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# IMPERIAL CAPITAL ACQUISITION FUND IV

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## General Investment Criteria

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### Industry/Company Characteristics

Imperial Capital has a strong preference for industries with the following economic characteristics: necessity underlying demand; history of profitability; good growth prospects; fragmented industry structure (providing the opportunity for consolidation); recurring revenue streams; strong free cash flow with low volatility; high operating margins; low customer and supplier concentration; high barriers to entry; low or no cyclicality of demand; low levels of litigation; and mature industries.

### Company Characteristics

Companies should be among the best performers in their markets. Other criteria include: dominant market share/defensible niches; proprietary designs, processes or technology; mature, experienced and competent management teams with dedication, integrity and proven track records of success (if necessary, we are willing to recruit part or all of a new management team, particularly if the existing owners wish to leave after an acquisition); growth in earnings and cash flow for the past 3 years; history of consistent results; excellent customer relationships; low levels of litigation; and strong cultures with good employee relations.

We purchase Canadian and American private companies as well as subsidiaries and divisions that are being divested. We will also acquire 'orphaned' public companies through friendly take-private situations.

### Types of Transactions

Imperial Capital prefers to acquire majority (> 50%) interests in companies, but will also consider minority positions as long as we obtain contractual rights to acquire a majority interest in the future. We will acquire assets or shares. Imperial Capital will also consider leveraged recapitalizations where the seller retains a significant level of equity after the acquisition. Management buyouts have particular appeal.

### Purchase Price

Our mandate is to acquire platform companies with enterprise values in the range of \$50 million to \$300 million. We will also make larger acquisitions on a co-investment basis, as well as add-on acquisitions of any size. Imperial Capital will structure transactions to meet the tax, estate and other needs of the seller. Such components can include cash at closing, a promissory note, an earn-out, incentive payments, etc. We negotiate "win-win" transactions with sellers who are serious about selling their company and have established realistic price expectations. We also prefer sellers that can promptly provide us with requested information and who retain legal counsel with transaction expertise.

### Other Buyout Firms

We will partner with other buyout firms if the transaction is of a significant size and can benefit from our expertise. We can be particularly helpful in placing acquisition financing, due diligence, and finding additional companies to participate in a consolidation.

### Excluded Transactions

Imperial Capital does not consider these types of transactions:

- Start-ups and early stage investing
- Venture capital
- Real estate (except within portfolio companies)
- Leading edge high technology
- Commodity and resource businesses
- Faddish businesses

## **Intermediaries**

We encourage inquiries from intermediaries, such as investment bankers, business and merger brokers, commercial bankers, as well as CAs/CPAs, lawyers, management consultants and other interested third parties. Imperial Capital also welcomes submissions from principals, incumbent management teams, and controlling shareholders.

## **Confidentiality**

Imperial Capital believes that confidentiality is the foundation of any transaction, and we are willing to sign non-disclosure agreements to illustrate our commitment to the process.

## **Management Incentives**

Imperial Capital believes it is essential that management have an incentive plan that aligns their actions with the goals and objectives of the company's shareholders. These incentives can include purchased equity, stock options, phantom stock options, stock appreciation rights, earn-outs and cash bonuses.

## **General Management Approach**

Imperial Capital has developed a management system, which enables us to be a resource for management of portfolio companies. This system allows Imperial Capital to add value while not being intrusive in day-to-day operations, through the following key elements: developing a compensation and bonus system that provides exceptional rewards for exceptional performance; developing a strategic planning process which generates a three year plan and one year operating and capital budget; ensuring a management by objectives system is in place; developing clear and concise reporting procedures containing highly relevant key performance indicators and operating benchmarks. We strongly believe in operating autonomy for management. Our role is to assist management in making the acquisition a success. Our CEO Partners participate as active members of the Board of Directors, which is handpicked by Imperial Capital and the vendors, and consists of independent board members. The Board of Directors operates with public company-like governance even while the firm is private.

## **Support**

Given the diverse professional backgrounds of our deal team, Imperial Capital can be helpful to the company's management in a variety of areas. Imperial Capital can operate as the platform company's outsourced corporate finance team, providing assistance with private placements, initial public offerings, borrowings, credit decisions, capital expenditure decisions and cash management. Imperial Capital can help identify merger/acquisition candidates and negotiate and arrange the necessary financing to close the acquisition. We can assist in recruiting management when the management team is incomplete. We can also assist in identifying resources with which to undertake performance improvement initiatives to increase operating profitability. In all instances, the Imperial Capital team is utilized as a sounding board for the Company's CEO.