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Brazos Partners and the Tri-Northern Exit

On a spring day in March of 2012, Randall S. Fojtasek[1], one of the founders of the Dallas-based Brazos Private Equity Partners, sat in the firm's 17th floor conference room preparing for the upcoming Investment Committee meeting. Brazos had created the Tri-Northern Holding Company (Tri-Northern) through the acquisition of two electronic security distribution companies: Tri-Ed Distribution (Tri-Ed) and Northern Video Systems (Northern Video). Twenty-four months into the investment, Brazos had received two attractive offers for the combined distributor, and the Investment Committee was considering whether it was the optimal time to exit the investment. “We've improved this company a lot in the past two years,” Fojtasek said. “Is there more for us to do?”

Brazos Private Equity Partners was a middle-market leveraged buyout (LBO) group with $1.4 billion of capital under management that was founded in 1999. Over the previous decade Brazos had completed more than 60 acquisitions, focusing on buyouts of companies valued in the lower end of the middle market between $50 million and $250 million. The firm focused on companies with demonstrable cash flow and good management located throughout the United States, but with a particular emphasis on Texas and the Southwest, a region underserved by LBO firms.[2]

When Brazos purchased the New York–based Tri-Ed and California-based Northern Video in March of 2010, the combined firm had 41 sales locations in the United States and Canada carrying a comprehensive inventory of surveillance video and security products for security dealers and installers. Over the next two years, the company opened or acquired an additional six branch locations and revenues increased 23% from $377 million at closing to $463 million in the spring of 2012. Moreover, adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) had increased more than 40%, from $19.6 million to $27.4 million.

“Post-closing and with careful planning, oversight, and execution we were able to capture operational synergies that lifted EBITDA significantly,” said Fojtasek. If Brazos accepted one of the buyout offers, the sale would generate a meaningful return for the firm's third fund. With the company's management projecting double-digit growth for 2012, however, it was far from clear that this was the optimal time to exit. “From a portfolio management perspective it all comes down to the all-important question of 'sell or hold?'”

Professor Matthew Rhodes-Kropf and Research Associate Nathaniel Burbank prepared this case. Certain details have been disguised. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, advertisements for investment advisory services, sources of primary data, or illustrations of effective or ineffective management.

Brazos Private Equity Partners[3]

Fojtasek and his partners had founded Brazos (named for a prominent Texas river) in late 1999. Fojtasek had gained significant operating and private equity experience prior to co-founding Brazos. In 1993, at age 29, he became president and CEO of his family's firm, Fojtasek Companies (which later became Atrium Companies), a major building materials manufacturer. By 1995, he had increased its revenues by 54% to $83 million. He then negotiated its LBO by Heritage Partners, a Boston-based private equity firm. Remaining as president and CEO, he guided the firm as it made a number of acquisitions and went through two additional buyouts, by Hicks Muse in 1996 and finally by GE Investments in 1998, when the firm had approximately $400 million in revenues.

Brazos' founding partners wanted to shift their focus from the large deals that Hicks Muse pursued to smaller opportunities, many of which were in their own Texas backyard. Fojtasek Companies was one of those, Fojtasek noted:

> My family's firm was a perfect example. In 1996, when Hicks Muse made an equity investment of $32 million, it was really the last deal they did of that size. Selling Atrium in '98 to GE Investments for an annual return of over 50% further supported the thesis that smaller companies in traditional industries can yield superior returns if you just focus on the fundamentals of the business and its industry.

Brazos targeted companies with enterprise values between $50 million and $250 million, solid management teams, and well-defined niches. Often, these companies were close to Brazos' Dallas home. Said Fojtasek:

> Texas is the 11th largest stand-alone economy in the world. It is home to as many Fortune 500 companies as New York or California and has a tremendous universe of public and private mid-market companies. But, fortunately for us, there are only about a dozen buyout groups here—most are in the Northeast and California. Of those in Texas, a number are energy-specific. There are a couple of larger funds, but they play in a different part of the market. So the competition for traditional mid-market buyouts in this region is very limited. While we're not restricting ourselves geographically, it just makes sense for us to concentrate on the area that we know, and where we're known, to find our deals. In fact, almost all of the platform investments we made in Brazos Fund I were based in Texas.

Many deals, the partners felt, were relationship-driven and thus likely to be local. In an inefficient market with inefficient pricing, even local deals offered the potential for outsized returns. At the same time, the firm did not limit itself geographically. "About 50% of the deals we do are done in the south, but we can't ignore the rest of North America," Fojtasek said, emphasizing that buyout firms had to offer real value. "Capital is viewed as universally available," he continued. "The question is what value you add. Historically, if a buyout fund could create scale in an industry, it more than likely would be successful with the investment. Today, you need to be able to grow the company and its cash flow organically and efficiently, while leading the industry as you go. That takes an operational focus."

Brazos invested in a variety of industry sectors including consumer products, healthcare, business services, manufacturing/industrial, financial services, and distribution. (See **Exhibit 1** for selected Brazos investments). To differentiate itself further, the Brazos partners also developed the Generation Transfer Transaction℠ (GTT℠), a tax-efficient method for family-owned businesses to obtain liquidity through the sale of a minority share, while still retaining operating control. The transaction solved the common situation in family-owned businesses where the desires of the founder diverged from those of the second generation. The founder, worried about the concentration of the family's net worth in the business, frequently became more risk-averse while the second generation had different goals, either wanting to expand the business or exit it altogether. In a GTT℠, the owners would sell the company to Brazos but reinvest a sum that enabled them to retain 50.1% of the common stock in the new company. Relative ownership shares (and thus shares in the eventual resale price of the company) might change depending on the company's ability to achieve agreed-upon targets. The managers thus achieved some liquidity yet still had the powerful incentives of significant equity ownership. The investor group might be the entire family, or, more often, just those family members who wanted to remain actively involved in the business. Fojtasek noted that the GTT℠ had benefits apart from differentiation: "Often, the GTT℠ transactions turn into outright sales, as the seller becomes comfortable with Brazos and the way we view a partnership with the family and the management team."

Brazos had raised three funds in its thirteen-year history. The firm's first fund, which closed in 2000 with capital commitments totaling $250 million, was successfully invested, and distributions had substantially exceeded invested capital. Brazos Fund II, which closed in 2005 with capital commitments totaling $400 million, was fully invested. The firm had closed on fundraising for its third fund in September of 2008, raising $715 million. Investors in Brazos Fund III included government and corporate pension funds, endowments, foundations, and financial institutions.

The Electronic Security Industry

A century and a half after a Unitarian pastor in Somerville Massachusetts (a suburb of Boston) patented the first electronic burglar alarm[4], the electronic security industry had evolved into a highly competitive sector composed of manufacturers, distributors, installers and dealers, and centralized alarm-monitoring providers. The industry centered on "low-voltage" products, distinguished by the less regulated electrical wiring required for installation, in four general categories: (1) burglar alarms, including motion detection and control panel products; (2) video surveillance and closed-circuit television (CCTV) systems; (3) access control and fire safety systems, including electronic door entry products and fire alarm panels; and (4) audio, visual, data, and other ancillary wiring products. Demand for electronic security systems grew in the United States at a compounded annual growth rate (CAGR) of 3.5% between 2005 and 2010. (See **Exhibit 2** for historic product segment growth rates).

Tri-Ed Distribution and Northern Video were wholesalers, linking manufacturers with security integrators, dealers, and installers who ultimately delivered products to residential and commercial customers. In 2010, approximately 50% of the $11.2 billion electronic security product market ($5.5 billion) flowed through the wholesale distribution channel. Gross profit margins for security distributors were low, typically in the range of 18% to 23%, comparable to the highly competitive retail food distribution industry.[5] While three manufacturers, Honeywell International, Tyco International, and United Technologies Corp, manufactured approximately 30% of the products, specialty manufacturers produced thousands of additional niche security products, so distributors were supplied by a fragmented group of more than 400 venders. With the exception of large construction projects, where manufacturers tended to negotiate contracts directly with government and commercial clients, manufacturers depended on distributors to bring their products to an even more fragmented market of 20,000 resellers and installers. (See **Exhibit 3** for an overview of the electronic security supply chain).

