Pathway to

Tourism Investor Forum
Hilton Mississauga Meadowvale

February 11th to 13th, 2024

Rainmaker Consulting | Intelligent. Strategic. Relationships.

Nautilus Endeavours corporate finance | business advisory

TIAC AITC
Tourism Industry Association of Canada
Association de l'industrie touristique du Canada

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Nautilus Endeavours' Practice Areas

Nautilus Endeavours
corporate finance | business advisory

Corporate Finance

Mergers & Acquisitions

- **Buy side** advisory – identifying and pursuing targets, and structuring
- **Sell side** advisory – preparing financial and marketing materials, managing competitive process
- **Succession** structuring
- Whole company or division

Capital Advisory

- Assessing capital structure between **debt, equity, and hybrid** products
- Financial modelling and scenario analysis
- **Accessing and structuring** commercial and private debt and equity sources

Business Advisory

Financial / Transaction Oriented Plans

Strategy / Corporate Development

- Expansion plans
- Geographic development
- Product/Service development
- Acquisition decision
- Divestiture decision
- Other

Operational Plans

Company Management Team

Nautilus Endeavours supplements internal management capacity and skills to support stakeholders in developing strategies (long term orientation) and execute financial transactions (short term orientation)

Session 4
Bringing it All Together, Approaching Capital Providers

February 23, 2024

Review: Debt vs Equity Characteristics

Parameters	Debt	Equity
Ownership / Control	• None	• Partial ownership
Cost **(Short term)** **(Long term)**	• Lower cost of capital (single digit % for senior debt) • Tax deductible financing • None, once debt paid	• Higher cost of capital (teens%, 20s%, or more - dividends or capital appreciation) • Dilution of original company value, if sold
Requirements	• Reporting • Financial covenants • Scheduled payments • Personal guarantees (?)	• Governance • Unanimous Shareholder Agreements (should have)
Characteristics	• Established businesses • Collateral available • Predictable cashflow	• Earlier staged businesses • Limited collateral • Unpredictable cashflows
Security	• Traditionally first position, in front of trade payables (Accounts Payable) and equity.	• Last in line, after all other investors are repaid
Other considerations	• Predictable repayments and expectations from lenders • Maintain 100% ownership. • Increase credit worthiness over time for future business needs.	• No debt repayments • Share profits and less control over the company • Possible synergies/conflicts with partners

Increasing Investor Risk →

Equity – can be suitable for companies looking to avoid (or cannot access) debt obligations – note the match of risk (higher) to returns (higher) for equity

Samples of Capital Providers - Debt & Equity

CAPITAL PROVIDERS	
Traditional Senior Debt	**Equity**
BMO, NATIONAL BANK OF CANADA, CWB CANADIAN WESTERN BANK, LAURENTIAN BANK, RBC, Scotiabank, CIBC, TD, HSBC, ATB	CLEARLAKE CAPITAL, REDBIRD CAPITAL PARTNERS, BIRCH HILL equity partners, Yellow Point EQUITY PARTNERS, CLAIRVEST, TRIWEST CAPITAL PARTNERS
Other	**Subordinate Debt / Mezzanine**
EDC Export Development Canada	BDC, bond CAPITAL, Roynat, FIRSTWEST CAPITAL, ATB

Source: GlobalData

Traditional Senior Debt: includes Lines of Credit, Term loans, Cash Management Services and Bank Accounts. This is the least expensive form of debt

Equity sources: Friends, family, angel investors, Venture Capital, Private Equity firms, BDC, and other speciality equity providers who may specialize in the tourism industry

Other sources of capital can include Export Development Canada (EDC),

Components of a Business Plan/CIM (Confidential Information Memo)

Section
Executive Summary
Transaction Overview
Financial Summary
Business Overview
Industry Overview
Financial Analysis
Summary Request and Timelines
Appendices

Transaction Overview
What are you asking for, and why?

"Source and Use" table, which outlines the financing need as the author sees it – always best to set the tone, vs ask what is "available"

Business Overview
"Your story". History, growth, management/ownership bios, and future plans
What's your key differentiators?
BDC just released a good example of a small business plan outline

Industry Overview
Macro and micro trends impacting your business.
EG: CDN$ impact on tourism, weather, public health issues.

Financial Analysis
3-5 years historical statements. Budget / forecast which reflects expected trajectory
Unique to Debt: forecasted debt levels, and covenants and ratios (proforma historical last year, and forecast)
Unique to Equity: Equity investors are interested in the future growth prospects of your business or "return on investment" Remember WACC? How will your ROA exceed the expected ROE?

Summary Request and Timelines
Be specific in what you want – often Nautilus writes the term sheet (indicative offer from the finance source) to set the tone. Covenants, ratios, included.

Timelines set a sense of urgency, and often competition – remember, you are asking more than one source. Competitive tension typically brings out the best offers.

