EXIT PLANNING: Creating A Transferable Business – Successful Case Studies

Presented by: John P. McCaughan, CBEC®

61 South Paramus Road
Paramus, NJ 07652
201.556.4613
Jack.McCaughan@lfg.com
www.equitystrategiesgroup.com

© 2017 Equity Strategies Group

www.youronewayout.com
Running a practice is tough

- Working 24/7.
  - Just because you can, it doesn’t mean you should.
  - Overworking can lead to fatigue, illness, and a loss of perspective and productivity.
- Free time is essential for creativity and rejuvenation.
- Go ahead, take that much-needed break.
Avoid selling a commodity

- A *transaction* will never set you apart from the rest.
- The answer, instead, is to focus on *transformations*.
- *Advisors need to center their practices on creating meaningful, unique experiences for their clients.*
Let’s talk…Advisor to Advisor

You can’t do it all alone

- Face it: We’re not good at everything. No one is. And that’s ok.
- That’s why teamwork is so valuable and effective.
- Leverage other people who will allow you to focus on what you do best.
Let’s talk…Advisor to Advisor

About support

- Being an Advisor can feel isolating.
- Your friends and family want to be supportive, but it’s difficult for them to understand the pressures that come with our lifestyle.
- **Find the right support system and resources** so you’ll always have a fresh supply of ideas, energy and momentum. Synergy and collaboration are paramount!
Uncertainty: Future of the Estate Tax
Certainty: Every Owner Will Eventually Exit
<table>
<thead>
<tr>
<th>Access to firm-wide planning resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Design Legal Staff</td>
</tr>
<tr>
<td>Advanced Estate Planning</td>
</tr>
<tr>
<td>Wealth Preservation</td>
</tr>
<tr>
<td>Retirement / Financial Independence Planning</td>
</tr>
<tr>
<td>Financial Condition Model</td>
</tr>
<tr>
<td>Risk Management Analysis</td>
</tr>
<tr>
<td>Life Insurance Strategies</td>
</tr>
<tr>
<td>Asset Protection</td>
</tr>
<tr>
<td>Income Tax Reduction</td>
</tr>
<tr>
<td>Tax-Exempt Dynasty Trusts</td>
</tr>
<tr>
<td>Disability / Long Term Care</td>
</tr>
<tr>
<td>Charitable Planning</td>
</tr>
<tr>
<td>Investment Portfolio Review &amp; Design</td>
</tr>
<tr>
<td>Asset Allocation</td>
</tr>
<tr>
<td>– Managed Assets</td>
</tr>
<tr>
<td>– Mutual Funds</td>
</tr>
<tr>
<td>– ETFs</td>
</tr>
<tr>
<td>IRA Optimization</td>
</tr>
<tr>
<td>Guaranteed Income Annuities</td>
</tr>
<tr>
<td>Company Sponsored Qualified Retirement Plans</td>
</tr>
<tr>
<td>– Profit Sharing</td>
</tr>
<tr>
<td>– 401(k)</td>
</tr>
<tr>
<td>– Defined Benefit</td>
</tr>
<tr>
<td>Education Funding</td>
</tr>
<tr>
<td>Oil &amp; Gas Tax Programs</td>
</tr>
<tr>
<td>Real Estate / REITS*</td>
</tr>
<tr>
<td>PIG / PAL Matching</td>
</tr>
</tbody>
</table>

**BUSINESS OWNER PLANNING**

- Growth Strategies
- Owner & Executive Compensation Planning
- Non-Qualified Deferred Compensation Plans
- Corporate Tax Strategies
- Split Dollar Design
- Key Person Solutions
- Family Succession
- Buy / Sell Agreements
- Corporate Policy Review
- Group Insurance
- Synthetic Equity Plans
  - Phantom Stock Plan
  - Stock Grant Plans
  - SAR Plans
  - Stock Option Plans

**M&A & INVESTMENT BANKING SERVICES**

- Sale of Business to:
  - Strategic Buyer
  - Private Equity
  - Management Team
  - ESOP
- Pre-Sale Tax Planning
- Business Valuation
- Marketability Assessments
- Value Gap Analysis
- Business Exit Readiness Index (BERI)
- Access to Capital
- Private Equity Recapitalization
- Debt Refinancing

**EDUCATION & TRAINING**

- Client Education
- Corporate Training
- Advisor Training
- Seminars / Workshops / Webinars
- Continuing Education for CPAs & Attorneys
- Books
e-books
- Podcasts
- Book Website
Exit Planning – Introduction

- What percentage of your business owner clients will exit from their business one day?
- Will their exit be planned or unplanned?
- Will they make the best possible choice for themselves, their family, their business, employees, community?
- Are they fully informed and knowledgeable about their exit options?
- Are they doing all they can to grow and protect their business as they prepare to exit in the future?
- What opportunities will this liquidity event create for the owner and their family?
- Who will lead the charge?
The Problems

Which of these “2:00am” questions weigh on your clients’ minds right now?

“Am I doing all I can to minimize the IRS tax bite?”

“What is my business (really) worth today?”

“How will I know if I can achieve true financial independence?”

“How successful will my succession or exit strategy be?”

“How can I grow and protect my business?”

“What are best ways to attract, retain and reward key employees?”

“How to best tap the wealth in my company?”

“Am I doing all I can to minimize the IRS tax bite?”
Why Do Owners Fail at Their Exit?

- Unprepared financially and emotionally
- Were not aware of all of their options
- Did not work with specialists in Exit Planning
- Did not make a well thought-out exit decision
- Did not develop a plan for living the life they want post-exit
Why Are Owners Unprepared?

- “I don’t want to think about leaving”
- “It’s too early to plan”
- “I don’t have time to spend on planning”
- “It will be too complicated”
- “I don’t know who to turn to for advice…my Accountant? Attorney?”
- “I’ve had it all done!”
- “I can do it myself”
ONE WAY OUT:
How to Grow, Protect, and Exit from Your Business

TABLE OF CONTENTS

Part One: Planning Now for Ultimate Success
- Ch. 1: Securing Your Optimal Exit Now
- Ch. 2: Ensuring Success with the One Way Out Process
- Ch. 3: Choosing Among the 5 Exit Paths
- Ch. 4: Selling to an Outside Party for Maximum Value

Part Two: Supporting Your Exit Strategy
- Ch. 5: Growing Your Business along the Value Path
- Ch. 6: Protecting Your Business with Life Insurance
- Ch. 7: Defending Your Wealth

© 2017 Equity Strategies Group
The “One Way Out” Journey

Personal Readiness
- Mentally Ready
- Financially Ready
- What comes next?

Business Readiness
- Entity Planning
- Executive Compensation
- Leadership Succession / ODI
- Company Value Drivers
- Retirement & Benefits Planning
- Contingency Planning

Market Readiness
- Exit Planning
- Transfer Options
- Market Conditions
Who Will Lead Them on Their Journey?

- What Are Owners Really Looking for in An Advisor?
  - A close, personal, consultative relationship with an advisor they trust and who understands them
  - They also desire:
    - A complete wealth management experience that addresses their full range of concerns
    - An advisor who can add value
    - Simplicity
  - Access to required expertise
Why Should Business Owners Work with You?

- You are in the problem-solving business
- The more problems you solve, the more your practice will grow
- Challenger Selling
  - “I educate my clients…”
- You can spot the warning signs
- People do business with people they know, like, and trust
Building Your One Way Out Team
Vision – Every Business Needs a “One Way Out” Plan

- Do you have a “One Way Out” plan?
- Would you share yours with me?
- Can your plan stand up to a second opinion?
- On a scale of 1-10, how good is your exit strategy?
- Could you say with absolute certainty that if something happened to you last night, that your business and family affairs are in order and your loved ones are financially secure?
- COI: Do your clients have a “One Way Out” plan?
The Business Owner Conversation

If you’re like most owners, your business is probably the source which created most of the other assets you own. Is that true for you? What percentage or portion of your personal net worth is represented by your business ownership interest?

- What formula have you used to calculate the value of your business? For what purpose? When? What type of entity(ies) do you operate as? (C, S, LLC, Partnership)
- Do you believe the business is adequately capitalized? How much debt is outstanding? Need more? Less?
- How do you plan to grow?
The Business Owner Conversation

- Are you and your key employees able to set aside enough money for the future given the limited amount of contributions that can be made to a 401(k) plan? What special compensation programs exist just for you and your most valuable management/executive team members?
- Do you offer real equity or synthetic equity?
- Do you have a plan in place to help you recruit, reward, and retain key employees? Any form of restrictions, vesting or “handcuffs”?
- Any company-owned insurance to address the loss of key people?
The Business Owner Conversation

- Do you have an Exit Strategy? In writing? Which of the 5 Exit Paths will you pursue when the time comes?
  - Family
  - Partners/Co-owners
  - Employees
  - Sale to Outsider
  - IPO

- Does your company have a buy/sell agreement? If so, how do you know that it will work if, or when, it is triggered?

© 2017 Equity Strategies Group
The Business Owner Conversation

- Do you or your company own any life insurance policies for business succession, buy/sell, key man, deferred compensation or retirement purposes? When was the last time these policies were reviewed by someone other than the agent who sold them to you to make sure they are still performing as expected and will provide the liquidity, protection and cash you need?
- Does the company pay for your personal insurance through a Split Dollar or Bonus arrangement?
- Who is the guarantor of business debt? Will bank call in loans upon death?
Business Review Program

- Addresses areas of concern for business owners
  - Existing company-owned insurance policies should be reviewed
  - Executive Benefits Plans – recruit, reward and retain top talent – should be reviewed
  - Business Succession Plans – have and review a pre-funded, up-to-date transition plan
  - Business Valuation – PrisCo can provide informal valuation services, based on 3 years of financial statements or tax returns
  - Beneficiary designations of all policies should be reviewed annually.
Business Review Program

- Fact Finder
- Request for In-Force Policy Illustration
- FAQ
  - Key Person
  - Executive Bonus
  - Split Dollar
  - Buy / Sell
- Policy Analysis Process
- Sample Letters
- Disability Insurance Review
- Business-Owned LTC
- IRC Sections

© 2017 Equity Strategies Group
What is Equity Strategies Group (ESG)?

- It is a platform exclusively for Financial Advisors and Life Insurance Professionals to provide a process and access to qualified Mergers & Acquisitions (M&A) / Investment Banking services* to their clients

- We provide to clients of Financial Advisors:
  - Education on Exit Planning cases
  - We focus on:
    - Sales of businesses to 3rd Parties
    - Mergers & Acquisitions
    - Capital Raising
    - ESOP
    - MBO

- Access to our premier network of 20 Investment Banks/M&A firms located throughout the U.S.
- Successful transactions lead to other planning and revenue opportunities, i.e., assets under management, annuities, financial planning fees, insurance, referrals, etc.

© 2017 Equity Strategies Group
Transactional Services

Bringing experience in middle market transactions with private companies, financial sponsors, lenders and creditors to deliver optimal value for our clients.

**Investment Banking Services**

**Mergers & Acquisitions**
- Sell-Side Advisory
- Buy-Side Advisory

**Financing**
- Recapitalizations
- Refinancing
- Growth/Acquisition Financing
- ESOP
- Management Buy-Outs
- Partner Buy-Outs
- SBA
- Mezzanine

*These services are available through third party firms not affiliated with Lincoln Financial Corp.*

© 2017 Equity Strategies Group
How Can We Help You Help Your Clients?

PERSONAL READINESS
- Help assess their mental/financial readiness to exit

BUSINESS READINESS
- How much is their business worth?
- Analyze their exit options and determine their best “One Way Out”

MARKET READINESS
- Marketability Assessment
- Access to our M&A network
- Coordinate with other advisors on your team
  - CPA
  - Attorney
- Close the deal!
What, Why, How, Who, When?

Help Your Client to Understand...

**WHAT**
- What am I selling?
  - Core Business
  - Certain Divisions
  - Retain Real Estate

**WHY**
- Why am I selling?
  - Retire
  - Cash Out
  - Industry Consolidation
  - Increased Competition
  - Quality of Life
  - Start Another Business
  - Other

**HOW**
- How should I sell?
  - Asset Sale
  - Stock Sale
  - Contingent Payouts
  - Continued Employment

**WHO**
- Who do I want to sell to?
  - Strategic Buyer
  - Private Equity
  - Management Buyout
  - ESOP
  - International Buyers
  - Other

**WHEN**
- When do I want to sell?
  - Owner Readiness
  - Market timing

© 2017 Equity Strategies Group
Sale to Outsiders – PROCESS

Days:

30 60 120 150 180-210

Pre-Sale Planning
- Gather & analyze client data
- Reduce expenses, increase profits & maximize business value.