Electronic security distributors were not just “order takers.” Rather, manufacturers depended on distributors to stock local inventory, provide customer training and technical assistance regarding product selection, manage returns and repairs, and maintain efficient accounts receivables. Distributors marketed products through advertising in security magazines, trade shows, visits to customers, and most importantly—catalogues. For customers, who ranged from individual electricians to medium-sized regional businesses, distributors provided just-in-time delivery, local product availability, product training, customer service, and financing. “We don't have a lot of space or money, so we can't afford to warehouse a whole lot,” explained one security installer. “Manufacturers are cash-on-delivery, but I can get up to 60 days from distributors,” underscored another. A commercial installer emphasized the expertise of the staff. “The number one criteria when selecting a distributor is service, which includes the knowledge of the staff and understanding of the industry,” he said. “I know Tri-Ed will have the knowledge needed when I have a special request.”[6]

Tri-Ed Distribution and the Northern Video Opportunity

Tri-Ed Distribution was founded in 1982 as a branch-based distributor serving the western market with electronic security and low voltage products. (See **Exhibit 4** for a timeline of key events). In the early 1990s the company was purchased by Digital Security Controls (DSC), a Toronto-based manufacturer of security, fire, and card access equipment. Following the acquisition, Tri-Ed relocated its offices to Toronto and by the late 1990s Tri-Ed’s branch network consisted of 10 Canadian locations in major cities plus a handful of US-based branches. In the fall of 2001, global manufacturing conglomerate Tyco International acquired DSC and with it, Tri-Ed. Once acquired, Tri-Ed and DSC joined more than 60 brands under Tyco’s Fire and Security Services division, including residential alarm monitoring giant ADT Security Services and fire-protection leader SimplexGrinnell. Following a failed bid to split up the multinational into four separate firms, however, Tyco’s stock price declined 73% in the first six months of 2002. In June of that year, Tyco CEO Dennis Kozlowski resigned under a cloud of suspicion as New York prosecutors investigated whether he evaded sales tax while purchasing millions of dollars’ worth of art (charges of which he was later convicted).[7] By 2003, rumors spread that Tyco was looking to sell Tri-Ed as part of its cost-cutting efforts.[8]

In February of 2005, security industry veteran Steve Roth teamed up with longtime colleague Pat Comunale and a New York–based private equity firm to acquire and spin off Tri-Ed from Tyco as an independent business. “This was a non-core business to Tyco,” Roth explained in an interview shortly after the sale. “Not only was it non-core, Tyco’s ownership provided a dual channel conflict. With ADT and Simplex, you have a company where [the parent] competes with [its] customers.”[9] Under the terms of the deal, Roth would own a majority position in and serve as the President and CEO of the newly independent business, while Comunale would be Tri-Ed’s new Chief Operating Officer. “We were the fortunate recipients of having an underutilized asset made available to us, and we were only too happy to take it off their hands,”[10] Roth said.

Both Roth and Comunale brought years of experience in the electronic security industry to the deal. Roth started his career in 1974 as the general manager for an early supplier of digital communication devices. In 1977, Roth joined the Alarm Device Manufacturing Company (Ademco) as Vice President of Sales and Marketing, a leading manufacturer of burglar alarms based on Long Island (outside of New York City) that was sometimes referred to as the “General Motors”[11] of the alarm industry.[12] Ademco was a subsidiary of the Pittway Corporation and was led by Dr. Leo Guthart [HBS 1960], who had served on the Harvard Business School faculty prior to joining the firm.[13] In the early 1980s, Pittway acquired a series of regional security distributors and formed a new subsidiary, Ademco Distribution Inc. (ADI), tapping Roth to be ADI’s first president. Comunale joined ADI in 1990, and over the next decade Roth and Comunale built ADI into a $1 billion business that became the national leader in electronic security distribution with more than 80 branch locations.[14]

In February of 2000, Pittway and its subsidiaries were acquired by Honeywell International in a $2.2 billion deal that aimed to make Honeywell a "global player" in the fire and security market. Honeywell already dominated the market for household heating, air-conditioning, and lighting controls, and with the addition of Ademco and ADI, proponents argued Honeywell would be able to offer a "fully integrated electronic platform" connecting all of the essential controls for building operation.[15] Following the acquisition, Ademco and ADI were merged into Honeywell's Home and Building Control division, and Roth became president of Honeywell's security group. Two years after the Honeywell acquisition of Pittway, however, Roth left Honeywell to become CEO of Terk Technologies. The manufacturer of branded radio and television antenna products had recently been acquired by Topspin Partners, a Long-Island–based venture capital and buyout firm founded by Leo Guthart in 2000.[16] Comunale joined Roth at Terk Technologies in 2003, and in January of 2005 the company was sold to a strategic acquirer in the electronics industry, freeing Roth for the Tri-Ed acquisition from Tyco.[17]

In 2005, Roth envisioned Tri-Ed undertaking a significant expansion strategy and gaining new customers who had shied away from the firm in the past due to concerns that Tri-Ed would exhibit a bias towards products from DSC or other Tyco brands. At the time Tyco sold Tri-Ed, the firm had nine sales offices in Canada, one in Puerto Rico, and sixteen in the United States. "This is a huge industry. The opportunity is vast and we are looking to be a strong No. 2 player," Roth said in 2005. "Our objective is to, very simply, provide that value proposition and win over the business one customer at a time."[18]

After the 2005 spinoff, Roth and Comunale rolled out new internal technology systems, increased Tri-Ed's product offerings, and recruited dozens of employees from ADI. The pair established a new corporate headquarters in Woodbury, New York, on Long Island outside of New York City. Without additional equity investment, Roth's team opened 12 new sales branches, increased revenues from approximately $100 million in 2005 to approximately $224 million in 2009, and expanded EBITDA from $4.4 million in 2005 to $10.2 million in 2009.[19] (See **Exhibit 5a** for Tri-Ed's 2009 income statement). An investment banker who had worked on the financing for the spinoff from Tyco, explained that the 2005 deal "was sort of a friends and family financing" arrangement, noting that at the time the company was not large enough to attract traditional private equity interest. By 2009, Roth and Comunale had gotten Tri-Ed "to a size where it was at a level of interest to private investors, and they did not just want to sell out to a strategic [acquirer] and have the game be over, so we started looking at creative ways to bring in equity interest."[20] In the early months of 2009, Roth and Comunale set up a strategic meeting with the owners of Northern Video Systems.

Northern Video Systems was founded in 1986 as a retailer of industrial video equipment, and in 1992 it was purchased by two brothers. By 2009, the brothers had grown the company into the leading telesales distributor of video surveillance equipment, selling a mix of brand-name and private-label products from Asian manufacturers to installers, integrators, and dealers in the professional security market. Billing themselves as "America's CCTV Experts" with "slam dunk pricing" and a "refuse-to-lose attitude,"[21] Northern Video had expanded revenues from approximately $37 million in 2003 to $143 million in 2009, over 90% of which was derived from video products.[22] (See **Exhibit 5b** for Northern Video's 2009 income statement).

