

Gulf Coast Machine & Supply Company (“Gulfco”) *Investment Committee LOI Execution Strategy*

The Situation:

After earning an MBA degree from Cornell, you accept a role with a premier lower middle market buyout fund shortly after graduation. The firm has made its name by investing in niche manufacturing opportunities throughout North America and has recently closed a \$200 million fund. The firm’s partners are eager to deploy the equity capital and the year has been fraught with near-misses and overly aggressive auctions. In spite of the challenging acquisition climate, you have recently been staffed on Gulfco, a Texas-based manufacturer of open-die forgings primarily utilized in offshore oil & gas applications. Members of your firm recognize that the company has potential upside yet its industry position and operating strategy warrant close examination of the investment’s inherent risks. The firm’s analysts have prepared a rough summary investment memorandum for your review prior to the official investment committee meeting in four days.

Next Steps:

As an active and aspiring member of the firm, you want to meaningfully contribute to the investment committee review in four days so you’ll need to prepare notes and analysis to support your investment recommendations. In teams of 3-4 individuals, build a financial model, collect industry research, and prepare a 1-2 page summary identifying areas of concern, opportunity, and topics to be further scrutinized during post-LOI due diligence. Pretend that it’s currently June 2012.

Some notes and questions that may guide your preparation:

- The deal is being brokered by a recognized investment bank and there are sure to be other bidders involved in the process. You don’t want to experience winner’s curse but you also don’t want to underpay and lose the transaction. What purchase price should you submit? How high are you willing to go if they counter?
- What’s happening in the oil & gas markets right now?
- How strong are the capital markets to support your proposed purchase price?
- If you’re successful in winning this bid, what would you do to the company post-close?
- What are the key risks associated with this transaction?
- What features generally make for a good investment?