Prepare Offering Memorandum
- Research and prepare Buyer List
- Prepare “The Book” and teaser
- Business purpose, strategy, products, services, etc.
- Historical & projected financials

Communicate with Prospective Buyers
- Private Equity groups
- Strategic sources
- High net worth individuals, selectively

Obtain Proposals
- Evaluate terms
- Negotiate to achieve optimum terms among competing offers

Consummate Transaction
- Finalize terms
- Work with counsel to draft transaction documentation
- Close transaction

© 2017 Equity Strategies Group
Case Study #1 – FACTS
Case Study #1 – Sale to Outsider

- 2 owners (ages 67 and 53) of manufacturing company that serves aerospace, automobile, life sciences and general industrial products industries.
- Established ESOP 10 years ago
  - Not happy with ESOP
- Bombarded by “offers” – never took them seriously
- Until their largest customer approached them
- Buyer initially attempted “Pre-emptive” Offer
- Unsolicited
- Buyer says “We don’t negotiate!”
- Seller says “Don’t blow it!”
- Offer seemed reasonable
- Owners contacted their Financial Advisor who then reached out to ESG
- We can do better!
The Truth About Preemptive Offers

- One Buyer is no buyer
- Rarely will Preemptive offers yield the highest possible value to the seller
- There is a reason why every **buyer** loves Preemptive offers
- Preemptive offers give the buyer additional negotiating leverage
- A disciplined **competitive auction process** puts negotiating leverage on Seller’s side
How Buyers Leverage Preemptive Offers

**They “Promise Everything & Deliver Nothing”**

- Use fear of loss & urgency
- Sign initially attractive LOI
- Wear down the seller
- Re-trade deal terms
  - Due to “Results of DD”
- Seller loses focus
  - Deal fatigue sets in
  - Takes eye off business
- Deal closes under less favorable terms, or No close…
- Worst Case: No close and buyer learns business’ secret sauce

Buyer: “You don’t need an Investment Banker”
Your Clients Are Probably Getting These Calls From Buyers
Case Study #1 – A Good Deal?

**Buyer**
- Competitor of the seller
- Significant M&A experience
- Public company
- Objectives:
  - Eliminate competition
  - Product line diversification
  - Add Mfg. capacity in new geography
- Has been very acquisitive recently
- Significant cash reserves
- “Offered” $40 mil

**Seller**
- Never Bought or Sold a Company
- Thinks he knows company value
  - Based on Industry “Rules of Thumb”
  - Would Like $40+ Million For Company
- Privately-Owned business
- Owner dependence issues
- Little professional management
- Significant capital expenditures required for next phase of growth
- Concerned with confidentiality

© 2017 Equity Strategies Group
The Answer – Marketability Assessment

**Purpose:** To help our business owner clients determine whether a sale of their business to outsiders makes financial sense, at this time. The Marketability Assessment is a decision-making tool available through Equity Strategies Group to BII Specialists and their clients to understand the market value of their company.

- No cost to you or your client
- Confidential
- Provides to You / Client:
  - Valuation “range” based on various “forward looking” approaches
  - Comparable sales in industry
  - Recommendations to enhance value
  - Overview of how the M&A process works
  - Appetite / length of time to sell
  - M&A Fees
- Takes 7 – 10 days to prepare after we receive data
- ESG selects the “best fit” M&A firm to represent your client based on:
  - Industry expertise
  - Deal size/type
  - Chemistry
  - Geography

© 2017 Equity Strategies Group
Marketability Assessment

To obtain a complimentary Marketability Assessment for your client:

- Complete the Business Owner Profile
- Provide:
  - 3 years of Profit & Loss statements, with footnotes
  - YTD P&L
  - 3 years of Balance Sheets
- Financial projections, if available
- Schedule Teleconference or webinar between you, your client, and ESG to gather more date
Data Dialogue

- Owner’s Objectives
- Ownership
- Family Members in Business
- Company History
- Entity Type(s)
- # of Employees/Key
- Gross Revenue, EBITDA, Add-backs
- Growth Trends
- Industry Info
- Competition
- Proprietary Products/Services
- Niche Markets
- History of Acquisitions

- Financial Reporting
- Real Estate Ownership/Value
- Risks/Liabilities/Debt
- Recurring Revenue/Scalability
- Customer Concentration
- Geography Served
- Contract/Terms
- Expected Price/Terms
- Post-transfer Involvement
- Deal Structure
- Ideal Buyer
- Next Steps
Valuation Questionnaire

Allows client to numerically rate business (on a scale of 1-10)

- Customer Concentration
- Recurring Revenue
- Vendor Reliance
- Sales Trend
- Profit Trend
- Product or Service Offered
- Uniqueness of Your Product or Service
- Percent of Revenue (of unique products or services?)
- Market Share
- Industry Growth

- Industry Appeal
- Management Team
- Transferability
- Barriers to Entry
- Barriers to Growth
- Degree of Automation
- Technology or Process Advantages
- Labor Intensity
Valuation Questionnaire

- Also asks subjective questions, i.e.,
  - Please explain the one or two most valuable elements that contribute to the success of your company.
  - Please explain 1 or 2 of the most critical threats to your business.
  - It may seem trite, but how will your company show to an acquirer?
Case Study #1 – Marketability Assessment

Marketability Assessment

Prepared for

Plasco, Inc.

Daniel A. Prisciotta
CFP®, CPA*, PFS, ChFC®, CBEC®
President

John P. McCaughan
CBEC®
Partner

© 2017 Equity Strategies Group
Based on the information you and your Advisor have shared with us, we have performed a preliminary analysis of your business. We have reviewed:

- Balance Sheets (for the years: 2016, 2015, 2014)
- Profit and Loss statements for those same periods
- Information provided regarding:
  - Your Objectives
  - Company History
  - Ownership
  - Family Involvement
  - Entity Type
  - Key Employees
  - Products/Services your company offers
  - Gross Revenue EBITDA and, potential add-backs
  - Market Share
  - Competition
  - Liabilities/Debt
  - Business Real Estate Ownership
  - Contracts/Terms
  - Recurring Revenue
  - Your Post-transfer Involvement
Case Study #1 – Marketability Assessment

Contents

I. Overview of the Current M&A Environment
II. Valuation Methods
III. Estimated EBITDA multiples for Your Business
IV. Recent Activity in Your Industry
V. The M&A Process
   ▪ Discuss Next Steps
   ▪ Fee Arrangement
   ▪ Engagement Letter
   ▪ Site Visit
VI. Capabilities of our recommended firm for this engagement.
Relevant Team Experience

Significant experience with industrial manufacturing businesses

**Relevant Experience**

- 95% of clients are family-owned or privately-held
  - Most have significant portion of shareholder net worth tied up in business
- Deal team with extensive transaction experience
  - Significant number of completed M&A transactions
  - Senior team with 50+ years of experience
  - Ability to parallel path exploration of ESOP transaction
- Flexibility and resources to provide optimal results
  - Alignment of interests with client
  - Unmatched analytics, creativity and deal prowess

**Relevant Similar Situations**

© 2017 Equity Strategies Group
Drivers of Increased M&A Activity

- Overall Positive Economic Outlook
- Fundamentals Are in Place for Continued Momentum

<table>
<thead>
<tr>
<th>Trends</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic &amp; Strategic</td>
<td>• Need for business growth vs. profit expansion through cost-cutting&lt;br&gt;• Pent-up demand / strategic imperatives remain&lt;br&gt;• Disparities across economic regions can trigger acquisitions</td>
</tr>
<tr>
<td>Improved Performance &amp; Earnings</td>
<td>• Most businesses are 3+ years removed from their weakest performing months of the recent recession&lt;br&gt;• Quality companies have shown consecutive quarters of solid earnings growth, which provides confidence&lt;br&gt;• Stronger companies are rapidly separating from average and weak competitors</td>
</tr>
<tr>
<td>Strong Corporate Balance Sheets</td>
<td>• U.S. companies have been stockpiling cash at record levels&lt;br&gt;• Debt levels have been paid down significantly over the past several years</td>
</tr>
<tr>
<td>Favorable Credit Markets</td>
<td>• Borrowing costs remain at historically low levels for investment grade companies&lt;br&gt;• Senior lenders have begun to loosen their credit parameters and are lending at higher debt to earnings levels</td>
</tr>
<tr>
<td>Private Equity War Chests</td>
<td>• Private equity buyout funds have over $535 billion in investable capital&lt;br&gt;• With fewer deals executed over the past 3 years and a typical investment holding period of 5 years, PE groups are highly incentivized to complete transactions&lt;br&gt;• Aggressive private equity participation often spurs strategic buyers to increase their bids</td>
</tr>
</tbody>
</table>
## Sample Industry Transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Target Description</th>
<th>Acquirer</th>
</tr>
</thead>
<tbody>
<tr>
<td>8/2/15</td>
<td>Silicone Altimax Ltd</td>
<td>U.K. based manufacturer of clean room-produced silicone rubber tubing and other shapes for pharmaceutical industry.</td>
<td>Qure Medical/3i Group</td>
</tr>
<tr>
<td>1/13/15</td>
<td>Four D Rubber Company</td>
<td>Located in the UK, supplies latex and rubber sheeting serving dental, fashion, fitness and industrial markets.</td>
<td>Invex Capital/Bank of Scotland</td>
</tr>
<tr>
<td>12/22/14</td>
<td>GRT Rubber Manufacturing</td>
<td>Manufactures engineered sheet rubber and conveyor belts for industrial, construction, mining, power generation and chemical processing markets.</td>
<td>Main Street Capital Corp.</td>
</tr>
<tr>
<td>8/5/14</td>
<td>Vesta</td>
<td>Manufactures silicone rubber and thermoplastics for medical industry</td>
<td>Lubrizol</td>
</tr>
<tr>
<td>5/5/14</td>
<td>Stevens Urethane of Easthampton</td>
<td>Manufactures TPU film and sheet as well as urethane tubing. Company was previously part of JPS and manufactured rubber thread for textile industry.</td>
<td>Argotec/Wind Point Partners</td>
</tr>
<tr>
<td>5/4/14</td>
<td>W.L. Gore (silicone tube div)</td>
<td>Manufactures GORE® Silicone Rubber Tubing and GORE® Reinforced Silicone Hose for fluid transfer and peristatic pump operations.</td>
<td>Helix Medical, LLC</td>
</tr>
<tr>
<td>4/8/14</td>
<td>Amber Chemical Group, Ltd.</td>
<td>Develops specialized silicone polymers for automotive, personal care, food processing and water treatment industries.</td>
<td>ICM Products/Century Park Capital</td>
</tr>
<tr>
<td>1/2/13</td>
<td>BC Rubber Supply</td>
<td>Manufacture and distribution of urethane products, compression molded products, including sheet rubber, rubber lining, specialty roller covering and polyurethane.</td>
<td>Epic Polymer Systems</td>
</tr>
<tr>
<td>11/1/11</td>
<td>SiMatrix, Inc.</td>
<td>Montana based contract manufacturer specializing in tight-tolerance medical-grade silicone sheeting and dip casting services.</td>
<td>Vesta</td>
</tr>
<tr>
<td>7/15/10</td>
<td>MacLellan Rubber</td>
<td>Located in the U.K., leading manufacturer of rubber sheets and matting since 1871.</td>
<td>New-Seal Ltd.</td>
</tr>
<tr>
<td>6/14/10</td>
<td>Linatex Rubber Products</td>
<td>Manufactures rubber sheeting products for mining, chemical, power generation and pipeline transportation industries.</td>
<td>Navis Capital Partners</td>
</tr>
</tbody>
</table>

© 2017 Equity Strategies Group
Case Study #1 – Summary of Valuation Ranges

- **TTM EBITDA = $6,000,000**
- Strategic buyers look at companies differently than financial buyers
- Transactions in your industry trade in the 5.0x – 7.0x EBITDA range
- However, with an aggressive marketing process, the opportunity exists for valuations above 7.0x EBITDA

### Preliminary Valuation Range Excluding Excess Cash and Investments

<table>
<thead>
<tr>
<th>Source</th>
<th>Multiple of TTM EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comparable Public Companies</td>
<td>6.0x – 7.5x</td>
</tr>
<tr>
<td>Precedent Transactions</td>
<td>4.5x – 7.0x</td>
</tr>
<tr>
<td>LBO Analysis</td>
<td>6.0x – 6.5x</td>
</tr>
<tr>
<td>Discounted Cash Flow</td>
<td>5.5x – 7.0x</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Multiple of EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.0x</td>
</tr>
<tr>
<td>5.0x</td>
</tr>
<tr>
<td>6.0x</td>
</tr>
<tr>
<td>7.0x</td>
</tr>
<tr>
<td>8.0x</td>
</tr>
</tbody>
</table>
The Initial Offer

What’s Wrong With This Picture?