"They bring a tremendous expertise in the video area,"[23] Roth said, noting that Tri-Ed's revenues were more evenly split between intrusion and alarms (~50%) and video (~25%), with fire, access, and other products making up the balance.[24] Following a series of dialogues between the two management teams in the summer of 2009, the two companies employed an investment banker to assist with locating an investor to underwrite a potential merger. “It’s a totally complementary business structure on both sides,” Roth said, emphasizing that the appeal was not just about the benefits of scale. “You have to find two companies to go together and have one plus one equal more than two, and we saw that with Northern.”[25]

The Tri-Northern Investment

On a late fall day in November 2009 Jason Sutherland [HBS 2002], a Managing Director for Brazos, flew to Los Angeles for a series of marketing meetings. “It was a very interesting time,” recalled Fojtasek, noting that it had been more than a year since Brazos had finished fundraising for Brazos Fund III in September of 2008. In the previous 12 months, Brazos had investigated several potential deals, but had yet to finalize any investments for its third fund. “There was constant pressure to get money to work, but there was also a need for prudence,” said Fojtasek. Sutherland and others within the firm were focused on identifying sectors that they thought would grow throughout the recession. “Given market conditions, we each identified a handful of themes and sectors we liked,” said Sutherland. “Under my area of focus, security was an area that seemed likely to show demand growth throughout the recession.” Sutherland had made three prior investments in security companies with Goldman Sachs before coming to Brazos in 2006 and had sought out professionals with expertise in the security space. “In the midst of my conversation with a banker I mentioned that Brazos had done a number of specialty distribution deals,” said Sutherland, noting that in 2005 the firm invested $23 million in ORS Nasco, an Oklahoma-based subsidiary of a publicly-traded Irish holding company and one of the largest wholesale distributors of industrial supplies in North America. In 2007, Brazos sold the company to a strategic acquirer, generating an IRR of 100% and 4.0x Multiple of Invested Capital (MoIC) over a two-year hold period for its second fund. Sutherland continued, “He said ‘it’s funny that you’re interested in security, and you have expertise in distribution, because I have a security distributor.’”

The banker pitched the dual-acquisition opportunity of Tri-Ed and Northern Video to Sutherland as a “jigsaw puzzle fit.”[26] He argued that the two companies featured complimentary product offerings, distribution strategies, and customer bases, that when combined would create significant opportunities for both revenue growth and cost savings. Sutherland was intrigued, and before leaving Los Angeles signed a confidentiality agreement enabling the firm to review proprietary information concerning the two companies. “This deal was already well down the path with another firm, and we were late to the game,” recalled Sutherland. “I called Randall from the road, described the opportunity and said, ‘this is something we should focus on, and it needs a team immediately.’”

Fojtasek acted quickly. Without waiting for the following week’s Monday morning pipeline meeting, when Brazos typically reviewed potential deals, Fojtasek assembled a five-person team to work on the deal immediately. Sutherland, Lucas Cutler (also a Managing Director), and two Associates would team up with Fojtasek to diligence Tri-Ed and Northern Video, assess the synergy opportunity, develop a plan for executing the merger, and acquire debt financing (see **Exhibit 6** for selected deal team bios).

“We dropped everything else that we had going on at the firm,” recalled Fojtasek. “Demonstrating to the bankers, to the companies, that we were serious about this, that we were going to move quickly and get on planes to California one day and to Long Island the next day was very important,” he said. Twenty days after Sutherland’s initial meeting, on the Monday before

Thanksgiving, Brazos submitted its indication-of-interest (IOI). The preliminary bid to acquire both companies was non-binding, but demonstrated the firm's genuine interest in making an investment.

The appeal of the transaction to Brazos was both strategic and financial. The team felt that Northern's success in the video space would complement Tri-Ed's more diverse security product portfolio well. Additionally, the customer bases of the two companies had little overlap. Tri-Ed typically dealt with smaller security dealers while Northern Video focused its telesales efforts on high-end integrators. The deal team thought the merged company would be well positioned to gain market share from both companies' current competitors, which included more than 100 local and regional distributors, other specialized electronic security distributors with national reach, and more general broad line electrical and network distributors that also sold security products. (See **Exhibit 7** for a comparison of electronic security distributors). "Strategically, we'd be building the number two guy overnight to compete with ADI," said Fojtasek. "When we considered the opportunity, we thought about our history creating value with specialty distribution businesses. It was a natural fit for the fund." Brazos' strategic rationale for its IOI proposal centered on six points:

- The electronic security distribution industry was large ($5B+) and growing
- The combination of the two businesses' product lines would yield an industry-leading lineup in the intrusion, video, access, and fire market segments and create an integrated business model serving two customer bases through branch and technical telesales.
- The Tri-Northern merger was an opportunity to create a number two player whose scale and lack of manufacturer-channel–conflict would enable it to take market share from smaller players and the industry leader, ADI.
- The merger would position Tri-Northern as the "acquirer of choice" to consolidate a fragmented industry of local and regional distributors that captured the majority of the industry's revenues.
- Roth and Comunale were a proven management team who were committed to staying on at the combined company.
- Post-merger, cross-selling opportunities between branch-based sales and telesales would enable organic revenue growth.

Courtship of management continued after the IOI submission. While some private equity firms backed off as the holidays approached, Brazos stepped up its efforts to illustrate its interest in making an investment. On Christmas Day 2009, while Fojtasek's family was a few floors below opening presents, the Letter of Intent (LOI) was signed. The agreement proposed a combined valuation of 6.5x the pro forma combined EBITDA of $19.6 million, to be adjusted during the following due-diligence period, and granted Brazos exclusive rights to negotiate for the entities. Brazos had been selected over a competing financial acquirer for the deal in part because both management teams believed the firm would bring more to the investment than just capital. "We pride ourselves on being partners to management," said Fojtasek. "We've done a lot of work with other owner-operated businesses, and I think that really resonated with this group." Fojtasek also cited the firm's past experience investing in distribution companies. "This was our fifth distribution platform investment. I think [Roth and Comunale] felt like we knew how to evaluate a distribution business and that we knew the different levers that could be pulled." Sutherland noted that while they were putting their LOI bid together, they had worked with the management team on an integration plan describing how they were going to merge operations and really realize the benefits of the combination. "We were focused on much more than simply funding the acquisitions," he said. "By asking good questions that were very consistent with what Roth and Comunale were thinking about, it helped us establish that we were of the same mind."

"When you see something that fits and works, you know it," said Fojtasek. "And then you have to go and confirm it." After the LOI was signed, Brazos hired a consulting firm specializing in business strategy to survey customers and suppliers and analyze the potential revenue upsides to the merger. The deal team studied the impact of the anticipated slowdown in the commercial construction market on the security industry—the economic downturn had put the current industry growth rate of 3.5% in question. "My view was that this business was working in the face of a recession," said Fojtasek. "If we remotely saw any recovery in the housing market, the business would be even stronger." Brazos conducted legal and tax diligence, studied the execution risk of integrating the two companies and built contingency plans for the possibility of losing a key supplier relationship as a result of the merger. "All of the diligence we had to do on Northern Video, we also had to do on Tri-Ed," said Sutherland. "It was a complicated deal, and our chances of getting it done were tied to completing our work quickly, papering it up and closing before either of the parties started to consider their alternatives." A plan to announce the merger at the annual Las Vegas ISC West conference in March of 2010, the largest annual gathering of security industry suppliers and customers, added to the time pressures.

As a leveraged-buyout transaction, Brazos' prospects for a positive return would rest on its ability to reduce the combined company's debt-to-earnings ratio after acquisition. The more Brazos was able to grow Tri-Northern's cash flows through expense reduction and revenue growth, the more it would be able to reduce the company's debt load, which would in turn grant the fund and other equity holders a larger portion of potential proceeds from a future sale. "No one in the security distribution industry had ever combined a branch-based and telesales effort before," said Fojtasek. "How should we size and risk-adjust the synergies management was saying could be achieved?" In February of 2010, company management projected that they could achieve $8.4 million in potential cost-saving and revenue-generating synergies through the merger by the end of 2012. If management could achieve this target, it would yield $55 million in incremental equity value based on a 6.5x EBITDA entry multiple. Additionally, each incremental 1% of market share the company could gain would equal $50 million in increased revenue and $5 million in increased EBITDA (10% flow-through), leading to even larger equity gains.

Based on the consultant's analysis and their own findings, Brazos built three projections for the combined company (see **Exhibit 8)**. The "management case" presumed that $8.4 million in annual synergies could be achieved over two years with strong sales growth. The "downside case" instead assumed no revenue or cost-saving enhancements from the merger, and limited sales growth. The "Brazos case" assumed that about two-thirds of management's merger-related cost savings and revenue gains could be achieved over two years, and set sales growth estimates at the industry growth projections. Based on this model, their equity return projections, which presumed a future acquirer would purchase the business at the same EBITDA multiple that Brazos would invest at, projected an IRR of 41.7% and a 2.8x multiple on invested capital (MoIC) for a three year hold period, and a 34.1% IRR and 4.3x MoIC for a five year holding period (see **Exhibit 9**).

