

THE CATALYST

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PROVIDING VALUE-ADDED CAPITAL

Happy New Year and welcome to our first newsletter of 2004. In this issue we discuss the process of attracting a capital partner. Selecting the right partner for a company takes considerable work. Maintaining the partnership takes open communication and trust.

The last quarter of 2003 has been exceptionally active at Catalyst/Hall. We have made several investments which have helped several companies expand in a challenging market.

We continue to see excellent management teams who are looking for more than just capital. We emphasize long term relationships and a process of building value over an extended time horizon.

Thank you for your interest and support.

The Team at Catalyst/Hall

Attracting and Selecting a Capital Partner

By Rick Herrman, Principal, Catalyst Hall, Houston

As a middle-market business grows, management often desires to attract third-party risk capital from a source other than conventional capital sources like banks. Regardless of the form of the third-party capital, attracting a risk capital partner requires considerable advance preparation.

The approach to finding a partner is similar to landing a major customer. Any well-managed business solicits a new customer prospect only after understanding the prospect's expectations, needs and requirements. Once understood, the business must accurately and realistically assess its ability to secure and maintain the opportunity. The objective of this process is to structure a relationship that would embody "win-win" attributes.



Catalyst | Hall

Catalyst/Hall specializes in middle market equity and mezzanine debt investments from their offices in Dallas, Houston, Oklahoma City, and Westchester (Chicago).

Catalyst/Hall provides capital for growth and expansion, recapitalizations of family owned or closely held companies, generational changes in ownership, and management buyouts.

Similarly, the two areas involved in finding a third-party capital partner include developing a well-defined profile of the issuer's capital requirements juxtaposed with the objectives/expectations of the partner, while also developing a realistic assessment of the abilities of the business to satisfy those partner objectives and expectations.

What an Investor Wants

Investors desire to gather adequate information on a business, the industry and the prospects of both in order to assess the level of risk and the resulting return potential. Investors also want to assess the structure and value of the contemplated investment. The burden of developing this information falls predominantly on the business. To satisfy the investor's requirements, the business optimally will have a well-prepared business plan that includes the following components:

- ♦ a two-page executive summary describing the business (this includes a summary of historical and projected financial results, and a description of the desired capital and use of proceeds);
- ♦ a complete description of the business, its management team, value proposition, markets, competitors, customers, vendors, and the risk factors associated with the business and the investment; and
- ♦ two to three years of historical, audited financial information, and at least three years of detailed projected financial information.

The goal of the plan is to answer *80 percent or more* of the pertinent general questions of an investor. This information will be used to develop a relatively quick comprehension of the business, perform a risk/reward assessment of the investment, and determine the enterprise value and structure of the proposed investment.

If a letter of intent detailing the terms and conditions of the investment is executed between the business and the investor, more detailed diligence will be required. This process places time demands on the business and requires a focused commitment over a period of several weeks. Due diligence includes:

- ♦ references from customers, vendors and other stakeholders of the business;
- ♦ reference and background checks on the principals of the business;
- ♦ interaction with various managers who direct the functional departments of the business;
- ♦ a detailed profile of competitors and in-depth research on the industry, which leads to the development of business critical issues, challenges and success factors; and
- ♦ environmental, legal, tax and accounting diligence.

The "Win-Win" Partnership

An investor places capital in businesses that can support the reasonable expectation of the return of the capital, as well as a profit or return on the capital. Investors do not wish to interfere with the business, but *do want* to possess the baseline knowledge and construct reporting protocols that keep them informed about ongoing monthly developments. Merely reviewing financial statements is often inadequate because it fails to provide insight into the trends and activities giving rise to the numbers.

The investor must know that management grasps the notion of a true “partnership”, and that management views the investor as more than a mere capital source, but as a partner. A partner embraces the concept of fiduciary duty to his/her partners, which guides the interaction with the investor. To build trust, no secrets can exist; full disclosure becomes the standard. “Win-win” partnerships require an extraordinary level of maturity and personal character, because the interests of the business and the investor must be carefully and judicially balanced and aligned.

Trust is Key

The process of attracting third-party capital is enhanced if the business embraces the notion that a risk capital provider is a partner. Successful partnerships are rare, and require a proper underpinning of considerable preparation. The willingness and ability to produce accurate information, a commitment to fair dealing, patience, and candid communication will help ensure a successful partnership. These capital partnerships generally have a contemplated life of five to ten years, underscoring the importance of these underpinnings to buffer the many expected and unexpected events that will occur. In the end, a true “win-win” partnership is realized with the goals and objectives of the business and the investor having been reasonably satisfied.

Catalyst/Hall Provides Equity to Benham

Three years after its sale to London-based Atkins, senior executives of The Benham Companies, Inc. have bought the company back with the help of Catalyst/Hall.

For more information go to our Website :: www.catalysthall.com

Café Adobe Opens Fourth Location

Café Adobe celebrated the opening of its fourth Tex-Mex restaurant in The Woodlands, Texas. Catalyst/Hall has provided capital for Café Adobe’s expansion from one Houston area location in 1994 to four in 2003.

For more information go to our Website :: www.catalysthall.com

Catalyst/Hall Announces Investment in Elk Automotive

Catalyst/Hall has invested expansion capital in Elk Automotive; an Illinois based company that is an industry leader in vehicle conversions. Elk specializes in conversions for full-size vans, mini vans, PT Cruisers and trucks.

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