- Confidentiality Agreement in Place
- $45 Million Preemptive Offer
- 90 Day Due Diligence & Exclusivity
- Buyer Can “Move Quickly to Close”
- Buyer Pressing Seller For Exclusivity
- “Have Other Opportunities” to Pursue

Buyer’s Un-Negotiated Offer

Seller Has a “Good Feeling” About the Buyer

© 2017 Equity Strategies Group
Seller Needs to Increase Negotiating Leverage!

Seller Retains ESG M&A Firm

- Contact short list of strategically identified buyers
  - Creates competition
  - Urgency & scarcity
  - Sophistication
- Multiple buyers express interest
- Keep original buyer at bay
- Call for IOIs
- Preemptive buyer
  - “What Will it Take?”
- Negotiate LOI with excellent terms

Result: Close Deal With Original Buyer at $62M Value!  
9.5 x EBITDA
Example – Selling to an Outside Party for Maximum Value

- Recast Financials
- Offering Docs
- Buyers List

Preparing the Offering:
- 15 IOIs
- 50 Potential Buyers Contacted

Engaging Buyers:
- 6 Buyer Visits
- 3 Letters of Intent

Selling for Maximum Value:
- 1 BUYER (Best Price / Terms)
- SOLD for $62 mil!
Not Really Our Client (Seller), But One Happy Guy!
1. Do you know the true value of your business?

2. What is your exit strategy and what are your liquidity options?

3. How have you planned for the next chapter of your business life?

4. Which factors will drive your decision to sell: time, value, lifestyle, business needs, etc?

5. What would happen to your business if you died or got sick?
More Conversation Starters

- Have your existing advisors discussed exit planning, your preferred timing, valuation and strategies to enable this to happen successfully? Or have they been silent?
- Do you know what your business is truly worth in today’s economy?
- Do you plan to keep the business for your family or sell it at some point?
- If sell, to whom would you sell your business? Who will help you identify potential buyers, qualify them, negotiate and close the sale?
- Have you ever received an offer to sell your business? What happened? Was it firm and in writing? Terms? Why didn’t you accept the offer?
- Do you know how to realize maximum value? Are you familiar with the competitive auction process of selling a business?
- Are you represented by an investment banker or M&A advisor who is experienced in your industry, has a track record of success, and can help you sell for maximum value?
Take Aways

1. Client must start planning early (6 Steps)
2. Get client’s team in place
3. Deal with any personal blocks
4. Be proactive
5. Consider all transaction options
6. Complete Marketability Assessment
7. Identify value enhancing strategies
8. Find the “right” investment banker
9. Run a Strategic Auction
The 6 Step Exit Planning Process

1. Establish Exit Goals
2. Analyze Financial and Mental Readiness
3. Discover The Type of Owner You Are
4. Learn Your Exit Options
5. Know the Value of Your Exit
6. Execute Exit Plan
The 6 Step Exit Planning Process

1. Establish Exit Goals

What do you want to achieve with your exit?

“Begin with the end in mind”
How many 5 year exit plans have you had?

I want to work ________ years in the business before retiring or moving on.
The 6 Step Exit Planning Process

1. Establish Exit Goals

Who do you want to transfer your business to?

- Family – are they ready?
- Co-owner / Managers – can they finance it?
- Outside party – Is your company saleable? At what value?
Do you have a plan for ________________...?

Can you afford the Exit Option that you most want?
The 6 Step Exit Planning Process

2 Financial and Mental Readiness
The 6 Step Exit Planning Process

2 Financial Readiness
Owner Objectives

Financial Readiness:

What is the annual after-tax income you want during retirement?
$____________________

- Fact: Most owners don’t know their actual needs!
The 6 Step Exit Planning Process

2 Financial Readiness
Owner Objectives

- What about your personal wealth? Will you be OK?
- What will happen to you after you retire, transfer, or sell your business?
- Standard of living – how much income do you need over the next 20, 30, 40 years?
- Life Expectancy – will you or your spouse live to 100+?
- What if your net after-tax ROR is less?
- Inflation?
- Health Care?
- Estate Taxes?

“As you consider leaving your business, what keeps you up at night?”
The 6 Step Exit Planning Process

2 Financial Readiness

Owner Objectives

Value Gap

Current Savings/Investments $__________

Value Gap $__________

Capital Needed $__________

“In your mind, how long do you think it takes to prepare so that you can leave your business?”

Often significant equity from the business is necessary for financial independence

© 2017 Equity Strategies Group
The 6 Step Exit Planning Process

2. Financial Readiness

Diversification - How will you go from

- Private Company (90%)
- Real Estate
- Securities
- Equities
- Insurance & Annuities
- Vacation Home
- Fixed Income
Are You Ready To Leave?

- How involved are you in day-to-day operations?
- Do you have a plan for how you will spend your time post-exit?
- Do you see your business as a return on invested capital, or as the provider of your lifestyle?
- Are you “addicted” to your business?
The 6 Step Exit Planning Process

3 Identify Your Owner Type

Get me out NOW for the most money!

I’m financially set, but I like work and choose to stay.

My company isn’t worth what I want, so I’ll stay, grow, and save.

I’m financially and mentally ready to move on.

© 2017 Equity Strategies Group
The Business Exit Readiness Index™

The Business Exit Readiness Index™ (BERI) Survey

Survey Methodology
The BERI® survey asks twenty (20) questions related to an owner’s financial and mental readiness.

Survey Results
85% of owners who took the BERI® survey scored themselves as having a LOW mental readiness for an exit.
The Business Exit Readiness Index™

**How it Works**

1. ESG Sends Owner a Link to the 20 Question Survey
2. Owner Takes the 5 – 10 minute Survey
3. Business Owner Receives a 6-page Report with Results
4. Advisor Receives a Detailed 12-page Report with Results and Next Steps

© 2017 Equity Strategies Group
Business Exit Readiness Index (BERI)

“Take this…”
Business Exit Readiness Index (BERI)

- Our 10 minute business owner survey can assist you in determining your financial and mental readiness for your exit. There is no fee to take the assessment and your answers are sent immediately to your e-mail and kept completely confidential.
- The survey can be accessed at:

## The BERI™ Report – Questions

<table>
<thead>
<tr>
<th>Financial Readiness</th>
<th>Question</th>
<th>Agree</th>
<th>Somewhat Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The value of my business is a critical part of my financial future and getting paid for my business is very important to me achieving my personal goals.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>I have taken a measurement of the W-2, K-1 (or other distributions), and personal benefits that I take from my business on an annual basis and I have a good idea as to what amount of liquid assets I need to have saved outside of the business to replace that total business income and other annual benefit.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>The value of my privately held business is less than 50% of my total net worth.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>I have researched how I will take my privately held business and turn it into cash for my retirement goals.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>I have sources of income (such as real estate rents and trust distributions but not social security benefits) that I can rely on today to provide at least 50% of my financial needs to fund my lifestyle outside of my business.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>For the last five (5) to ten (10) years I have saved at least 15% of my annual income.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>I have a plan and the resources to completely eliminate any personal and / or corporate debt and liabilities over the next 3 - 5 years and I have started executing on that plan.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>I have qualified professional advisors in my life that I allow to provide me with significant assistance in developing my financial future.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>I have a specific, written plan in place for how I would invest the cash I would receive if I were to exit my business today.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>I have prepared for the contingency of an unexpected, catastrophic event in my personal life and have completed legal documents and purchased insurance products to provide for my family and my business.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mental Readiness</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------------------------------------------</td>
<td>---</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 I have a specific, written plan as to how I will spend my time, in a productive manner, when I am no longer running my business.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 I have considered, planned for, and am excited about the changes and opportunities that await me outside of my business and am ready to make the change that liberates me from running my company.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13 I take a larger than average (i.e. more than 3 weeks) amount of vacation time each year and, while I’m away, I’m able to substantially limit the work that I am doing and the frequency with which I check e-mail and / or call into the office.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14 Although I have mastered much of what there is to know about my industry and / or trade, I feel as though the time has come to pursue my next venture and I’m ready to find a way to move to this next stage.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15 There are people who work for me that I have prepared for future ownership and management of the business. I have trained them to do what I do, structured the business to run without me, and I’m confident in my ability to transition my current responsibilities at the company</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16 I have not grown the business in the last few years because I simply don’t want to deal with the additional aggravation that accompanies growth-related initiatives.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17 The thought of running and growing my company for another three (3) to five (5) years sounds a bit like an eternity given my current feelings towards the business.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18 I have a specific, written plan as to when I would ideally like to exit my business and move into my next project and / or phase of life.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19 I do not approach running the day-to-day operations of the business with the same enthusiasm as I once did and I often feel ‘bored’ with the company</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20 I have prepared myself by understanding the legal and tax implications of a business transition and I’m confident that I’m ready for these aspects of the business transfer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The 6 Step Exit Planning Process

3 Identify Your Owner Type

Exit Quadrant Chart

- Financial Readiness
  - High
  - Low

- Mental Readiness
  - Low
  - High

- Well-off but choose to work
- Rich & Ready to Go
- Stay & Grow
- Get me out at Highest Price

© 2017 Equity Strategies Group
The Discovery Process – Personal Readiness

Mental Readiness

- If LOW:
  - What has to happen for you to become mentally ready?
  - Are you working your way out of being the key person (ODI)

- If HIGH:
  - What steps have you taken to prepare for your exit now that you’re ready?

“Much emotion is tied into this process. It’s not all dollars and cents.”

© 2017 Equity Strategies Group
Case Study #2 – How the BERI made all the difference

Background

- Joe and Andi (brother and sister) 50/50 owners
- Joe’s wife, Julie, is CFO
- Andi shares that she and Joe have been considering selling the business to a competitor
- Joe has been talking to several competitors about selling
Case Study #2 – “You’re talking directly to your competitors?”

Questions we asked Andi and Joe

- What’s the average multiple in your industry? Why do some companies sell for more or less?
- How will you create competition? Manage more than one buyer *and* run your business? (Auction Process vs. Single Buyer).
- Stock Sale vs. Asset Sale (C Corp.)?
- Largest transaction of your life. Only 20% of transactions close. Do you know why?
  - “M&A advisors disqualify roughly 65% to 75% of prospective sellers and, according to a U.S. Chamber of Commerce Study, only 20% of the businesses that are for sale will successfully transfer hands to another owner. This implies that only 5% to 7% of companies actually get sold.” - *Valuation for M&A: Building Value in Private Companies* by Chris M. Mellen & Frank C. Evans.

- Joe and Andi agree to a call with ESG
The M&A Process

Who has the advantage in the process?

1. Teaser Page
2. Information Memorandum
3. Competitive Bidding
4. Letter of Intent
5. Due Diligence
6. P&S Agreement
7. Closing

© 2017 Equity Strategies Group
Case Study #2 – BERI Results

Financial Readiness

High

Low

Mental Readiness

Well-off but choose to work
MBO, Gift, SCIN Pre-fund ESOP

Rich and ready to go
Gift / Charity ESOP / Sell

Stay and grow
PEG Recap ESOP, Grow bus. Increase Savings

Get me out at the highest price
Sell business for “highest price”

Julie
Joe

Andi
# Case Study #2 – BERI Results

<table>
<thead>
<tr>
<th>Questions</th>
<th>Andi</th>
<th>Joe</th>
<th>Julie</th>
</tr>
</thead>
<tbody>
<tr>
<td>The value of my business is a critical part of my financial future and getting paid for my business is very important to me achieving my personal goals.</td>
<td>Yes</td>
<td>Maybe</td>
<td>Yes</td>
</tr>
<tr>
<td>I have taken a measurement of the W-2, K-1 (or other distributions), and personal benefits that I take from my business on an annual basis and I have a good idea as to what amount of liquid assets I need to have saved outside of the business to replace that total business income and other annual benefit.</td>
<td>Yes</td>
<td>Maybe</td>
<td>Maybe</td>
</tr>
<tr>
<td>The value of my privately held business is less than 50% of my total net worth.</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>I have researched how I will take my privately held business and turn it into cash for my retirement goals.</td>
<td>Yes</td>
<td>Maybe</td>
<td>Maybe</td>
</tr>
<tr>
<td>I have sources of income (such as real estate rents and trust distributions but not social security benefits) that I can rely on today to provide at least 50% of my financial needs to fund my lifestyle outside of my business.</td>
<td>Yes</td>
<td>Maybe</td>
<td>Maybe</td>
</tr>
<tr>
<td>For the last five (5) to ten (10) years I have saved at least 15% of my annual income.</td>
<td>Maybe</td>
<td>Maybe</td>
<td>Maybe</td>
</tr>
<tr>
<td>I have a plan and the resources to completely eliminate any personal and/or corporate debt and liabilities over the next 3 - 5 years and I have started executing on that plan.</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
## Case Study #2 – BERI Results