On March 16, 2010, 81 days after the LOI was signed, the deal was closed. (See **Exhibit 10** for acquisition details). "We said we would work every single day until we got this deal done. And we did," said Fojtasek. The transaction created a new company, Tri-Northern Holding Co., which in turn purchased both businesses for a combined total of $127.1 million[27], or approximately 6.5x times the combined EBITDA of $19.6 million. The acquisitions were underwritten with 66% debt and 34%

equity. A major bank supplied the holding company with a $54.6 million asset-based-loan (ABL) which was combined with a subordinated $33.4 million mezzanine loan for a total of $88.0 million in debt financing. Additionally, Brazos Fund III made a $31.7 million equity investment, $10.4 million of management equity was rolled over from the ownership structures of Tri-Ed and Northern Video, and the mezzanine lender contributed $3.3 million. The transaction left Tri-Northern Holding with a 4.5x debt-to-EBITDA multiple, also known as the leverage ratio, and granted Brazos Fund III a 70% ownership stake in the combined firm.

Integrating Tri-Ed and Northern Video

After the acquisitions had closed, the first challenge was combining the two businesses. "The first six to nine months were a pretty intense focus on the integration," recalled Fojtasek. "Achieving some of our more ambitious plans required the platform of the combined business to be solid, which would allow us to turn our attention to growth initiatives like acquisitions, greenfield opportunities, additions to the sales team, and additions to the senior management team." "I think you always plan for the worst and hope for the best," he continued, "in this case the integration was surprisingly smooth." Initially, Tri-Ed and Northern Video retained their separate organizational identities. Roth assumed the role of Chief Executive Officer of the combined entity, with Comunale serving as Chief Operating Officer. In the months following the merger, Pat Comunale was promoted to President, taking over most of the day-to-day operational responsibilities at the company. "Having known Pat for over 20 years, I can confidently say he is one of the best distribution executives in the entire industry," Roth said.[28]

One of the first organizational tasks was to integrate the back offices of Tri-Ed and Northern Video into a single location in the new Long Island headquarters. The move brought both companies' information technology, finance, and professional services staff under a single roof. Furthermore, it brought both companies on to the same IT platform across all operational and reporting functions. Additionally, seeking to capitalize on the expanded product offerings and cross selling opportunities, the management team implemented a revamped sales structure that combined the 39 branch locations and the 64-person telesales group under a common commission program. The program initiated a focused approach on cross selling Tri-Ed's products to Northern's customer base and vice versa. "The team did a great job in a relatively quick time frame of consolidating the back offices and getting everyone on one system," Cutler said. "They did a good job of managing the integration of the sales force, and ensuring that the sales force compensation structure was set up to minimize infighting between the two organizations. We were able to provide guidance on successful incentive programs from other companies and insight from our experience transitioning comp plans."

Brazos worked with the company on additional operational improvements beyond these first key initiatives. In the months following the integration, the company reduced its personnel and facility costs for its technical support centers. Company management set up a new team of 15 employees, focused exclusively on inventory management, that conducted daily reviews of inventory investment reports. This group worked to reduce product obsolescence risks by negotiating stronger stock rotation rights with suppliers, and reduced working capital requirements by arranging for vendor-financed inventory from some manufacturers. Similar to Brazos' experience reducing working capital with other distributors, this effort began to reduce the asset intensity of the business (see **Exhibit 11** for an illustration). Additionally, an intense focus on freight expenses—to customers, from vendors, and between different company locations—yielded significant savings. A combination of scale benefits, a new program to incentivize branch managers for reducing freight expenses, and pricing harmonization with key vendors resulted in more customer-paid freight at a lower cost.

Cutler explained that Brazos also worked with the company to accelerate its "buy and build" expansion strategy. (See **Exhibit 12a** for a map of the company's branch locations). In addition to assisting the company open a new location in Atlanta, and two new branches near its Long Island headquarters, Brazos worked with Tri-Northern to identify a pipeline of acquisition targets providing access to additional markets. "Given the amount of time that Pat and Steve had spent in this industry, during our diligence process they were able to generate a list of 25 potential acquisition targets," said Cutler. After closing, Brazos worked with Roth, who was now focused on business development initiatives, on following up with each of the owners of the businesses from the list. "We profiled what we were looking for from a size and geographic and product line perspective, and got into a systematic process where once a month they would generate a list of opportunities," Cutler explained. "For the ones that we liked, we would try to set up calls or meetings with the owners of those businesses, and go from there."

In the twenty-four months after acquiring the two firms, Brazos worked with the management team to screen over 300 potential targets, resulting in three completed follow-on acquisitions for a combined purchase price of $4.8 million at a blended EBITDA multiple of 3.8x (see **Exhibit 12b** for details). Four months after the merger in June of 2010, Tri-Northern acquired Martin's Security Depot, a single-location distributor in Fremont, California. In November of the same year, the company purchased Security Data & Cable, with locations in Houston and Austin, Texas. Houston was "a market we needed to be in," said Comunale. "We tried for a while to open a location in Houston but we just couldn't get the right people."[29] Cutler added that the business had a data-cabling component to it that was a product line in which Tri-Northern only had a small presence. The acquisition "established for us more of a toehold in that market and we were able to leverage the relationship that distributers had with the vendors to start selling that product throughout Tri-Northern's branch network," he said. In October of 2011, the company acquired Video Security Specialists, a leading west coast CCTV distributor with locations in Burbank and Corona, California. "It was a seamless integration that consolidated right into our Southern California operation,"[30] said Comunale.

"Brazos has been an incredible partner," said Comunale, reflecting back on the previous two years. He continued:[31]

> The day-to-day operation of the business is totally reliant on us. We run the business. We have quarterly business meetings to keep them up to speed, but the value they provide is that they own several businesses. We grew up in the security distribution space, so having their knowledge of other businesses is a tremendous asset to us.

Cutler elaborated: "The protocol that we implemented at Tri-Northern was similar to what Brazos does for other portfolio companies—monthly board meetings or calls during the first year after we make an investment, after which we typically shift to quarterly board meetings, with periodic financial review calls. Early on, we have much more frequent communications. As things pop up, like acquisitions, or a search for a key member of the management team, or, in the case of this business, several different operating and growth initiatives, we have much more frequent interactions."

By early 2012, the merged company was realizing significant and measurable gains. The back office reductions were contributing $1.5 million in annual cost savings. The increased operational efficiencies and freight savings were generating $2.4 million in annual savings. Sales from cross-selling products, the best indicator of the success of the hybrid sales model, were generating in excess of $6.3 million in additional annual revenue on a run-rate basis. "We had two distinctly different customer bases," explained Comunale. "Tri-Ed typically dealt with the smaller security dealer and Northern Video dealt with the high-end integrator. When we put the two businesses together, they became very complementary."[32] There was evidence that the company was gaining market share. Tri-

Northern acquired more than 2,000 new customer accounts, representing more than $13.0 million in incremental additional revenue. The new national accounts group, which the management team had created to call on larger integrators and installers, was bringing in $10.5 million in additional revenue annually.

All totaled, the efforts had increased revenues over 23% (11% CAGR), from $377 million in March of 2010 to $463 million in March 2012 on a trailing twelve month (TTM) basis. "We actually ended up hitting our year three projections in year two," said Cutler, who noted that Tri-Northern had enhanced its margins from 5.2% to 5.9% during the two-year period. "It's a bit like rooting around the cushions of your couch," he said. "Enhancing margins while growing revenue is a difficult thing to do. But if you can do it, it drops straight to the bottom line." Adjusted EBITDA increased over 40% (18% CAGR) from $19.6 million to $27.4 million. Strong cash flows and increased efficiencies with the company's net working capital had improved Tri-Northern's leverage ratio from 4.5x in 2010 to 3.0x in 2012. (See **Exhibit 13** for March 2010 to March 2012 financial results).

