Lynn Palmer

Mr. Speice

ISM I

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Interview Assessment I

Name of Professional: Josh Bammel

Profession/Title: Principal

Business/Company name: Kratos Capital

Date of Interview: October 11th, 2017

One of my goals for this year was to expose myself to different parts of the economy as well as different types of professionals in order to gain a more thorough understanding of the markets as a whole. This interview, which was with Mr. Josh Bammel, a Principal at Kratos Capital, was my first step towards accomplishing my goal. Kratos Capital is a mergers and acquisitions advisory company that concentrates on middle-market private equity deals. Through this interview, I hoped to gain more knowledge about the private equity markets, which are often hidden from the public eye.

The interview began with Mr. Bammel introducing me to how Kratos works. He explained that the firm begins the deal-making process with a marketing campaign towards their target business types: established, middle-market companies. Kratos's team targets nearly all middle market private corporations through various marketing practices. In the business of advising, many companies are not selling when you market to them, but they often will sell in the future. It is then the job of the marketing department of a mergers and acquisitions to make

sure Kratos Capital is there when a company wants to sell. After receiving a letter of intent, or LOI, from a client, the team at Kratos Capital will begin the process of valuation and selling for the company. The discussion of this process brought us to the first highlight in the interview, which was discussing some of the positives and negatives of being in the private equity market.

One of the major problems that Kratos runs into when conducting a deal is differing opinions of the price of a sale. Oftentimes, a client will desire a selling price that is many times the actual value of the business, and the advisors of the deal subsequently have to negotiate a fair price between the actual value of the corporation and the desired price. If there is not a suitable price for the client, the deal may be terminated. These difficult negotiations, however, are made easier by a pro of the entire private equity industry: the lack of legal red tape. In the public markets, one of the first problems that companies have to deal with is the legal practices and obligations that they must conform to, such as antitrust and industry-specific regulations. Private equity, however, negates the need for these types of regulation because it is between two private parties. In addition, the privatized nature of the companies also prevent many of the problems that activist investors can cause. Because I primarily work within the public sphere, the elimination of the legal red tape was extremely exciting because it can remove a major roadblock in otherwise amazing deals.

Another highlight of the interview was the discussion of recent trends in the private equity market. I previously knew how the economic recession affected the public markets, but the lack of reporting on private equity hid many of the recession's effects. Mr. Bammel explained that before the recession, strategic mergers and acquisitions dominated, but afterwards, most clients actually desired a more personal relationship with their advisor and a more careful

approach to these types of deals. This was coupled with the increased scrutiny of due diligence in the industry. Due diligence became incredibly important to many of the clients because of the pervasive growth of skepticism throughout the country, which slowed down many deals that Kratos worked with.

Moving forward, I will conduct some research into the private equity markets in order to determine if there are any opportunities in that market that do not exist in the public sphere. In addition, the information that I acquired about the process of a merger will help me better understand some of the companies that I analyze in the future. Overall, the ideas and knowledge that I gained from my interview with Mr. Bammel will assist me in my future work as well as open my thinking up to new markets.

Notes:
Started at KPMG
Now people want to deal with mid-market people
Around $30 mil
75 mil capital increase

7-10 people every day
owners usually want more
Economic reality analysis: keeping both parties honest, telling them what it's worth, they can take it or not
60-70 turned down

Ratios:
Usually mature businesses: debt ratios really small, strong cash flow$4-5 million cahs flow EBIDA, consistency is key, 25% historic

How it works: acquisition activity, mostly private activity
Post 2008- strategic fell, Private equity rose, family dynamic rose
Want more private personal relationship

Only SOME legal red tape

Bulge-bracket activity is usually avoided

Why growth is stagnant: government stopped purchasing the bonds, econ starts to sustain itself

What is the most major change: heightened scrutiny of due diligence
Longer time periods
Validation of their companies

Chinese private equity: syndicate thorough other people (like HNA)
His opinion: government dealings

2010: lots of Russian money coming into PE

How to get into the private sphere
Generating own opportunities
Referrals
Word of mouth
Marketing game