<table>
<thead>
<tr>
<th>Questions</th>
<th>Andi</th>
<th>Joe</th>
<th>Julie</th>
</tr>
</thead>
<tbody>
<tr>
<td>I have qualified professional advisors in my life that I allow to provide me with significant assistance in developing my financial future.</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>I have a specific, written plan in place for how I would invest the cash I would receive if I were to exit my business today.</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>I have prepared for the contingency of an unexpected, catastrophic event in my personal life and have completed legal documents and purchased insurance products to provide for my family and my business.</td>
<td>Maybe</td>
<td>No</td>
<td>Maybe</td>
</tr>
<tr>
<td>I have a specific, written plan as to how I will spend my time, in a productive manner, when I am no longer running my business.</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>I have considered, planned for, and am excited about the changes and opportunities that await me outside of my business and am ready to make the change that liberates me from running my company.</td>
<td>Yes</td>
<td>Maybe</td>
<td>No</td>
</tr>
<tr>
<td>I take a larger than average (i.e., more than 3 weeks) amount of vacation time each year and, while I’m away, I’m able to substantially limit the work that I am doing and the frequency with which I check e-mail and/or call into the office.</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Although I have mastered much of what there is to know about my industry and/or trade, I feel as though the time has come to pursue my next venture and I’m ready to find a way to move to this next stage.</td>
<td>Yes</td>
<td>Maybe</td>
<td>Maybe</td>
</tr>
</tbody>
</table>
## Case Study #2 – BERI Results

<table>
<thead>
<tr>
<th>Questions</th>
<th>Andi</th>
<th>Joe</th>
<th>Julie</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are people who work for me that I have prepared for future ownership and management of the business. I have trained them to do what I do, structured the business to run without me, and I’m confident in my ability to transition my current responsibilities at the company.</td>
<td>Maybe</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>I have not grown the business in the last few years because I simply don’t want to deal with the additional aggravation that accompanies growth-related initiatives.</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>The thought of running and growing my company for another three (3) to five (5) years sounds a bit like an eternity given my current feelings towards the business.</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>I have a specific, written plan as to when I would ideally like to exit my business and move into my next project and/or phase of life.</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>I do not approach running the day-to-day operations of the business with the same enthusiasm as I once did and I often feel ‘bored’ with the company.</td>
<td>Maybe</td>
<td>Maybe</td>
<td>No</td>
</tr>
<tr>
<td>I have prepared myself by understanding the legal and tax implications of a business transition and I’m confident that I’m ready for these aspects of the business transfer.</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>
Case Study #2 – BERI Results

- Joint decision to “Stay and Grow” (sell in 3-5 years) since the partners didn’t have consensus on selling
- Andi’s husband is not active in business.
- Decided to implement SLATs in each family and fund with $9m of insurance each (estate liquidity/buy-sell/liquidity for Spouse).
- Continued discussion regarding our 6 Step Process. Moved Julie and Joe to an emotional level
  - Overcame fear of unknown post-exit
  - Lack of diversification
  - Value Gap
  - Market Timing
Financial Readiness – Sell in 3-5 years?

U.S. Ten-Year Private Transfer Cycle

- **Deal Recession (Value Enhance)**: 1980, 1990, 2000, 2010
- **Almost Recession (Uncertain Market)**: 1988, 1998, 2008, 2018

- **Acquire Companies**
- **Divest Companies**

Chart from Rob Skee

© 2017 Equity Strategies Group
Case Study #2

- Conclusion – Sold to strategic buyer for $30,000,000
  - 10% stock, 90% cash
  - Stock purchase! (C-corp) LTCG
  - All three owners staying on for 18 months
  - Performance earn-out end of year one
- Proceeds invested with Financial Advisor
- Referred him to their parents and others
- “Goofy test you gave us changed everything.” - Joe
The 6 Step Exit Planning Process

Learn Your Exit Options

Exit Option #1

Exit Option #2

Exit Option #3

Exit Option #4

Exit Option #5

© 2017 Equity Strategies Group
The 6 Step Exit Planning Process

4. Learn Your Exit Options

1. Family
2. Partners / Co-Shareholders
3. Employees
4. Sale to Outsider Buyer
5. Going Public
## Understanding Exit Options

<table>
<thead>
<tr>
<th>Internal Transfers</th>
<th>or</th>
<th>External Transfers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family/Next Generation Buyout</td>
<td>Management Buyout</td>
<td>Third Party Sale</td>
</tr>
</tbody>
</table>

© 2017 Equity Strategies Group
# Understanding Exit Options

## Ownership/Control

### Liquidity

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Minority Recapitalization</th>
<th>ESOP Recapitalization</th>
<th>PEG Majority Recapitalization</th>
<th>Strategic Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Creates liquidity and source of future growth capital</td>
<td>• Creates liquidity and asset diversification</td>
<td>• Creates liquidity and source of future growth capital</td>
<td>• May maximize current payout if synergistic</td>
<td></td>
</tr>
<tr>
<td>• Opportunity to benefit from prevailing industry trends</td>
<td>• Tax incentives for buyer and seller</td>
<td>• Opportunity to benefit from prevailing industry trends and valuations</td>
<td>• Eliminates business continuity risk</td>
<td></td>
</tr>
<tr>
<td>• Enables Shareholders to maintain economic control</td>
<td>• Shareholders determine process and criteria</td>
<td>• Minimizes future business risk</td>
<td>• Capitalizes on potential synergies and product expansion opportunities</td>
<td></td>
</tr>
<tr>
<td>• Can be pursued in conjunction with acquisition growth strategy</td>
<td>• Ownership incentives for employees</td>
<td>• Can be pursued in conjunction with acquisition growth strategy</td>
<td>• Valuation not solely a result of capital markets or debt environment</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Considerations</th>
<th>Minority Recapitalization</th>
<th>ESOP Recapitalization</th>
<th>PEG Majority Recapitalization</th>
<th>Strategic Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Tighter leverage standards and overall lending criteria</td>
<td>• Cash available limited to bank leverage</td>
<td>• Use of leverage in most transactions</td>
<td>• Industry performance and timing</td>
<td></td>
</tr>
<tr>
<td>• May reduce Shareholders’ potential to realize upside</td>
<td>• Leverage covenants</td>
<td>• Minimal options for synergies</td>
<td>• Company positioning</td>
<td></td>
</tr>
<tr>
<td>• Expectation that certain management will remain with the Company</td>
<td>• ESOP administration costs</td>
<td>• Potential sale in 5 years</td>
<td>• Uncertainty of Shareholders’ and management’s future roles</td>
<td></td>
</tr>
<tr>
<td>• Potential valuation discount for investment</td>
<td>• Potential fiduciary risk for Trustee</td>
<td>• Ability to facilitate extensive due diligence</td>
<td>• Integration and cultural issues</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Corporate obligation to repurchase shares</td>
<td>• Expectation that certain management will remain with the Company</td>
<td>• Continuation of jobs and/or legacy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• May reduce Shareholders’ potential to realize upside beyond independent valuation</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The 5 Exit Paths

5 Steps:
1. Set Goals & Objectives
2. Determine Value
3. Identify Exit Options
4. Evaluate Options
5. Implement

Exit Paths
1. Family
2. Co-Owners
3. Employees
4. Outsiders
5. Public

Transfer Methods
- Gifts, Bequests, Private Annuities, GRATs, IDITs
- Buy-Sell Living Buyout
- MBO/LBO ESOP
- 3rd Party Sale Recapitalization Merger
- IPO Going Private

Default: LIQUIDATION OF BUSINESS

© 2017 Equity Strategies Group
One Way Out – Which Exit Path Is Right for You?

- Will your personal and financial goals be satisfied?
- Will your family be well taken care of?
- No shortcut – must go through a process
- Don’t confuse “ingredients” with a comprehensive plan
- What you don’t know can hurt you
- Goal: What is your “best” One Way Out?
Working with a Specialist

- “Advisor of Advisors”
- Trusted, qualified, experienced professional
- Helicopter
- Perspective – Ability to apply technical concepts to real world
- Access to deep well of resources
- Crunch numbers/stress test
Exit Path 1: Family Transfers

Keeping the Business in the Family

- How will you derive income at retirement?
- How will you provide income for your spouse if you die prematurely?
- How will you equalize among your children?
- Where will dollars come from to pay estate taxes?
Can You Afford to Transfer Business to Family?

Step 1: Identify your cash flow needs
Step 2: Inventory of Financial Resources
Step 3: Evaluate your long-term situation
Step 4: Will you get paid?

- Gift or Sale?
Case Study #3 – Family Buyout

Family buyouts involve the sale of the business to family heirs.

Types:
- Stock Redemptions
- Installment Sales
- May be combined with traditional or complex gifting strategies
- Leveraged Buyouts (LBO)

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Works for both active or inactive shareholders</td>
<td>Family heir needs to be both available and interested (may have personal guarantees)</td>
</tr>
<tr>
<td>Highest level of confidentiality from internal process</td>
<td>Management support essential</td>
</tr>
<tr>
<td>Shares can be redeemed at once or in installments/tranches</td>
<td>Purchase price controllable (negotiable)</td>
</tr>
<tr>
<td>Cash upfront may depend on leverage available against the company</td>
<td>Unlikely to achieve maximum cash upfront without outside equity</td>
</tr>
<tr>
<td>May use Trusts (example: IDGT) to leverage gifts</td>
<td></td>
</tr>
</tbody>
</table>

© 2017 Equity Strategies Group
Case Study #3 – Family Buyout – Gourmet Market

**Situation:**
- Owner had run a high-end gourmet market/grocery business for almost 50 years and wanted to retire, but wanted to maintain control for a few years.
- The owner’s son, who is active and in his 40’s, as well as a non-family president, were ready to take over.
- The owner was worried about them running the business without him and was willing to transition over time.
- The owner needed either an upfront cash payment or salary continuation for 10 years to fund his retirement.
- C-Corporation with minimum profitability after owner’s salary

**Solution:**
- Structured a long-term (seller-financed) buyout over 10 years, where control didn’t transfer for 5 years (10% per year transfer).
- Used current salary for payments – converted ordinary income salary to capital gain on stock purchases (installment deferral).
- Premium value since the company was not worth 10x salary and profit
- Suggested alternative structure – cash buyout financed with bank financing plus smaller amount of seller-financing
Case Study #4 – Management Buyout

Management buyouts (MBO) involve the sale of the business to a manager, management team or group of key employees.

Types:
- Management buyout (typically LBO)
- Management buyout with Private Equity
- Combination MBO with Employee Stock Option Plan (ESOP)

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enables management to buy out the business with or without personal cash investment</td>
<td>Manager of management team is willing and capable of running business</td>
</tr>
<tr>
<td>High level of confidentiality and continuity from internal process</td>
<td>Personal guarantees most likely required by purchasing management</td>
</tr>
<tr>
<td>Flexibility of sale price and deal structure as a fixed price or based on company performance</td>
<td>May need additional team members to fill in gaps left by exiting shareholders</td>
</tr>
<tr>
<td>Shareholder receives capital gain treatment for any proceeds in excess of basis (stock deals or friendly asset deals)</td>
<td>Owner may not need all cash deal</td>
</tr>
<tr>
<td>Generally removes shareholder’s personal guarantees on bank debt and other liabilities if 100% sale of shareholder’s interests</td>
<td>Managers may or may not have equity to contribute</td>
</tr>
<tr>
<td></td>
<td>Deal may be bank and/or seller financed</td>
</tr>
<tr>
<td></td>
<td>Leveraged buyout puts debt on company</td>
</tr>
</tbody>
</table>
Case Study #4 – Management Buyout – Chemical Company

Founded in 1919 and acquired by Bob in 1981, Chem-Bob is a distributor of specialty chemical products. The Company provides niche raw materials and technical expertise to manufacturers located around the world.