Looking forward, Comunale was optimistic about the company's future prospects. "We can continue to grow our business both organically by capturing more share of wallet from our existing customer base and of course acquiring new customers," he said. "We'll be looking to make strategic acquisitions or open new locations. Having Brazos Private Equity gives us the wherewithal to continue to grow this space, and so we are projecting double-digit growth for 2012."[33] (See **Exhibit 14** for financial projections). "We're really focused on becoming a billion dollar distribution business," Comunale continued, "It took five years to double the business the first time around. We think we'll be at [$1 billion in revenue] in another three to five years."[34]

Suiting potential acquirers

In the summer of 2011 a large publicly-traded multi-national approached Brazos about the possibility of purchasing Tri-Northern, and the firm decided to investigate the possibility of a sale. "We received some pretty serious inbound interest and talked about where we were from a continuum along the investment period," Fojtasek said. "We thought that it made sense to have a conversation with an investment banker about the company and how it was positioned given the inbound interest." In the months that followed, Brazos selected a financial advisor, who in turn reached out to prospective purchasers and conducted an auction process. Two potential strategic buyers and 14 potential financial acquirers participated, including eight funds that were larger than $1 billion. "This was a unique asset, well positioned in an industry that had, and continues to garner, a lot of attention, with a really exceptional management team," explained Fojtasek.

After seven management meetings with potential buyers, Brazos narrowed the list, and completed full diligence activities with one strategic acquirer and two financial buyers. Fojtasek explained:

> We received the final bids from the buyers that were participating in the last phase of the auction, and we sat down with our financial advisor to focus on the price, speed, and certainty of each bid. Generally, if a buyer delivers all three, then it is natural to pick that particular buyer. If there is a buyer that hits two and not three, then we have some decisions to make.

Based on discussions between the financial advisor, the investment committee, and the Brazos deal team, Brazos settled on the two bids from the private equity buyers. "We selected them not only because of price, but because of the strength of their offers and who they were as firms," explained Fojtasek. "These factors gave us confidence that a deal could close." "However, one of the firms had done a much better job developing a relationship with the management team, which had not escaped us." If accepted, a buyout offer would generate a meaningful return for investors in Fund III. The enterprise valuations of approximately $220 million proposed by the two bids also suggested that an exit transaction would demonstrate expansion in the investment multiple from entry.

Sell or Hold?

Fojtasek leaned back in his chair and looked out the large conference room window over the Uptown neighborhood and Dallas skyline. “From the perspective of an investor, we’ve done most of the things on our list," he said, mentally absorbing not just the successful integration of the two businesses and the significant operational improvements that had been achieved, but also the end result of a management team that had learned to be more disciplined and accountable through working with the investment firm. “We did not know if these things would take three years or four years, or five years. It just happened.”

While he could not have been more pleased about the successes over the past two years, he still had reservations about whether this was the moment to harvest the gains his team had worked so hard to achieve. “We generally listen to our management teams when they think it is time to exit. They are the best barometers,” he said. “In this case, there is still significant head room for financial growth through further market share gains and follow-on acquisitions.” He also considered the way the transaction would reflect on the firm he and his partners had built and managed for thirteen years. “Would we rather have the reputation that the businesses that we sell still have value left in them?” he posited.

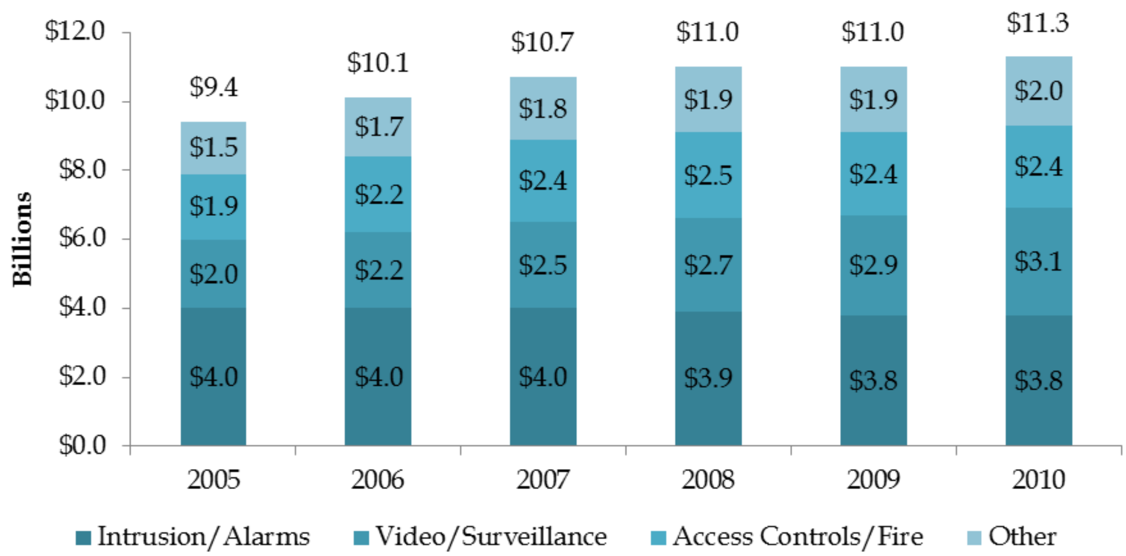
Fojtasek broke his gaze and looked at his watch. The Investment committee meeting was about to begin…

Exhibit 1 Selected Brazos Platform Investments, April 2002–March 2012

Name	Location	Description	Investment	Status - March 2012
Fund 1				
Comark Building Systems	DeSoto,TX	Specialty manufacturer of commercial grade modular buildings in the United States.	Apr 2002	Exited in 2006
Rennhack Marketing Services	Grapevine, TX	National provider of incentive marketing services to the financial industry.	May 2002	Exited in 2004
Shelter Distribution	Grapevine, TX	Distributor of roofing products in the Midwest and Southwest.	Sep 2002	Exited in 2005
National Surgical Care	Dallas, TX	Leading operator of 19 surgery centers in 11 states.	Sep 2002	Exited in 2011
Lone Star Overnight	Austin, TX	Provider of express package delivery services in Texas, Oklahoma, and Louisiana.	Dec 2002	Exited in 2007
The Republic Group	Dallas, TX	Provider of insurance products in Texas, Louisiana, Oklahoma, and New Mexico.	Aug 2003	Exited in 2006
Cheddar's Restaurants	Dallas, TX	Franchisor of casual dining restaurants throughout the Midwest, Southeast, and Southwest.	Nov 2003	Exited in 2006
Walls Industries	Cleburne, TX	Designer and marketer of branded work wear, hunting, and outdoor apparel.	Jul 2004	Exited in 2010
Strategic Equipment & Supply	Irving, TX	Distributor of foodservice equipment, supply, and design solutions for foodservice providers.	Feb 2005	Current Investment
Fund 2				
ORS Nasco	Muskogee, OK	Wholesale distributor of industrial supplies.	Dec 2005	Exited in 2007
Fuel Systems	Grand Rapids, MI	North American supplier of fuel tanks for commercial vehicles.	Jan 2006	Exited in 2008
Morton Industrial Group	Peoria, IL	Manufacturer of metal components for construction, industrial, and agricultural OEMs.	Aug 2006	Exited in 2009
Healthcare Solutions	Duluth, GA	Provider of managed care services to the workers' compensation and auto insurance markets.	Nov 2006	Current Investment
Ennis Paint	Ennis, TX	Leading global provider of pavement marking materials.	Apr 2007	Current Investment
Sadler's Smokehouse	Henderson, TX	Producer of authentic, high quality, and fully-cooked smoked meats.	Oct 2007	Exited in 2011
Golden County Foods	Plover, WI	Specialty manufacturer of frozen appetizer and side products.	Nov 2007	Current Investment
Impact Confections	Colorado Springs, CO	Specialty manufacturer and marketer of confectionary products.	Jan 2008	Current Investment
Fund 3				
Tri-Northern Distribution	Woodbury, NY	North American electronic security distributor.	Mar 2010	Current Investment
BlackHawk Industrial Distribution	Tulsa, OK	Leading distributor of name-brand industrial supplies and equipment.	Sep 2010	Current Investment
Vision Source	Kingwood, TX	Practice development and supply chain solutions provider for optometrists and dentists.	Apr 2011	Current Investment

Source: brazosinv.com, accessed January 2013.

