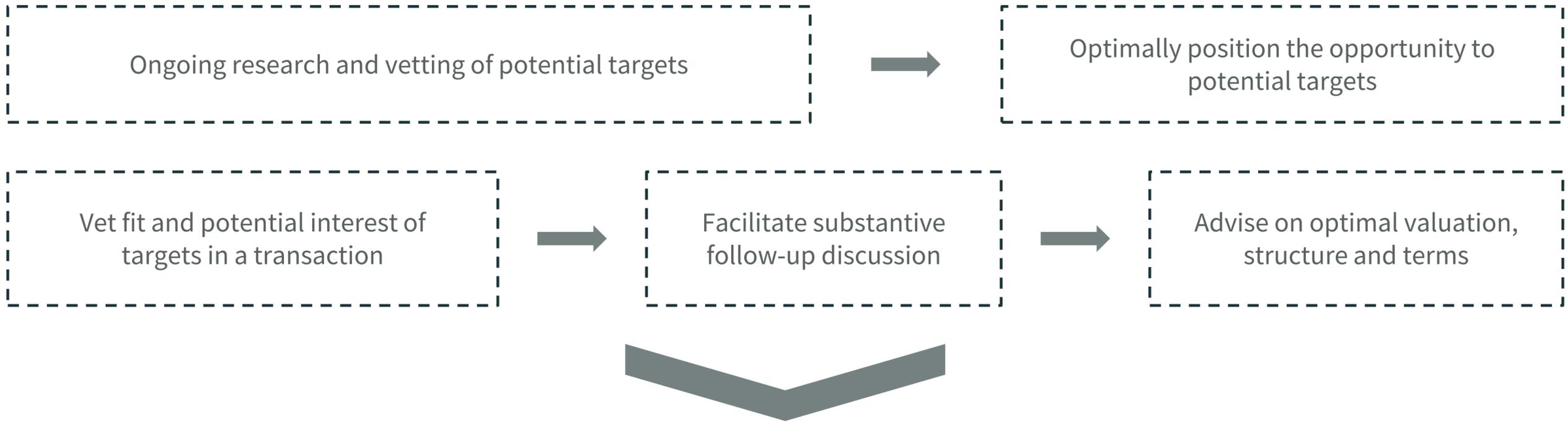
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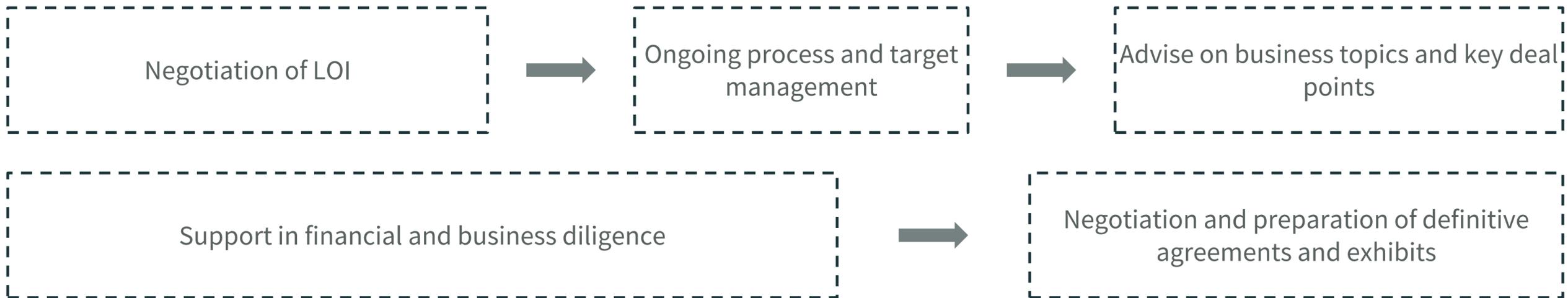
Meridian's Buy-Side Advisory Role

Managing the Process to Ensure the Optimal Fit

Target Identification & Vetting and Initial Discussions



Maximizing Certainty of Close



Case Study: Capitalize on a Strong Financial & Market Position With Buy-Side M&A

Harbor Wholesale Foods



Situation Overview

- Harbor Wholesale is a leading family-owned regional distributor serving foodservice and convenience store locations in the Pacific Northwest and surrounding regions
- The Company engaged Meridian to help it diversify its revenue streams by expanding its foodservice business