- Bob desired to sell the Company to Phil, his national sales manager who helped him build the company for the past 20 years.
- Phil had no meaningful savings to invest in the business acquisition.
- EBITDA for the company was around $2.5mm with a valuation in excess of 5x.
- Other than accounts receivable and inventory, the company had very little collateral
- C-Corporation

Options:
1. Sale to a private equity with stock options for Phil 10-20% (and right to coinvest). 90-100% cash upfront ($14-15mm).
2. Senior bank and subdebt structure with 70-80% upfront ($10-12mm) with seller note for the remainder
3. SBA 10 year amortizing debt plus seller note with cashflow recapture (50% upfront).
Case Study #4 – Management Buyout – Chemical Company

Solution: Bob chose the 100% sale to Phil using SBA financing

Structure:
- Purchase price of approximately $15.5mm (grossed up from $14mm for stock bonus)
- Stock bonus to Phil of 10% of the company backdated 18 months to the prior tax year. This resulted in a “partner buyout” transaction status with the SBA.
  - Valuation discounts resulted in $200k value of stock grant. Taxes paid in the year following the transaction (risk of forfeiture until transaction).
- $5mm SBA 7(a) loan amortizing over 10 years at prime +1.5%
- Assumption of line of credit of $2mm (after borrowing $1mm) – interest only
- Seller notes totaling approximately $7mm payable over 10 years, but with cashflow recaptures to provide full payment within 5 years.
- Retroactive conversion to an S-Corporation as of 18 months prior (hadn’t filed prior year taxes yet)
- Phil put in NO EQUITY

Result:
- 50% cash upfront to the selling owner ($7mm)
- Seller notes pay out within 5 years
- Capital gains on stock sale (could have been asset sale)
- Saved owner several hundred thousand due to S-Corp conversion
Case Study #5 – Management Buyout/ESOP

ESOP Overview
An employee stock ownership plan (ESOP) is an ERISA trust that invests primarily in the securities of the Company. A sale to an ESOP is a tax advantaged strategy that provides significant tax advantages to the Company, and often the seller.

- ESOP typically purchases through LBO (Leveraged ESOP)
- May be contributed/gifted stock by owner (Non-Leveraged)
- May be combined with Management Buyout

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Rewards all employees with ownership</td>
<td>• Bank debt required to create proceeds to buy Seller’s shares</td>
</tr>
<tr>
<td>• Maintains existing entity through sale to “friendly” buyer</td>
<td>• Requires strong management team willing and capable of operating the business and pay back loans (usually no personal guarantees)</td>
</tr>
<tr>
<td>• Preserves legacy and confidentiality with internal process</td>
<td>• Seller’s proceeds limited by debt capacity</td>
</tr>
<tr>
<td>• Provides ownership liquidity and diversification</td>
<td>• Seller may have to hold a seller note for remaining proceeds or sell in multiple tranches</td>
</tr>
<tr>
<td>• Deduction of both principal and interest on ESOP loans</td>
<td>• Selling shareholder may be able to control the business after the sale as trustee, but is subject to fiduciary rules</td>
</tr>
<tr>
<td>• Capital gains treatment (stock sale) and 1042 deferral option for selling C-Corps</td>
<td></td>
</tr>
<tr>
<td>• Tax advantaged buyout structure for (S Corps) – <em>no tax on income</em> to the extent ESOP owned</td>
<td></td>
</tr>
</tbody>
</table>
Owner Dependency Index (ODI)

- Our 10 minute business owner survey can assist you in determining owner dependency in the business. There is no fee to take the assessment and your answers are sent immediately to your e-mail and kept completely confidential.

- The survey can be accessed at:

  http://www.odireport.com/Survey/Register/79BB58DF_87
Case Study #5 – Management Buyout/ESOP

1. Bank lends money to company
2. The company lends to ESOP (mirror loan). The loan could also be made directly to the ESOP with a company guarantee
   ESOP purchases stock of the company from selling shareholders
3. Company makes tax deductible contributions to ESOP. As the Company repays the loan to the Bank, the ESOP releases shares to the ESOP participants
# Management Buyout – ESOP Myths vs. Facts

<table>
<thead>
<tr>
<th>Myth</th>
<th>Fact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Control</strong></td>
<td>“I will have to give up control of my business.”</td>
</tr>
<tr>
<td><strong>Ownership</strong></td>
<td>“My employees will own the Company and have access to my financials.”</td>
</tr>
<tr>
<td><strong>Structure</strong></td>
<td>“You need to sell 30% of the Company in order to have an ESOP.”</td>
</tr>
<tr>
<td><strong>Size/Cost</strong></td>
<td>“Your company is too small for an ESOP. It costs too much.”</td>
</tr>
<tr>
<td><strong>Value</strong></td>
<td>“A sale to an ESOP will not result in highest price.”</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td>“My workforce is too old and near retirement.”</td>
</tr>
</tbody>
</table>
Case Study #5 – Management Buyout/ESOP – Oil Company

**Situation:**
- Oil Company is a distributor of fuels and industrial lubricants to commercial businesses and municipalities regionally. The Company was founded in 1877 and was a third generation business operated by two brothers, Tim and Bob.
- The owners were in their late 60s and wanted to retire.
- Revenue was approximately $30mm with $1mm EBITDA.
- Warehouse workers and truck drivers were part of the local Teamsters union.
- Underfunded pensions (multi-employer pension plan) resulted in a $400k withdrawal liability if a buyer did not assume their pension agreement and continue to employ a minimum number of union members.
- Oil Company engaged our M&A partner to sell the business to a third party in a full market process.

**Result of Sale Process:**
- Multiple bidders offered values for either the fuels business OR the lubricants.
- Buyers were hesitant to assume the union contract, and some buyers refused to bid because of the union and/or pension liabilities.
- Valuation ranges between $3.5-4.5mm, with contingencies on future performance.
- We suggested the consideration of an ESOP alternative, which was pursued concurrently with the third party sale process.
Case Study #5 – Management Buyout/ESOP – Oil Company

Solution: Seller chose to implement an ESOP

Structure:
- Purchase price of approximately $5.5mm which was a $1 - 2mm (18-36%) higher price than the third party market
- Asset Based Lending (ABL) of approximately $3.5mm (interest only) financing against receivables and inventory plus $2mm of seller notes (with cashflow recapture)
- A president was recruited from the outside to fill in the gap left by the departure of the two owners
- Union stayed in place, which meant no triggering of withdrawal liability
- Company was not split in two

Result:
- 65% cash upfront to the selling owner ($3.5mm)
- Seller notes actually paid out in 2 years, instead of 5 due to cashflow recapture
- Capital gains on stock sale
- As 100% ESOP owned S-Corp, the Company no longer pays any income taxes
Case Study #6 – Third Party Sale

Third Party Sales involve the sale of the business to a financial or strategic buyer.

**Buyer Types:**
- **Strategic** – A buyer in the same or ancillary industry as seller with possible combination synergies
- **Private Equity** – Financial buyers that purchase a majority of the Company and may have industry expertise
- **Family Office** – Private equity type of buyer that usually does not have a firm “hold period” and can own the business for many years

**Process Types:**
- **Pre-emptive buyer** – one or a few buyers approached before a full market auction (either known or unknown parties)
- **Targeted auction** – limited number of buyers competing against each other
- **Full auction** – exhaustive search for financial and strategic buyers looking for best value and terms for the seller

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive auction process generally yields highest price and cash upfront</td>
<td>Strategic buyer may eliminate some existing employees, facilities and redundant management personnel</td>
</tr>
<tr>
<td>May result in high “outlier” valuations</td>
<td>Strategic sale may result in name and operational changes that may diminish legacy and affect employees, customers, etc.</td>
</tr>
<tr>
<td>Opportunities for synergies in valuation</td>
<td>Leveraged buyout by private equity buyer puts debt on company</td>
</tr>
<tr>
<td>Outside assistance with growth initiatives – both capital and insights</td>
<td></td>
</tr>
<tr>
<td>Private equity allows owner to retain some “upside” in a transaction and have a longer transition with a qualified partner</td>
<td></td>
</tr>
</tbody>
</table>
Case Study #6 – Third Party Sale

Strategic Buyer Opportunities

**Strategic:**
- Buyer may be a direct competitor or someone in a slightly different industry, but usually with similar dynamics
  - Similar customers/process (manufacturing, distribution, services, etc.)
  - Extensions of existing product or service lines (horizontal)
  - Vertical integration purchasing vendors or customers (less likely)
  - Geographical expansion

**Potential Synergies:**
- Cost synergies - negotiable value
  - Shutting down facilities
  - Removal of people
  - Better purchasing of raw materials and other inputs
  - Leverage of existing infrastructure so as to reduce growth costs
- Sales synergies - difficult to quantify without contingencies
  - Selling more product or services to existing customers of buyer or seller
  - Introduction of new customers to buyer
  - Elimination of a competitor
Private Equity Buyer Dynamics

- Private Equity Groups (PEG) generally have 10 year life committed capital funds
  - 10 year funds have an average 5 year “hold” period before selling again
  - Family offices generally have a deep pool of capital with no timeframe, but still incentive to invest
  - Pledge Funds retain similar economics as funds, but must raise the capital for each deal and don’t get paid until they make an investment
- Get paid to put money to work – 20% of the upside return and management fees during the operation of the business
- Must invest within a certain timeframe or give money back
- Must demonstrate ability to invest, grow, and harvest investments before raising next fund
- Many times Private Equity are the highest bidder because they are “motivated” buyers, even without strategic synergies
The Sale Process

Benefits of Comprehensive Competitive Process

- Increases likelihood of finding the best buyer
- **Minimizes time disruption** to owner and enables them to continue running the business
- **Ensures timely closing** by holding buyers to predetermined time schedule
- Enables client to **assess buyers’ intentions** for the business after closing through interviews
- Empowers M&A firm, as a third party, to **negotiate/advocate for our clients with expertise - but limited emotion**
- Multiple opportunities to **negotiate price and terms**
- Likely to yield **highest price and best terms**
Top 3 M&A Facts Every Financial Advisor Should Know

1. Don’t let clients go it alone!
2. Help them prepare for transition early – many options exist
3. Value is driven by more than just EBITDA and multiples
   - Process drives value
Selling for Maximum Value – Your Financial Takeaway

\[
\begin{align*}
\text{EBITDA} & \quad \text{Add Backs} \\
+ & \quad \text{ADJUSTED EBITDA} \\
\times & \quad \text{Multiple} \\
- & \quad \text{Interest Bearing Debt} \\
+ & \quad \text{“Excess” Cash} \\
+/- & \quad \text{Value Drivers/Detractors} \\
& \quad \text{PROCEEDS BEFORE TAXES} \\
- & \quad \text{TAXES} \\
& \quad \text{NET PROCEEDS}
\end{align*}
\]
The 6 Step Exit Planning Process

5 Know the Value of Your Exit

- 68% of owners have never had their business valued
- For those who have, when did valuations take place?
  - 49% within the past 2 years
  - 46% in the last 2-10 years
- Owner’s estimates are usually off by 50%
Everyone Thinks Their Baby is Pretty…
Formal Valuations

- Reasons to have formal valuations performed:
  - For gift, estate, and income tax liabilities.
  - Can be used as the selling price of a business interest.
  - Valuation can also be used to apply discounts when applied against gift, estate, and income tax liabilities.
- Other Uses:
  - Acquisitions or Sales
  - B/S Agreements
  - Family Succession Planning
  - Marital Divorce Resolutions
  - Charitable Contributions
  - Damages for disruption of a business
  - Partner disputes
  - ESOPs
  - Dissenting shareholder actions
  - Market comparability insight
  - Recapitalizations
  - LLC & FLPs holding real estate, securities, and closely held stock, etc.
Informal Valuations

What is the purpose of your valuation?