Exhibit 2 Electronic Security Product Segment Growth, 2005–2010

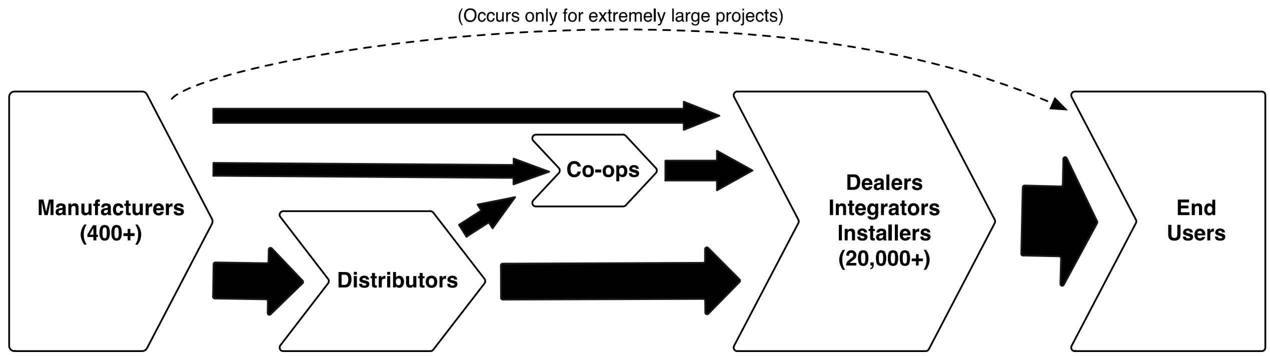


Segment	2010 Market Size (billions)	CAGR[a] 2005–2010	Projected Annual Growth 2010–2015
Intrusion/Alarms	$3.8	-1.2%	3.7%
Video/Surveillance	$3.1	9.3%	9.2%
Access Control/Fire	$2.4	4.1%	3.8%
Other	$2.0	5.3%	5.3%
Overall Market	**$11.3**	**3.5%**	**5.6%**

Source: Adapted by casewriter from unpublished company documents.

[a]CAGR = Compound Annual Growth Rate.

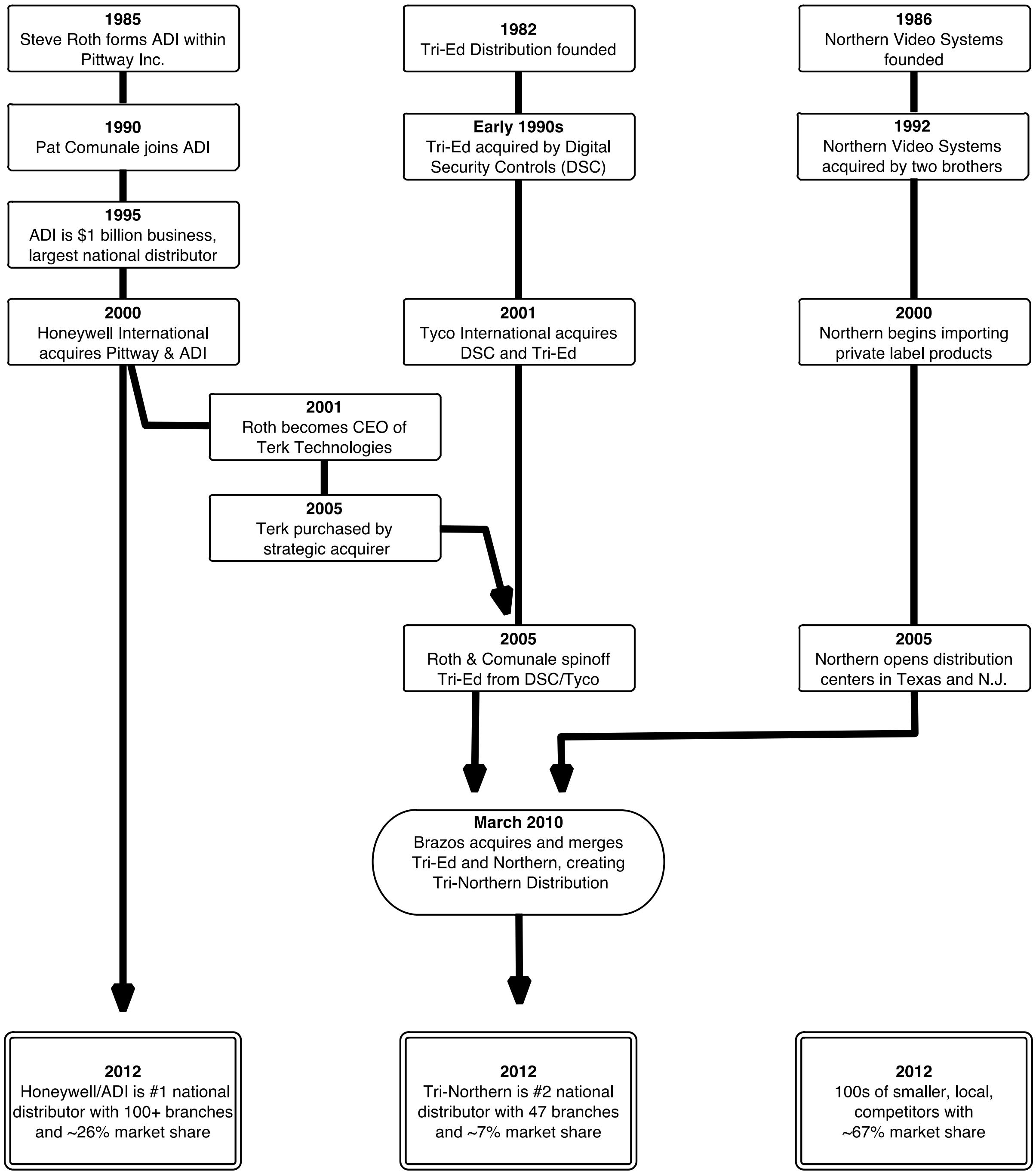
Exhibit 3 Electronic Security Products Value Chain



	Manufacturers	Distributors	Co-ops	Dealers/Integrators
Leading Players	Honeywell, Tyco, United Technologies Corp (UTC)	ADI, Tri-Northern, Anixter, Alarmax	PSA, SNA	ADT, Broadview, Protection One (all mainly residential alarm players)
Market Size	~$9B in sales	~$5B in sales (~$4B bought from manufacturers, plus ~20% gross profit)	~$550–600MM total buying power	~$14B revenue from product pass-through (not incl. labor), ~$44B total revenue
Market Structure	Top 3 players hold 30% market share, but more than 400 vendors have competitive products	Top 4 players hold 40% share, highly fragmented below this (100s of players)	Supports ~$2.2B in integrator sales across ~250 members	Extreme fragmentation: ~20,000 companies with more than 50% under $1MM in revenue

Source: Adapted by casewriter from unpublished company documents.

Exhibit 4 Timeline of Tri-Northern Key Events



Source: Casewriter, based on unpublished company documents.

Exhibit 5a 2009 Tri-Ed Distribution Income Statement

$ in thousands	**2007**	**2008**	**2009E**	**2010P**
Net Sales	$201,338	$225,366	$223,661	$245,186
% growth		*11.9%*	*-0.8%*	*9.6%*
Gross Profit	43,542	45,667	47,728	54,137
Operating Expenses	38,545	39,650	37,571	42,604
EBITDA	4,997	6,017	10,157	11,533
As a % of Sales				
Gross Profit	*21.6%*	*20.3%*	*21.3%*	*22.1%*
EBITDA	*2.5%*	*2.7%*	*4.5%*	*4.7%*
Operating Expenses	*19.1%*	*17.6%*	*16.8%*	*17.4%*

Source: Internal company documents.