Selling Your Investment Story in a CIM

The Use of a Confidential Information Memorandum (CIM) delivers a consistent message to multiple capital sources and creates competitive tension

YOU HAVE INPUT

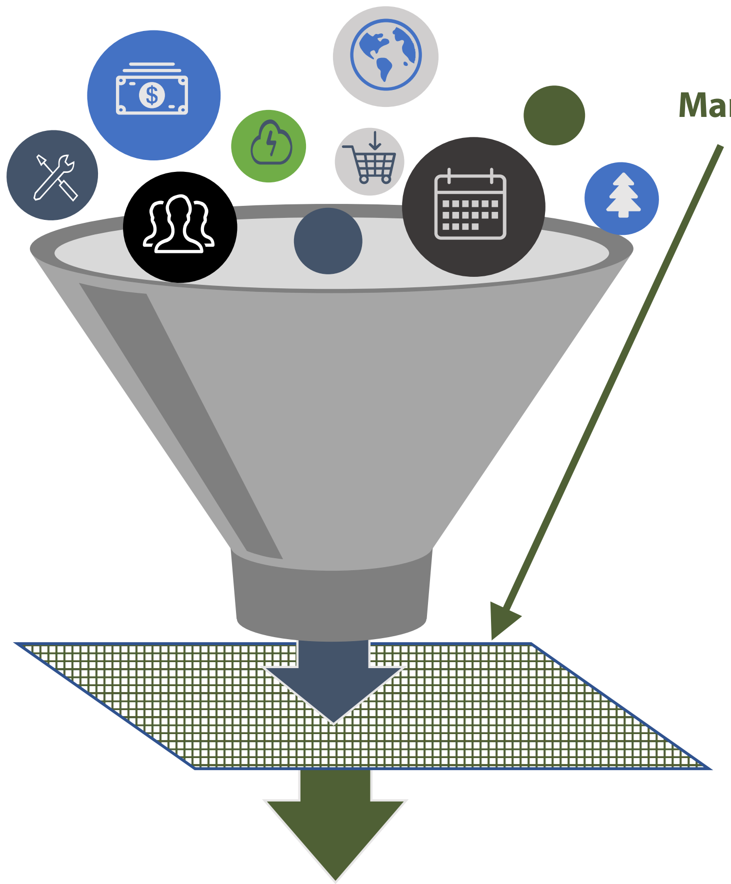
Company Factors to engage in market transaction

Transaction Readiness

- Business Plan
- Source and Use of Proceeds

Company Specific Drivers

- Relative opportunities for the Company, compared with others in the industry
- Operational efficiencies
- Sustainability of cashflows



Market Factors determining investor decision

Market & Industry Factors

- Competitive offers (others doing deals)
- Fundamental economics of the sector
- Regulatory or legislative changes impacting how companies operate

Financial / M&A Process Dynamics

- Cost of capital
  - interest rates for debt (driving values)
  - Public equity markets for relative return on equity
- Availability of capital
  - To fund the debt requirements
  - To fund the remaining equity requirements

IT'S ABOUT TIMING

CIM gathers salient points of both sides of the equation, and presents a digestible and compelling argument for the reader to support the requested transaction

Typical Risks & Mitigants – Debt

Credit worthiness: Capital sources (debt or equity) typically have an established criteria of how they view a business. Understanding what they look at and why is important in accessing capital partners while ensuring you optimize your business's capital structure.

	RISK	CONSIDERSTION & MITIGANTS
1	Cashflow	• 3-5 year demonstrated cashflow to support capital requested (i.e. repayment)
2	Security	• Assets (AR, Inventory, Equipment). • Shortfalls must be mitigated (i.e. outside assets – personal).
3	Leverage	• A reasonable level of leverage is 2.5-3.5x depending on the particular business. • Too much debt for the equity base/cashflow of the business must be mitigated generally through a quick reduction of debt levels.
4	Working Capital	• "Gas in the tank" to run the daily operations. • Liquidity is a key metric which capital sources look at to ensure daily cash is sufficient to meet the needs of the business.

Best to position in the CIM the Q&A most likely to come – help the lender make it easy to say yes

Typical Risks & Mitigants – Equity

Reasonable Risk and Return Trade-Off is key, equity has more to lose so the upside needs to be more meaningful. Risks are harder to fully mitigate, so often it's about positioning the rationale

	RISK	CONSIDERSTION & MITIGANTS
1	Will this idea make money?	• Easier if growth is essentially the same as what you are doing (maybe more pieces of equipment, or a new geographic area) • If the idea is new, show "unit economics." Not the entire company, but how do you make money off of one client / one bus / one room?
2	Is the market big enough?	• Total Addressable Market – Break the market into smaller sizes, each qualified by what makes it more interested in your offering, and how you address that need. • It's not just "1% of a $XXX billion market," argument
3	What control do I have in the investment?	• Understand the difference between "just money" and "smart money." The latter may have skills or relationships to help your business – on your board / advisory team; networking; operational experience? • Easier to give money when you have some say in how it's invested
4	How do I get my money back?	• Unlike debt, there is no repayment schedule. • Be open to discuss dividends (when appropriate), buy back shares, or sell company