Different Value Worlds

<table>
<thead>
<tr>
<th>Generally Lower</th>
<th>Generally Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset-based Value</td>
<td>Estate &amp; Gift Taxes</td>
</tr>
<tr>
<td>Collateral Value</td>
<td>Corporate Finance</td>
</tr>
<tr>
<td>Earnings Value</td>
<td>Executive Compensation &amp; Employee Benefits</td>
</tr>
<tr>
<td>FMV or Owner Value</td>
<td>Shareholder Agreements &amp; Estate Planning</td>
</tr>
<tr>
<td>Insurable Value</td>
<td>Life Insurance Needs &amp; Buy-Sell Agreements</td>
</tr>
<tr>
<td>Strategic Market Value</td>
<td>Financial Independence</td>
</tr>
</tbody>
</table>
What’s My Business Really Worth If I Sell?!
Positive Factors

- Niche market leadership in Tool/Alloy Plate, Ground Flat Stock and Drill Rod
  - Proprietary Grades/Alloys
- Continuous investment in facilities and equipment (e.g. new ERP system)
- Established reputation over 70 years for quality and service
- Audited financial statements
- Strong base of repeat business
- National sales footprint
- Experienced management team

Potential Challenges

- Union employee base
  - Potential withdrawal liability?
- Customer concentration (largest customer is 20% of sales)
- C-Corporation structure and potential tax implications for sellers
- Mature Drill Rod product lifecycle
- Distribution relationships and impact on potential strategic buyer universe
- Long-term growth profile and capital intensity may limit private equity interest
Case Study #7 – Marketability Assessment

Valuation Methodologies

<table>
<thead>
<tr>
<th>Method</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discounted Cash Flow Analysis</td>
<td>The value derived from the discounted cash flow (&quot;DCF&quot;) method is based on the present value of expected future distributable cash flow.</td>
</tr>
<tr>
<td></td>
<td>Cash flows are projected into the future and are comprised of two components: a 5-year discrete projection period, and cash flows expected to be generated and grown into perpetuity (terminal cash flow), which can be expressed as a terminal exit valuation multiple.</td>
</tr>
<tr>
<td></td>
<td>Cash flows are discounted to present value at a weighted average cost of capital (&quot;WACC&quot;), which represents a blended rate of return commensurate with the risk involved in realizing the cash flows.</td>
</tr>
<tr>
<td>Leveraged Buyout Analysis</td>
<td>The leveraged buyout (&quot;LBO&quot;) method is similar to the discounted cash flow method, except that value is based on a leverage buyout-type financing structure and reflects the value that a financial sponsor would pay to achieve a targeted internal rate of return (&quot;IRR&quot;) threshold.</td>
</tr>
<tr>
<td>Comparable Public Companies Analysis</td>
<td>Value is estimated by comparing the subject company to reasonably similar publicly-traded companies. The resulting value reflects the subject company’s publicly-traded equivalent value.</td>
</tr>
<tr>
<td></td>
<td>Criteria in the selection of public companies includes service line and end market comparability, operational characteristics, growth patterns, relative size, earnings trends, and risk characteristics.</td>
</tr>
<tr>
<td>Comparable M&amp;A Transactions Analysis</td>
<td>Value is determined by analyzing reasonably comparable transactions and applying the observed transaction multiples to the subject company.</td>
</tr>
<tr>
<td></td>
<td>The resulting value often reflects a certain level of inherent premium that is imbedded in the transactions due to sales enhancement opportunities, economies of scale, increased purchasing power, and other deal factors.</td>
</tr>
</tbody>
</table>
## Financial Summary

### Historical and Projected Financial Performance

#### Income Statement Summary

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (§ thousands)</td>
<td>$41,236</td>
<td>$39,132</td>
<td>$37,620</td>
<td>$42,000</td>
<td>$42,840</td>
<td>$43,697</td>
<td>$44,571</td>
<td>$45,462</td>
<td>$46,371</td>
<td>$21,595</td>
<td>$24,516</td>
<td>$40,541</td>
</tr>
<tr>
<td>growth</td>
<td>NA</td>
<td>(5.1%)</td>
<td>(3.9%)</td>
<td>11.6%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>--</td>
<td>13.5%</td>
<td>--</td>
</tr>
<tr>
<td>Gross Profit (§ thousands)</td>
<td>$9,045</td>
<td>$9,188</td>
<td>$8,231</td>
<td>$9,660</td>
<td>$9,853</td>
<td>$10,050</td>
<td>$10,251</td>
<td>$10,456</td>
<td>$10,665</td>
<td>$5,070</td>
<td>$5,895</td>
<td>$9,055</td>
</tr>
<tr>
<td>margin</td>
<td>21.9%</td>
<td>22.5%</td>
<td>21.9%</td>
<td>22.0%</td>
<td>22.0%</td>
<td>22.0%</td>
<td>22.0%</td>
<td>22.0%</td>
<td>22.0%</td>
<td>23.5%</td>
<td>24.0%</td>
<td>22.5%</td>
</tr>
<tr>
<td>EBITDA (adjusted) (§ thousands)</td>
<td>$4,097</td>
<td>$3,926</td>
<td>$3,940</td>
<td>$4,116</td>
<td>$4,284</td>
<td>$4,457</td>
<td>$4,774</td>
<td>$4,869</td>
<td>$4,869</td>
<td>$1,761</td>
<td>$2,563</td>
<td>$4,742</td>
</tr>
<tr>
<td>margin</td>
<td>9.9%</td>
<td>10.0%</td>
<td>10.5%</td>
<td>9.8%</td>
<td>10.0%</td>
<td>10.2%</td>
<td>10.5%</td>
<td>10.5%</td>
<td>10.5%</td>
<td>8.2%</td>
<td>10.5%</td>
<td>11.7%</td>
</tr>
<tr>
<td>EBIT (adjusted) (§ thousands)</td>
<td>$3,203</td>
<td>$2,859</td>
<td>$2,883</td>
<td>$3,016</td>
<td>$3,184</td>
<td>$3,357</td>
<td>$3,580</td>
<td>$3,674</td>
<td>$3,769</td>
<td>$1,144</td>
<td>$1,956</td>
<td>$3,696</td>
</tr>
<tr>
<td>margin</td>
<td>7.8%</td>
<td>7.3%</td>
<td>7.7%</td>
<td>7.2%</td>
<td>7.4%</td>
<td>7.7%</td>
<td>8.0%</td>
<td>8.1%</td>
<td>8.1%</td>
<td>5.3%</td>
<td>8.0%</td>
<td>9.1%</td>
</tr>
</tbody>
</table>

#### Balance Sheet Summary

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$158</td>
<td>$152</td>
<td>$158</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>--</td>
<td>--</td>
<td>$32</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>3,886</td>
<td>2,957</td>
<td>3,715</td>
<td>3,912</td>
<td>3,991</td>
<td>4,070</td>
<td>4,152</td>
<td>4,235</td>
<td>4,320</td>
<td>--</td>
<td>--</td>
<td>3,932</td>
</tr>
<tr>
<td>Inventory</td>
<td>15,752</td>
<td>21,728</td>
<td>18,526</td>
<td>20,386</td>
<td>20,793</td>
<td>21,209</td>
<td>21,633</td>
<td>22,066</td>
<td>22,507</td>
<td>--</td>
<td>--</td>
<td>21,642</td>
</tr>
<tr>
<td>Current Assets</td>
<td>20,138</td>
<td>25,047</td>
<td>22,525</td>
<td>24,439</td>
<td>24,928</td>
<td>25,426</td>
<td>25,935</td>
<td>26,454</td>
<td>26,983</td>
<td>--</td>
<td>--</td>
<td>25,719</td>
</tr>
<tr>
<td>PPE, net</td>
<td>3,081</td>
<td>4,198</td>
<td>3,982</td>
<td>3,882</td>
<td>3,782</td>
<td>3,682</td>
<td>3,582</td>
<td>3,482</td>
<td>3,382</td>
<td>--</td>
<td>--</td>
<td>4,118</td>
</tr>
<tr>
<td>Total Assets</td>
<td>24,403</td>
<td>29,772</td>
<td>26,944</td>
<td>28,809</td>
<td>29,207</td>
<td>29,616</td>
<td>30,034</td>
<td>30,463</td>
<td>30,903</td>
<td>--</td>
<td>--</td>
<td>29,992</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>3,185</td>
<td>1,944</td>
<td>2,885</td>
<td>3,216</td>
<td>3,280</td>
<td>3,346</td>
<td>3,413</td>
<td>3,481</td>
<td>3,551</td>
<td>--</td>
<td>--</td>
<td>3,765</td>
</tr>
<tr>
<td>Total Debt</td>
<td>10,283</td>
<td>15,242</td>
<td>10,464</td>
<td>10,609</td>
<td>9,418</td>
<td>8,057</td>
<td>6,484</td>
<td>4,774</td>
<td>2,918</td>
<td>--</td>
<td>--</td>
<td>11,578</td>
</tr>
<tr>
<td>Stockholders' Equity</td>
<td>10,438</td>
<td>11,979</td>
<td>12,908</td>
<td>14,297</td>
<td>15,822</td>
<td>17,526</td>
<td>19,451</td>
<td>21,522</td>
<td>23,748</td>
<td>--</td>
<td>--</td>
<td>13,961</td>
</tr>
<tr>
<td>Net Working Capital % of Revenue</td>
<td>40.7%</td>
<td>58.7%</td>
<td>51.8%</td>
<td>50.5%</td>
<td>50.5%</td>
<td>50.5%</td>
<td>50.5%</td>
<td>50.5%</td>
<td>50.5%</td>
<td>--</td>
<td>--</td>
<td>54.1%</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>1,502</td>
<td>2,184</td>
<td>841</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>--</td>
<td>--</td>
<td>114</td>
</tr>
<tr>
<td>Depreciation &amp; Amortization</td>
<td>893</td>
<td>1,067</td>
<td>1,056</td>
<td>1,100</td>
<td>1,100</td>
<td>1,100</td>
<td>1,100</td>
<td>1,100</td>
<td>1,100</td>
<td>617</td>
<td>608</td>
<td>1,047</td>
</tr>
</tbody>
</table>
### Case Study #7 – Marketability Assessment

#### Financial Summary

#### Historical and Projected Financial Performance

<table>
<thead>
<tr>
<th>($ thousands)</th>
<th><strong>2014A</strong></th>
<th><strong>2015A</strong></th>
<th><strong>2016A</strong></th>
<th><strong>2017E</strong></th>
<th><strong>2018P</strong></th>
<th><strong>2019P</strong></th>
<th><strong>2020P</strong></th>
<th><strong>2021P</strong></th>
<th><strong>2022P</strong></th>
<th><strong>YTD</strong></th>
<th><strong>LTM</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>41,236</td>
<td>39,132</td>
<td>37,620</td>
<td>42,000</td>
<td>42,840</td>
<td>43,697</td>
<td>44,571</td>
<td>45,462</td>
<td>46,371</td>
<td>21,595</td>
<td>24,516</td>
</tr>
<tr>
<td><strong>growth</strong></td>
<td>NA</td>
<td>(5.1%)</td>
<td>(3.9%)</td>
<td>11.6%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>--</td>
<td>13.5%</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>9,045</td>
<td>9,188</td>
<td>8,231</td>
<td>9,660</td>
<td>9,853</td>
<td>10,050</td>
<td>10,251</td>
<td>10,456</td>
<td>10,665</td>
<td>5,070</td>
<td>5,895</td>
</tr>
<tr>
<td><strong>margin</strong></td>
<td>21.9%</td>
<td>23.5%</td>
<td>21.9%</td>
<td>23.0%</td>
<td>23.0%</td>
<td>23.0%</td>
<td>23.0%</td>
<td>23.0%</td>
<td>23.0%</td>
<td>23.5%</td>
<td>24.0%</td>
</tr>
<tr>
<td><strong>EBITDA (adjusted)</strong></td>
<td>4,097</td>
<td>3,926</td>
<td>3,940</td>
<td>4,116</td>
<td>4,284</td>
<td>4,457</td>
<td>4,680</td>
<td>4,774</td>
<td>4,869</td>
<td>1,761</td>
<td>2,563</td>
</tr>
<tr>
<td><strong>margin</strong></td>
<td>9.9%</td>
<td>10.0%</td>
<td>10.5%</td>
<td>9.8%</td>
<td>10.0%</td>
<td>10.2%</td>
<td>10.5%</td>
<td>10.5%</td>
<td>10.5%</td>
<td>8.2%</td>
<td>10.5%</td>
</tr>
<tr>
<td><strong>EBIT (adjusted)</strong></td>
<td>3,203</td>
<td>2,859</td>
<td>2,883</td>
<td>3,016</td>
<td>3,184</td>
<td>3,357</td>
<td>3,580</td>
<td>3,674</td>
<td>3,769</td>
<td>1,144</td>
<td>1,956</td>
</tr>
<tr>
<td><strong>margin</strong></td>
<td>7.8%</td>
<td>7.3%</td>
<td>7.7%</td>
<td>7.2%</td>
<td>7.4%</td>
<td>7.7%</td>
<td>8.0%</td>
<td>8.1%</td>
<td>8.1%</td>
<td>5.3%</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