Note: 2010P forecast prepared by respective management teams in mid-2009. Non-cash expenses excluded from cost of goods sold and operating expenses.

Exhibit 5b 2009 Northern Video Systems Income Statement

$ in thousands	**2007**	**2008**	**2009E**	**2010P**
Net Sales	$141,073	$156,611	$142,996	$150,275
% growth		*11.0%*	*-8.7%*	*5.1%*
Gross Profit	20,679	23,630	20,650	21,685
Operating Expenses	17,156	17,400	12,524	13,160
EBITDA	3,523	6,230	8,127	8,525
As a % of Sales				
Gross Profit	*14.7%*	*15.1%*	*14.4%*	*14.4%*
EBITDA	*2.5%*	*4.0%*	*5.7%*	*5.7%*
Operating Expenses	*12.2%*	*11.1%*	*8.8%*	*8.8%*

Source: Internal company documents.

Note: 2010P forecast prepared by respective management teams in mid-2009. Non-cash expenses excluded from cost of goods sold and operating expenses.

Exhibit 6 Selected bios of Brazos and Tri-Northern executives

Randall S. Fojtasek: Co-Chief Executive Officer, Co-Founder & LLC Partner, Brazos Private Equity Partners. Mr. Fojtasek co-founded Brazos in 1999. He is actively involved in all aspects of managing the firm and its portfolios. He serves as a director of several Brazos portfolio companies. His past board service to Brazos portfolio companies include: Rennhack Marketing Services, Lone Star Overnight, Shelter Building Products, National Surgical Care, Comark Building Systems, Cheddar's Restaurants, ORS Nasco, and Tri-Northern Security Distribution. Mr. Fojtasek is currently Chairman of the board of directors of Blackhawk Industrial, Vice Chairman of the board of directors of Ennis-Flint, and serves on the board of directors of Strategic Equipment and Supply Corporation. Prior to co-founding Brazos, Mr. Fojtasek was the Chief Executive Officer of Atrium Companies, one of the largest manufacturers of residential windows and doors in the United States. In that role, he was responsible for executing a successful "buy and build" strategy with three successive private equity funds. Mr. Fojtasek is a former trustee of the Cox School of Business at Southern Methodist University and is a recipient of their Distinguished Young Alumni award. He is currently President of the board of trustees at St. Mark's School of Texas, a member of the Investment Committee at the Dallas Museum of Art, a member of the board of directors and Strategic Planning Committee at North Texas Public Broadcasting, Inc. (KERA/KXT), and a former member of the Young Presidents' Organization. Mr. Fojtasek received a Master of Business Administration degree and a Bachelor of Business Administration degree from the Cox School of Business at Southern Methodist University. He received an Associate of Arts degree with concentrations in history and political science from Franklin College, Lugano, Switzerland.

Jason D. Sutherland: Managing Director, Brazos Private Equity Partners. Mr. Sutherland joined Brazos in 2006 and is responsible for leading the firm's commercial and industrial investment activities. He currently serves on the board of directors of Ennis-Flint, Blackhawk Industrial, and Strategic Equipment & Supply. His past board service to Brazos portfolio companies include Tri-Northern Security Distribution, Precision Recovery Analytics, and Sadler's Smokehouse. Prior to joining Brazos, Mr. Sutherland was employed as a Vice President in the Specialty Lending Group of Goldman, Sachs & Co. During his two years with Goldman, he completed several financing transactions across various industries for middle market clients. Previously, Mr. Sutherland was an Associate in the investment banking division of Banc of America Securities, and was an Analyst in the investment banking division of Raymond James & Associates. Mr. Sutherland received a Bachelor of Arts degree with high honors from Harvard College and a Master of Business Administration degree from the Harvard Business School.

Lucas T. Cutler: Managing Director, Brazos Private Equity Partners. Mr. Cutler joined Brazos in 2001 and his investment activities at the firm have spanned the consumer, commercial and industrial, and business services industries. He currently leads the firm's investment activities in the consumer space. Mr. Cutler serves on the board of directors of Golden County Foods and Impact Confections. His past board service to Brazos portfolio companies include Tri-Northern Security Distribution, Morton Industrial Group, Fuel Systems, Cheddar's Restaurants, Lone Star Overnight, and Rennhack Marketing Services. Prior to joining Brazos, Mr. Cutler was employed as an Associate in the Leveraged Finance Group at Banc of America Securities, LLC in Charlotte, NC. Mr. Cutler is a native Texan, having grown up in Tyler, TX. He received a BBA in Finance from the University of Texas at Austin in 1997.

Steve Roth: Chief Executive Officer, Tri-Northern Distribution. Mr. Roth began his career in the electronic security industry in 1974 as General Manager of Currier Smith, Corp., the first manufacturer of digital dialers. Mr. Roth then joined ADT as Director of Commercial Security. He later was hired by Ademco as VP of Sales and Marketing. Mr. Roth helped grow ADI to a $1 billion entity at the time Pittway was sold to Honeywell in 2000. Mr. Roth was then promoted to President of the Security group for Honeywell. In 2001, Mr. Roth left Honeywell to become CEO of Terk Technologies. In 2005, Mr. Roth helped form SR Distribution which acquired Tri-Ed in 2005. Mr. Roth graduated from Northeastern University with a M.S. in Management and holds a B.E.E.E from the City College of New York.

Pat Comunale: President & Chief Operating Officer, Tri-Northern Distribution. Mr. Comunale began his career in the security business with Wells Fargo in the mid 1980s. Mr. Comunale then joined Pittway Corporation where he started with Ademco Manufacturing in 1988. In 1990, Mr. Comunale joined ADI, the distribution division of Pittway, as a regional manager. In 1993, Mr. Comunale became the Vice President of National Accounts for ADI where he helped build and manage a $300 million business. From 2001 to 2005 Mr. Comunale spent time with different manufacturers as Vice President of Sales. In 2005, Mr. Comunale joined Tri-Ed Distribution as Chief Operating Officer. In 2010, following Tri-Ed's merger with Northern Video Systems, Mr. Comunale assumed the additional role of President. Mr. Comunale received his B.B.A from Iona College in New York.

Source: Compiled by casewriter from brazosinv.com (accessed December 2012) and unpublished company documents.

Exhibit 7 Electronic Security Distribution Competitors

Company ($ in millions)	2009 U.S. Sales[a]	Market Share[a]	Branch Locations	Presence
ADI	$1,400	26%	100+	National
Tri-Northern (Pro forma)	$366	7%	41	National
Alarmax	$75–$85	< 2%	21	National
Security Equipment Supply	$50–$60	< 1%	12	Midwest region
Security General International	$50–$60	< 1%	14	Southwest region
The Systems Depot	$40–$50	< 1%	11	Atlantic region

Source: Adapted by casewriter, based on unpublished company documents.

[a]Based on management estimates.