Never forget, you as a business owner often know more than the investor – getting investment is about a good idea AND more importantly a management team that can be trusted to communicate and work with all stakeholders

A Typical Capital Raise Process

Preparation

Development of Strategy, Process and Marketing Documents

Execution

Solicitation & Marketing | **Due diligence** | **Final Negotiation/ Completion**

Preparing
- financials
- marketing materials
- Target lists

Setting a Process
- Organize your materials (virtual data rooms)
- Tracking documents for conversations

Reaching out to investors
- Distribute Materials
- Q&A

Assessing Options
- Preliminary Offers
- Negotiating (hopefully more than one) options
- Due diligence
- Final offers

Structuring and Closing
- Final offer accepted
- Detailed due diligence
- Documentation
- Closing

Month 0 – 3

Month 4 – 9

Key issues
- State of 'readiness'
- Who to approach and selling story
- Executable growth plan
- Level of information disclosure
- Maintaining tight process

Key issues
- Valuation / terms and conditions
- Nature of feedback
- Cultural fit
- Shortlisting vs exclusivity

Key issues
- Run rate against budget / forecast
- Number of parties
- Minimizing distraction to the business

Key issues
- Valuation
- Warranties/indemnities
- Conditions precedent
- Timely completion

Raising debt (3-6 months) is quicker than equity (6-12 months) as due diligence for equity is higher (more risk). It is important to be prepared for all stages (asking for money, negotiating, and preparing materials for due diligence) to make it as smooth as possible

Case Study – Debt Raise

Oil & Gas Services Company – seeking operating and term debt

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Seeks Working and Growth Capital

Client had no operating line, while owing CRA for previous years' taxes.

Assisted in providing working capital to alleviate the daily pressure of buying inventory and collecting receivables. Term loan provided immediate relief from the CRA amounts owed.

The Company was able to purchase inventory to support additional business while paying creditors in a timely manner with the proper capital structure and financial partner support.

Keys to raising capital

Financial results & forecasts
With support, the client was able to develop fulsome financial forecasts to support historical results. This mitigated key risks for the lender.

Market conditions
Market conditions and credit availability change constantly.
Macro factors impact terms and conditions of credit (i.e.. Rate, covenants, funds available, etc.)

Business Plan & CIM
A fulsome, well thought out Business Plan or CIM will make the application process smother. Expect more due diligence & questions with higher credit amounts

Debt is the lowest cost of capital. Finding the right financial partner who understands your business and industry is crucial to long term success.

Case Study – Equity Raise

Manufacturer of aerial robotics – Seeking Investment Capital

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Seeks Equity Investment

The capital raise is in addition to an existing shareholder's recent increase in capital invested.

Assisted in providing further capital, backing an experienced management team, to accelerated geographic commercialization and product development

The Company continued to invest in R&D to support new product offerings, while also building out fleet of market ready products

Methods for Early-Stage Company

Total Addressable Market
(how much revenue / profits are possible, assuming expansion idea is successful)

Discounted Cash Flows
(assumes future revenues and profits that are discounted to a company value, today, using WACC)

Unit Economics and Break Even
(breaking down the assumptions to the income statement, into digestible and understandable smaller transactions – eg by client)

There are no silver bullets to tell the equity story – use what is appropriate for your situation. It depends also on the stage of your business idea – earlier the riskier.

Summary of Approaching Capital Providers

Here are some key concepts to keep in mind before approaching a capital provider:

Be Organized	Be clear and understand the capital you are seeking and why	Seek advice & support
• Materials well prepared and ready for a 3rd party to review. • Tell your UNIQUE story. • Write it down – a CIM is a great tool to succinctly provide information, and suggest you have several options for capital • Key materials include (but not limited to), financial statements, forecasts, business plan, management bios, etc.	• The Debt vs Equity question must be answered before approaching capital sources. Remember risk vs reward – also collateral vs cashflow. • This will ensure you spend the right time with the right capital source(s). • Proactively mitigate the risks each provider may have to improve the probability of a "yes" to the capital requested.	• Seeking the help of a qualified individual(s) can be the difference to the process. • Choose a trusted advisor who is familiar with the current market conditions and has relationships with the appropriate capital providers. • This will save time and energy while limiting frustration.

If you are approaching friends and family, or organized capital, a business plan is imperative – CIMs are such documents putting all the qualitative and quantitative factors into a cohesive story for investors

Questions and Dialogue

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