#### Balance Sheet Summary

<table>
<thead>
<tr>
<th></th>
<th><strong>2014A</strong></th>
<th><strong>2015A</strong></th>
<th><strong>2016A</strong></th>
<th><strong>2017E</strong></th>
<th><strong>2018P</strong></th>
<th><strong>2019P</strong></th>
<th><strong>2020P</strong></th>
<th><strong>2021P</strong></th>
<th><strong>2022P</strong></th>
<th><strong>Previous</strong></th>
<th><strong>Current</strong></th>
<th><strong>7/31/17</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash</strong></td>
<td>158</td>
<td>152</td>
<td>158</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td><strong>Accounts Receivable</strong></td>
<td>3,886</td>
<td>2,957</td>
<td>3,715</td>
<td>3,912</td>
<td>3,991</td>
<td>4,070</td>
<td>4,152</td>
<td>4,235</td>
<td>4,320</td>
<td>--</td>
<td>--</td>
<td>3,932</td>
</tr>
<tr>
<td><strong>Inventory</strong></td>
<td>15,752</td>
<td>21,728</td>
<td>18,526</td>
<td>20,386</td>
<td>20,793</td>
<td>21,209</td>
<td>21,633</td>
<td>22,066</td>
<td>22,507</td>
<td>--</td>
<td>--</td>
<td>21,642</td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td>20,138</td>
<td>25,047</td>
<td>22,525</td>
<td>24,439</td>
<td>24,928</td>
<td>25,426</td>
<td>25,935</td>
<td>26,454</td>
<td>26,983</td>
<td>--</td>
<td>--</td>
<td>25,719</td>
</tr>
<tr>
<td><strong>PPE, net</strong></td>
<td>3,081</td>
<td>4,198</td>
<td>3,982</td>
<td>3,882</td>
<td>3,782</td>
<td>3,682</td>
<td>3,582</td>
<td>3,482</td>
<td>3,382</td>
<td>--</td>
<td>--</td>
<td>4,118</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>24,403</td>
<td>29,772</td>
<td>26,944</td>
<td>28,809</td>
<td>29,207</td>
<td>29,616</td>
<td>30,034</td>
<td>30,463</td>
<td>30,903</td>
<td>--</td>
<td>--</td>
<td>29,992</td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td>3,185</td>
<td>1,944</td>
<td>2,885</td>
<td>3,216</td>
<td>3,280</td>
<td>3,346</td>
<td>3,413</td>
<td>3,481</td>
<td>3,551</td>
<td>--</td>
<td>--</td>
<td>3,765</td>
</tr>
<tr>
<td><strong>Total Debt</strong></td>
<td>10,283</td>
<td>15,242</td>
<td>10,464</td>
<td>10,609</td>
<td>9,418</td>
<td>8,057</td>
<td>6,484</td>
<td>4,774</td>
<td>2,918</td>
<td>--</td>
<td>--</td>
<td>11,578</td>
</tr>
<tr>
<td><strong>Stockholders' Equity</strong></td>
<td>10,438</td>
<td>11,979</td>
<td>12,908</td>
<td>14,297</td>
<td>15,822</td>
<td>17,526</td>
<td>19,451</td>
<td>21,522</td>
<td>23,748</td>
<td>--</td>
<td>--</td>
<td>13,961</td>
</tr>
<tr>
<td><strong>Net Working Capital</strong></td>
<td>16,795</td>
<td>22,951</td>
<td>19,482</td>
<td>21,223</td>
<td>21,648</td>
<td>22,081</td>
<td>22,522</td>
<td>22,973</td>
<td>23,432</td>
<td>--</td>
<td>--</td>
<td>21,921</td>
</tr>
<tr>
<td><strong>Net Working Capital % of Revenue</strong></td>
<td>40.7%</td>
<td>58.7%</td>
<td>51.8%</td>
<td>50.5%</td>
<td>50.5%</td>
<td>50.5%</td>
<td>50.5%</td>
<td>50.5%</td>
<td>50.5%</td>
<td>--</td>
<td>--</td>
<td>54.1%</td>
</tr>
<tr>
<td><strong>Capital Expenditures</strong></td>
<td>1,502</td>
<td>2,184</td>
<td>841</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>--</td>
<td>--</td>
<td>114</td>
</tr>
<tr>
<td><strong>Depreciation &amp; Amortization</strong></td>
<td>893</td>
<td>1,067</td>
<td>1,056</td>
<td>1,100</td>
<td>1,100</td>
<td>1,100</td>
<td>1,100</td>
<td>1,100</td>
<td>1,100</td>
<td>617</td>
<td>608</td>
<td>1,047</td>
</tr>
</tbody>
</table>
Case Study #7 – Summary of Valuation Range

Enterprise Value: $18 - $22 million
4.5x – 5.5x EBITDA of $4 million
Implied Equity Value: $6.5 - $10.5 million¹

¹ Implied Equity Value equals Enterprise Value less net debt of approximately $11.5 million as of July 31, 2017
Case Study #7 – Discounted Cash Flow Analysis

- Assumes valuation date of 12/31/2017
- Based on five-year projections
- Exit multiple and cost of capital methodology

**Approximate Enterprise Value:** $20 million

### DCF Key Assumptions

<table>
<thead>
<tr>
<th>($ thousands)</th>
<th>2018P</th>
<th>2019P</th>
<th>2020P</th>
<th>2021P</th>
<th>2022P</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>$42,840</td>
<td>$43,697</td>
<td>$44,571</td>
<td>$45,462</td>
<td>$46,371</td>
</tr>
<tr>
<td><strong>growth</strong></td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>9,853</td>
<td>10,050</td>
<td>10,251</td>
<td>10,456</td>
<td>10,665</td>
</tr>
<tr>
<td><strong>margin</strong></td>
<td>23.0%</td>
<td>23.0%</td>
<td>23.0%</td>
<td>23.0%</td>
<td>23.0%</td>
</tr>
<tr>
<td><strong>EBITDA (adjusted)</strong></td>
<td>4,284</td>
<td>4,457</td>
<td>4,680</td>
<td>4,774</td>
<td>4,869</td>
</tr>
<tr>
<td><strong>margin</strong></td>
<td>10.0%</td>
<td>10.2%</td>
<td>10.5%</td>
<td>10.5%</td>
<td>10.5%</td>
</tr>
<tr>
<td><strong>EBIT (adjusted)</strong></td>
<td>3,184</td>
<td>3,357</td>
<td>3,580</td>
<td>3,674</td>
<td>3,769</td>
</tr>
<tr>
<td><strong>margin</strong></td>
<td>7.4%</td>
<td>7.7%</td>
<td>8.0%</td>
<td>8.1%</td>
<td>8.1%</td>
</tr>
<tr>
<td><strong>Taxes @ 35%</strong></td>
<td>(1,114)</td>
<td>(1,175)</td>
<td>(1,253)</td>
<td>(1,286)</td>
<td>(1,319)</td>
</tr>
<tr>
<td><strong>Unlevered After Tax Income</strong></td>
<td>2,070</td>
<td>2,182</td>
<td>2,327</td>
<td>2,388</td>
<td>2,450</td>
</tr>
<tr>
<td><strong>Unlevered Free Cash Flow</strong></td>
<td>1,745</td>
<td>1,849</td>
<td>1,985</td>
<td>2,037</td>
<td>2,090</td>
</tr>
<tr>
<td><strong>Discount Period</strong></td>
<td>5.000</td>
<td>6.000</td>
<td>7.000</td>
<td>8.000</td>
<td>9.000</td>
</tr>
<tr>
<td><strong>Present Value Factor @ 12.5% Discount Rate</strong></td>
<td>0.889</td>
<td>0.790</td>
<td>0.702</td>
<td>0.624</td>
<td>0.555</td>
</tr>
</tbody>
</table>

**Present Value Calculation**

- Sum of PV of Unlevered Free Cash Flows: $8,802
- Present Value of 5x Terminal EBITDA: $20,348

**Notes:** Assumes valuation date of 12/31/2017.

### Enterprise Value Sensitivity Analysis

<table>
<thead>
<tr>
<th>($ thousands)</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>$42,840</td>
<td>$43,697</td>
<td>$44,571</td>
<td>$45,462</td>
<td>$46,371</td>
</tr>
<tr>
<td><strong>growth</strong></td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>9,853</td>
<td>10,050</td>
<td>10,251</td>
<td>10,456</td>
<td>10,665</td>
</tr>
<tr>
<td><strong>margin</strong></td>
<td>23.0%</td>
<td>23.0%</td>
<td>23.0%</td>
<td>23.0%</td>
<td>23.0%</td>
</tr>
<tr>
<td><strong>EBITDA (adjusted)</strong></td>
<td>4,284</td>
<td>4,457</td>
<td>4,680</td>
<td>4,774</td>
<td>4,869</td>
</tr>
<tr>
<td><strong>margin</strong></td>
<td>10.0%</td>
<td>10.2%</td>
<td>10.5%</td>
<td>10.5%</td>
<td>10.5%</td>
</tr>
<tr>
<td><strong>EBIT (adjusted)</strong></td>
<td>3,184</td>
<td>3,357</td>
<td>3,580</td>
<td>3,674</td>
<td>3,769</td>
</tr>
<tr>
<td><strong>margin</strong></td>
<td>7.4%</td>
<td>7.7%</td>
<td>8.0%</td>
<td>8.1%</td>
<td>8.1%</td>
</tr>
<tr>
<td><strong>Taxes @ 35%</strong></td>
<td>(1,114)</td>
<td>(1,175)</td>
<td>(1,253)</td>
<td>(1,286)</td>
<td>(1,319)</td>
</tr>
<tr>
<td><strong>Unlevered After Tax Income</strong></td>
<td>2,070</td>
<td>2,182</td>
<td>2,327</td>
<td>2,388</td>
<td>2,450</td>
</tr>
<tr>
<td><strong>Unlevered Free Cash Flow</strong></td>
<td>1,745</td>
<td>1,849</td>
<td>1,985</td>
<td>2,037</td>
<td>2,090</td>
</tr>
<tr>
<td><strong>Discount Period</strong></td>
<td>5.000</td>
<td>6.000</td>
<td>7.000</td>
<td>8.000</td>
<td>9.000</td>
</tr>
<tr>
<td><strong>Present Value Factor @ 12.5% Discount Rate</strong></td>
<td>0.889</td>
<td>0.790</td>
<td>0.702</td>
<td>0.624</td>
<td>0.555</td>
</tr>
</tbody>
</table>

**Sensitivity based on absolute change from Base Case average revenue growth rate of 2%**

| Incremental Change in Revenue Growth Rate 2018-2022 @ 5x Terminal EBITDA Multiple |
|-----------------------------------------|------------------|------------------|------------------|------------------|------------------|
| **(4.0%)** | **(2.0%)** | **0.0%** | **2.0%** | **4.0%** |
| $16,401 | $17,650 | $18,975 | $20,348 | $21,723 |

**Sensitivity based on absolute change from Base Case average EBITDA margin of 10.3%**

| Incremental Change in Average EBITDA Margin 2018-2022 @ 5x Terminal EBITDA Multiple |
|-----------------------------------------|------------------|------------------|------------------|------------------|------------------|
| **(4.0%)** | **(2.0%)** | **0.0%** | **2.0%** | **4.0%** |
| $19,022 | $19,346 | $19,669 | $20,043 | $20,417 |

© 2017 Equity Strategies Group
Case Study #7 – Leveraged Buyout Analysis

Approximate Enterprise Value: $16.5 million

- Based on five-year projections
- Buyer utilizes debt to acquire company
- Value to achieve required equity returns
- Simulates a Private Equity Buyer/Investor

### Transaction Assumptions

<table>
<thead>
<tr>
<th>Transaction Multiples</th>
<th>Leverage Assumptions</th>
<th>Sources</th>
<th>Uses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Sales</strong></td>
<td>Facility</td>
<td>Amount</td>
<td>% Total</td>
</tr>
<tr>
<td>2016A</td>
<td>0.4x</td>
<td>Acquiror Cash</td>
<td>$ 0</td>
</tr>
<tr>
<td>2017E</td>
<td>0.4x</td>
<td>Revolver</td>
<td>8,000</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>4.2x</td>
<td>Bank Term Debt</td>
<td>5,000</td>
</tr>
<tr>
<td>2016A</td>
<td>4.2x</td>
<td>Total Senior Debt</td>
<td>0</td>
</tr>
<tr>
<td>2017E</td>
<td>4.0x</td>
<td>Total Sub. Debt</td>
<td>0</td>
</tr>
<tr>
<td><strong>Other Assumptions</strong></td>
<td>EBITDA</td>
<td>Total Mezz. Debt</td>
<td>0</td>
</tr>
<tr>
<td>2016A EBITDA</td>
<td>$ 3,944</td>
<td>Total Debt</td>
<td>$ 13,000</td>
</tr>
<tr>
<td>2017E EBITDA</td>
<td>4,116</td>
<td>Sponsor Equity</td>
<td>$ 4,144</td>
</tr>
<tr>
<td>Mgmt. Options Pool</td>
<td>10%</td>
<td>Mgmt. Rollover</td>
<td>450</td>
</tr>
<tr>
<td><strong>Returns Analysis</strong></td>
<td></td>
<td>Total Equity</td>
<td>$ 4,594</td>
</tr>
<tr>
<td><strong>Implied Enterprise Value at 24.7% Required Return</strong></td>
<td></td>
<td>Total Sources</td>
<td>$ 17,594</td>
</tr>
</tbody>
</table>