Exhibit 8 February 2010 Projections of Post-merger Financial Performance

Case 1 - Management Case

$ in thousands	2009	2010P	2011P	2012P	2013P	2014P	CAGR `09 - `12P	CAGR `09 - `14P
Net Sales	$366,657	$403,322	$443,655	$488,020	$536,822	$590,504	10.0%	10.0%
% growth		*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*		
Base Business EBITDA	18,333	25,006	28,110	31,614	39,016	44,317	19.9%	19.3%
% growth		*36.4%*	*12.4%*	*12.5%*	*23.4%*	*13.6%*		
% of sales	*5.0%*	*6.2%*	*6.3%*	*6.5%*	*7.3%*	*7.5%*		
Synergy Adjustment			3,833	8,404	10,371	11,781		
Total EBITDA	18,333	25,006	31,943	40,018	49,388	56,098	29.7%	25.1%
% growth		*36.4%*	*27.7%*	*25.3%*	*23.4%*	*13.6%*		
% of sales	*5.0%*	*6.2%*	*7.2%*	*8.2%*	*9.2%*	*9.5%*		

Case 2 - Brazos Investment Case

$ in thousands	2009	2010P	2011P	2012P	2013P	2014P	CAGR `09 - `12P	CAGR `09 - `14P
Net Sales	$366,657	$377,657	$388,986	$432,942	$481,864	$518,004	5.7%	7.2%
% growth		*3.0%*	*3.0%*	*11.3%*	*11.3%*	*7.5%*		
Base Business EBITDA	18,333	19,638	20,422	22,946	26,021	28,490	7.8%	9.2%
% growth		*7.1%*	*4.0%*	*12.4%*	*13.4%*	*9.5%*		
% of sales	*5.0%*	*5.2%*	*5.3%*	*5.3%*	*5.4%*	*5.5%*		
Synergy Adjustment			2,737	5,748	6,399	6,832		
Total EBITDA	18,333	19,638	23,159	28,694	32,419	35,323	16.1%	14.0%
% growth		*7.1%*	*17.9%*	*23.9%*	*13.0%*	*9.0%*		
% of sales	*5.0%*	*5.2%*	*6.0%*	*6.6%*	*6.7%*	*6.8%*		

Case 3 - Downside Case

$ in thousands	2009	2010P	2011P	2012P	2013P	2014P	CAGR `09 - `12P	CAGR `09 - `14P
Net Sales	$366,657	$348,324	$355,290	$378,384	$402,979	$429,173	1.1%	3.2%
% growth		*-5.0%*	*2.0%*	*6.5%*	*6.5%*	*6.5%*		
Base Business EBITDA	18,333	17,416	17,765	18,919	20,149	21,459	1.1%	3.2%
% growth		*-5.0%*	*2.0%*	*6.5%*	*6.5%*	*6.5%*		
% of sales	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*		
Synergy Adjustment			0	0	0	0		
Total EBITDA	18,333	17,416	17,765	18,919	20,149	21,459	1.1%	3.2%
% growth		*-5.0%*	*2.0%*	*6.5%*	*6.5%*	*6.5%*		
% of sales	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*		

Source: Internal company documents.

Exhibit 9 February 2010 Projected Returns

	3-Year Hold (Approx. Mar-13 Exit) 6.5x Exit		5-Year Hold (Approx. Mar-15 Exit) 6.5x Exit	
	IRR	MoIC[a]	IRR	MoIC[a]
Management Case	67.8%	4.7x	51.9%	8.1x
Brazos Investment Case	41.7%	2.8x	34.1%	4.3x
Downside Case	7.0%	1.2x	11.4%	1.7x

Source: Internal company documents.

Note: Returns assume exit EBITDA multiple equals entry multiple, and that net debt declines to $57,250 for three-year hold period and $32,500 for five-year hold period.

[a]MoIC = Multiple of Invested Capital.

Exhibit 10 March 2010 Acquisition Metrics

Closing date	3/16/10
2010 Trailing Twelve Month Adjusted EBITDA at closing	$19,550

Uses: ($ in thousands)	At Close	Multiple of EBITDA	% of Total	% Owned
Purchase price	$127,075	6.5x	95.3%	
Fees & expenses	6,325	0.3x	4.7%	
Total uses	$133,400	6.8x	100.0%	
Sources:				
Senior Debt	$54,625	2.8x	40.9%	
Subordinated Notes	33,350	1.7x	25.0%	
Total debt	$87,975	4.50x	65.9%	
Brazos common equity	$31,740	1.6x	23.8%	69.9%
Mgmt rollover common equity	10,350	0.5x	7.8%	22.8%
Sub. lender common equity	3,335	0.2x	2.5%	7.3%
Total equity	$45,425	2.3x	34.1%	
Total sources	$133,400	6.8x	100.0%	

Source: Internal company documents.

Exhibit 11 Tri Northern Net Working Capital as a Percent of Trailing Twelve Month Sales

	Sept-10	Dec-10	Mar-11	Jun-11	Sept-11
NWC as % of TTM Sales	12.5%	10.4%	9.7%	9.8%	8.7%

Source: Internal company documents.

Exhibit 12a Tri-Northern Distribution Footprint, March 2012

Pre-merger Tri-Ed branches ○
Pre-merger Northern Video warehouses ⌂
Post-merger corporate headquarters ☆
New branches Mar. 2010–Mar. 2012 ◇
Mar. 2012 targeted locations ✙

Source: Casewriter, based on unpublished company documents.

Note: Tri-Ed branch location in San Juan, Puerto Rico is not shown.

Exhibit 12b Tri-Northern Add-on Acquisitions, March 2010–March 2012

$ in thousands	Date	Location	Revenue	EBITDA	Purchase Price	Price / EBITDA
Martin Security Depot	Jun-10	California	$2,300	$230	$288	1.3x
Security Data and Cable	Nov-10	Texas	$5,175	$460	$1,426	3.1x
Video Security Specialists	Oct-11	California	$13,800	$575	$3,105	5.4x

Source: Internal company documents.

Note: Certain details have been disguised.

Exhibit 13 Tri Northern Financial Results & Exit Profile

	TTM Mar-10	TTM Mar-11	TTM Mar-12	Δ Mar-10 to Mar-12 $	%
Revenue	$377,200	$404,800	$463,450	$86,250	22.9%
EBITDA	19,550	21,160	27,370	$7,820	40.0%
Net debt	87,975	95,220	82,110	($5,865)	-6.7%
Brazos invested capital	31,740	31,740	31,740		
Brazos ownership	69.9%	69.9%	69.9%		

Source: Internal company documents.

Exhibit 14 November 2011 Projections of Future Performance

										CAGR	
$ in thousands	**2007A**	**2008A**	**2009A**	**2010A**	**2011E**	**2012P**	**2013P**	**2014P**	**2015P**	**`07 - `11**	**`11 - `15P**
Net Sales	$342,411	$381,977	$366,657	$395,461	$442,725	$481,903	$530,488	$583,657	$641,889	6.6%	9.7%
% growth		*11.6%*	*-4.0%*	*7.9%*	*12.0%*	*8.8%*	*10.1%*	*10.0%*	*10.0%*		
Gross Profit	64,222	69,297	68,378	75,822	84,303	91,455	100,175	109,682	120,269	7.0%	9.3%
Operating Expenses	55,701	57,050	50,094	55,765	61,799	62,185	66,148	69,987	73,999		
EBITDA	8,520	12,246	18,284	20,057	22,504	29,270	34,027	39,696	46,270	27.5%	19.7%
D&A	1,370	1,528	1,467	1,582	1,771	1,928	2,122	2,335	2,568		
EBIT	7,151	10,718	16,817	18,475	20,733	27,342	31,905	37,361	43,703		
Capital Expenditures	842	590	301	1,104	584	575	575	575	575		
Net Working Capital			47,665	48,009	41,173	44,817	49,335	54,280	59,696		
As a % of Sales											
Gross Profit	*18.8%*	*18.1%*	*18.6%*	*19.2%*	*19.0%*	*19.0%*	*18.9%*	*18.8%*	*18.7%*		
EBITDA	*2.5%*	*3.2%*	*5.0%*	*5.1%*	*5.1%*	*6.1%*	*6.4%*	*6.8%*	*7.2%*		
Operating Expenses	*16.3%*	*14.9%*	*13.7%*	*14.1%*	*14.0%*	*12.9%*	*12.5%*	*12.0%*	*11.5%*		
Capital Expenditures	*0.2%*	*0.2%*	*0.1%*	*0.3%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*		

Source: Internal company documents.

Notes: Projections prepared by management in late 2011 after receipt of inbound strategic interest. Historical combined results presented on a reported basis (i.e. not fully adjusted for non-recurring, non-operating or one-time items). Non-cash expenses excluded from cost of goods sold and operating expenses.

Endnotes

[1] Pronounced Foe-ta-SHAY.

[2] This paragraph is informed by Hardymon, Lerner, and Leamon, "Brazos Partners and Cheddar's Inc." HBS Case No. 9-806-069.

[3] This section is informed by Hardymon, Lerner, and Leamon, "Brazos Partners and Cheddar's Inc." HBS Case No. 9-806-069.

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