Meridian Capital Approach

- Engaged debt and equity providers early in the process to move quickly and determine shareholder comfort levels
- Identified key competitive dynamics within the bidding process to improve positioning and bid approach



Outcome

- Acquired high-performing Seattle division of Foodservices of America at an extremely attractive valuation
- Negotiated favorable deal terms and economics to protect Harbor against carve-out considerations and uncertainties



Proactively Position Your Business for a Successful Future Exit

Beginning preparations well in advance increases the likelihood of a successful sale process. Meridian can help you develop a multifaceted strategy to maximize the value of your business and avoid the most common seller pitfalls

Business Strategies Supported

- Reallocate underutilized resources to drive longer-term value
- Prepare business to thrive in “new normal” environment
- Defend and improve competitive position
- Optimize operations, books, and records
- Achieve mid- to long-term business and shareholder goals

Market Insights & Considerations

- Distraction, uncertainty, and logistical challenges of running M&A processes have dampened current M&A activity
- Ample availability of capital at financial and strategic buyers will support continued M&A activity post-pandemic
- Timing and specifics of M&A market recovery are unknown

A Customized Roadmap to Value Creation



Case Study: Proactively Position Your Business for a Successful Future Exit

AD Systems



Situation Overview

- AD Systems is a leading manufacturer, designer, and marketer of high-quality custom sliding doors and interior storefront systems for healthcare and commercial uses
- Meridian had maintained a strong relationship with the shareholders of AD Systems for several years prior to beginning a formal sale process
- Shareholders were seeking a premium valuation and a buyer culturally and strategically aligned with the existing management team



Meridian Capital Approach

- Worked with management and shareholders to craft a compelling and actionable strategic growth plan
- Engaged in ongoing financial and KPI review to monitor Company performance and achievability of near-term growth prospects and determine the optimal time to transact
- Positioned AD Systems as a best-in-class asset among peers with a highly differentiated product offering



Outcome

- Ongoing preparation with Meridian led to a highly competitive process resulting in 13 indications of interest from investors with significant industry experience
- Completed a full sale of the Company at a premium valuation



Focused Coverage Across Core Industry Sectors

Meridian Capital's differentiated, industry-focused approach gives us a deep understanding of our clients' businesses



Aerospace & Defense

- Precision Machining and Fabrication
- Subassemblies
- Ground Support Equipment
- MRO
- Consulting, Engineering & Design Services
- Automation & Tooling
- Avionics
- Finishing Process & Manufacturing Support



Consumer

- Outdoor & Recreational Products
- Housewares
- Juvenile
- Retail
- Footwear and Apparel
- Active Lifestyle / Wellness



Technology

- Precision Machining Cloud Software and Hardware
- Healthcare IT / Digital Healthcare
- Software-as-a-Service



Telecommunications

- Internet Service Providers
- Telecommunications Infrastructure
- Billing and Operations Support Systems
- Security & Surveillance
- Business Process Outsourcing
- Utility Technology



Diversified Industrials

- Value-Add Distribution
- Building Products
- Precision Manufacturing & Fabrication
- Electronics
- Engineered Components & Systems
- Test & Measurement



Food & Beverage

- Restaurant
- Food Distribution
- Natural and Organic
- Confectionary and Snacks
- Frozen, Refrigerated, Shelf Stable
- Beverage



Business Services

- Staffing
- Consulting
- Business Services



Family Business

- Family-owned Businesses

Meridian Capital is closely monitoring the impact of COVID-19 on the finance environment and will continue to share essential real-time insights as the situation evolves. If you have any questions related to the information included herein, including what it may mean for your business, please don't hesitate to contact us.



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ABOUT MERIDIAN CAPITAL

Meridian Capital (www.meridianllc.com), a Seattle-based capital sourcing and M&A advisory firm, has served as a trusted advisor to business owners on complex corporate finance, M&A and strategic challenges for 25 years. The firm differentiates itself through its deep industry insights, highly customized service approach, and end-to-end commitment to execution with exceptional results. Meridian also offers clients unparalleled cross-border capabilities through its Global M&A Partners network.

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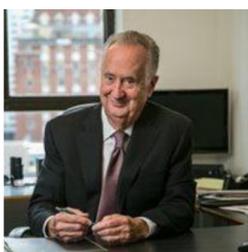
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