- Returns Analysis
  - Implied Enterprise Value at 24.7% Required Return

### Pro Forma Statistics

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$ 4,42,000</td>
<td>$ 4,38,400</td>
<td>$ 4,33,607</td>
<td>$ 4,43,571</td>
<td>$ 4,54,462</td>
</tr>
<tr>
<td>Margin</td>
<td>9.8%</td>
<td>10.0%</td>
<td>10.2%</td>
<td>10.5%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Senior Debt</td>
<td>$ 13,000</td>
<td>$ 11,601</td>
<td>$ 10,056</td>
<td>$ 8,329</td>
<td>$ 6,500</td>
</tr>
<tr>
<td>Total Debt</td>
<td>$ 13,000</td>
<td>$ 11,601</td>
<td>$ 10,056</td>
<td>$ 8,329</td>
<td>$ 6,500</td>
</tr>
<tr>
<td>Shareholders Equity</td>
<td>3,944</td>
<td>5,659</td>
<td>7,528</td>
<td>9,588</td>
<td>11,759</td>
</tr>
<tr>
<td>Senior Debt / EBITDA</td>
<td>3.2x</td>
<td>2.7x</td>
<td>2.3x</td>
<td>1.8x</td>
<td>1.4x</td>
</tr>
<tr>
<td>Total Debt / EBITDA</td>
<td>3.2x</td>
<td>2.7x</td>
<td>2.3x</td>
<td>1.8x</td>
<td>1.4x</td>
</tr>
<tr>
<td>Fixed Charge Coverage</td>
<td>2.1x</td>
<td>2.3x</td>
<td>2.5x</td>
<td>2.8x</td>
<td>2.8x</td>
</tr>
<tr>
<td>EBITDA / Total Interest</td>
<td>4.7x</td>
<td>8.1x</td>
<td>9.6x</td>
<td>12.0x</td>
<td>15.2x</td>
</tr>
</tbody>
</table>

(1) Ownership includes rollover and options pool
### Case Study #7 – Public Company Analysis

#### Public Company Analysis
- Publicly-traded companies
- Similar operating/industry characteristics
- Apply relevant valuation multiples

#### Operating Performance

<table>
<thead>
<tr>
<th>Specialty Mills</th>
<th>LTM Revenue</th>
<th>LTM EBITDA</th>
<th>LTM EBIT</th>
<th>Gross Profit</th>
<th>LTM Margin (%)</th>
<th>3-Year CAGR (%)</th>
<th>Revenue</th>
<th>LTM EBITDA</th>
<th>LTM EBIT</th>
<th>Debt / EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allegheny Technologies Incorporated</td>
<td>$3,313</td>
<td>$296</td>
<td>$133</td>
<td>11.6%</td>
<td>8.9%</td>
<td>4.0%</td>
<td>(8.1%)</td>
<td>(16.4%)</td>
<td>NA</td>
<td>6.6x</td>
</tr>
<tr>
<td>Carpenter Technology Corporation</td>
<td>1,798</td>
<td>214</td>
<td>101</td>
<td>15.8%</td>
<td>11.9%</td>
<td>5.6%</td>
<td>(7.6%)</td>
<td>(15.6%)</td>
<td>(28.2%)</td>
<td>2.8x</td>
</tr>
<tr>
<td>ERAMET S.A.</td>
<td>3,288</td>
<td>564</td>
<td>318</td>
<td>27.2%</td>
<td>17.2%</td>
<td>9.7%</td>
<td>(2.1%)</td>
<td>48.8%</td>
<td>NA</td>
<td>3.4x</td>
</tr>
<tr>
<td>Haynes International, Inc.</td>
<td>402</td>
<td>13</td>
<td>(9)</td>
<td>9.3%</td>
<td>3.2%</td>
<td>(2.2%)</td>
<td>(4.3%)</td>
<td>(10.3%)</td>
<td>(48.2%)</td>
<td>0.6x</td>
</tr>
<tr>
<td>Schmolz + Bickenbach AG</td>
<td>2,500</td>
<td>195</td>
<td>67</td>
<td>37.3%</td>
<td>7.8%</td>
<td>2.7%</td>
<td>(10.9%)</td>
<td>(7.1%)</td>
<td>(43.9%)</td>
<td>2.6x</td>
</tr>
<tr>
<td>Universal Stainless &amp; Alloy Products, Inc.</td>
<td>175</td>
<td>18</td>
<td>1</td>
<td>11.0%</td>
<td>10.2%</td>
<td>0.5%</td>
<td>(5.1%)</td>
<td>4.9%</td>
<td>NA</td>
<td>4.3x</td>
</tr>
<tr>
<td>Voestalpine AG</td>
<td>11,774</td>
<td>1,653</td>
<td>921</td>
<td>23.0%</td>
<td>14.0%</td>
<td>7.8%</td>
<td>(1.1%)</td>
<td>2.9%</td>
<td>0.1%</td>
<td>2.5x</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Service Centers</th>
<th>LTM Revenue</th>
<th>LTM EBITDA</th>
<th>LTM EBIT</th>
<th>Gross Profit</th>
<th>LTM Margin (%)</th>
<th>3-Year CAGR (%)</th>
<th>Revenue</th>
<th>LTM EBITDA</th>
<th>LTM EBIT</th>
<th>Debt / EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Friedman Industries, Incorporated</td>
<td>$78</td>
<td>$0</td>
<td>-52</td>
<td>3.0%</td>
<td>(0.2%)</td>
<td>(2.1%)</td>
<td>(14.5%)</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>MRC Global Inc.</td>
<td>3,296</td>
<td>69</td>
<td>0</td>
<td>14.3%</td>
<td>2.1%</td>
<td>0.0%</td>
<td>(16.5%)</td>
<td>(56.0%)</td>
<td>NA</td>
<td>5.9x</td>
</tr>
<tr>
<td>Olympic Steel, Inc.</td>
<td>1,214</td>
<td>36</td>
<td>18</td>
<td>21.3%</td>
<td>3.0%</td>
<td>1.5%</td>
<td>(5.8%)</td>
<td>(16.7%)</td>
<td>(33.6%)</td>
<td>5.9x</td>
</tr>
<tr>
<td>Reliance Steel &amp; Aluminum Co.</td>
<td>9,141</td>
<td>854</td>
<td>633</td>
<td>29.6%</td>
<td>9.3%</td>
<td>6.9%</td>
<td>(2.3%)</td>
<td>1.2%</td>
<td>(0.1%)</td>
<td>2.4x</td>
</tr>
<tr>
<td>Russel Metals Inc.</td>
<td>2,913</td>
<td>178</td>
<td>144</td>
<td>19.4%</td>
<td>6.1%</td>
<td>5.0%</td>
<td>(6.8%)</td>
<td>(12.4%)</td>
<td>(16.1%)</td>
<td>2.4x</td>
</tr>
<tr>
<td>Ryerson Holding Corporation</td>
<td>3,107</td>
<td>156</td>
<td>113</td>
<td>18.1%</td>
<td>5.0%</td>
<td>3.6%</td>
<td>(6.2%)</td>
<td>(1.2%)</td>
<td>(0.6%)</td>
<td>6.6x</td>
</tr>
<tr>
<td>Worthington Industries, Inc.</td>
<td>3,125</td>
<td>287</td>
<td>197</td>
<td>16.7%</td>
<td>9.2%</td>
<td>6.3%</td>
<td>0.5%</td>
<td>5.5%</td>
<td>5.9%</td>
<td>2.7x</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall Median</th>
<th>LTM Revenue</th>
<th>LTM EBITDA</th>
<th>LTM EBIT</th>
<th>Gross Profit</th>
<th>LTM Margin (%)</th>
<th>3-Year CAGR (%)</th>
<th>Revenue</th>
<th>LTM EBITDA</th>
<th>LTM EBIT</th>
<th>Debt / EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Median</td>
<td>0.2%</td>
<td>10.2%</td>
<td>4.0%</td>
<td>(5.1%)</td>
<td>(7.1%)</td>
<td>(36.0%)</td>
<td>2.8x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group Mean</td>
<td>0.2%</td>
<td>10.5%</td>
<td>4.0%</td>
<td>(5.6%)</td>
<td>1.0%</td>
<td>(30.1%)</td>
<td>3.3x</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Notes:
- LTM operating results as of latest fiscal quarter preceding 09/27/17 and exclude extraordinary items.
- Based on results from the four most recently reported calendar years.
- All international financials are calculated using current conversion rates.

Source: S&P Capital IQ as of 9/27/2017

EBITDA Multiple Range: approximately 7.0x-8.0x
**Market Performance**

- **Publicly-traded companies**
- **Similar operating/industry characteristics**
- **Apply relevant valuation multiples**

**EBITDA Multiple Range:** approximately 7.0x-8.0x

### Specialty Mills

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Allegheny Technologies Inc.</td>
<td>$23.13</td>
<td>96.4%</td>
<td>$2,518</td>
<td>$4,409</td>
<td>NM</td>
<td>1.3x</td>
<td>14.9x</td>
<td>11.6x</td>
<td>8.9x</td>
<td></td>
</tr>
<tr>
<td>Carpenter Technology Corp.</td>
<td>46.63</td>
<td>98.1%</td>
<td>2,180</td>
<td>2,718</td>
<td>47.1x</td>
<td>24.0x</td>
<td>1.5x</td>
<td>12.7x</td>
<td>9.3x</td>
<td>8.8x</td>
</tr>
<tr>
<td>ERAMET S.A.</td>
<td>55.75</td>
<td>83.6%</td>
<td>1,473</td>
<td>2,238</td>
<td>35.6x</td>
<td>9.3x</td>
<td>0.7x</td>
<td>4.0x</td>
<td>3.1x</td>
<td>3.7x</td>
</tr>
<tr>
<td>Haynes International Inc.</td>
<td>34.63</td>
<td>71.6%</td>
<td>433</td>
<td>392</td>
<td>NM</td>
<td>NM</td>
<td>1.0x</td>
<td>30.1x</td>
<td>36.7x</td>
<td>10.9x</td>
</tr>
<tr>
<td>Schmolz + Bickenbach AG</td>
<td>0.88</td>
<td>88.9%</td>
<td>832</td>
<td>1,131</td>
<td>NM</td>
<td>25.5x</td>
<td>0.5x</td>
<td>6.7x</td>
<td>5.9x</td>
<td>5.5x</td>
</tr>
<tr>
<td>Universal Stainless &amp; Alloy Prods. Inc.</td>
<td>20.32</td>
<td>97.0%</td>
<td>147</td>
<td>224</td>
<td>NM</td>
<td>58.9x</td>
<td>1.3x</td>
<td>12.6x</td>
<td>8.4x</td>
<td>6.9x</td>
</tr>
<tr>
<td>Voestalpine AG</td>
<td>43.41</td>
<td>96.7%</td>
<td>11,184</td>
<td>12.6x</td>
<td>12.2x</td>
<td>0.9x</td>
<td>6.8x</td>
<td>6.0x</td>
<td>6.1x</td>
<td></td>
</tr>
</tbody>
</table>

**Group Median**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>96.4%</td>
<td>$2,238</td>
<td>35.6x</td>
<td>1.0x</td>
<td>12.6x</td>
<td>8.4x</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Group Mean**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>90.3%</td>
<td>$3,211</td>
<td>31.8x</td>
<td>1.0x</td>
<td>12.5x</td>
<td>8.4x</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Service Centers

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Friedman Industries, Inc.</td>
<td>$6.05</td>
<td>83.0%</td>
<td>$42</td>
<td>$39</td>
<td>NM</td>
<td>NM</td>
<td>0.5x</td>
<td>NM</td>
<td>NM</td>
<td>NM</td>
</tr>
<tr>
<td>MRC Global Inc.</td>
<td>17.00</td>
<td>75.3%</td>
<td>1,606</td>
<td>2,334</td>
<td>NM</td>
<td>1.00x</td>
<td>0.7x</td>
<td>33.8x</td>
<td>13.2x</td>
<td>9.6x</td>
</tr>
<tr>
<td>Olympic Steel, Inc.</td>
<td>19.63</td>
<td>68.5%</td>
<td>215</td>
<td>423</td>
<td>25.8x</td>
<td>17.8x</td>
<td>0.3x</td>
<td>11.7x</td>
<td>9.1x</td>
<td>9.6x</td>
</tr>
<tr>
<td>Reliance Steel &amp; Aluminum Co.</td>
<td>74.34</td>
<td>83.9%</td>
<td>5,420</td>
<td>7,373</td>
<td>16.8x</td>
<td>14.4x</td>
<td>0.8x</td>
<td>8.6x</td>
<td>8.6x</td>
<td>7.9x</td>
</tr>
<tr>
<td>Russel Metals Inc.</td>
<td>27.25</td>
<td>91.3%</td>
<td>1,684</td>
<td>1,942</td>
<td>16.8x</td>
<td>14.6x</td>
<td>0.7x</td>
<td>10.9x</td>
<td>8.7x</td>
<td>8.2x</td>
</tr>
<tr>
<td>Ryerson Holding Corp.</td>
<td>9.25</td>
<td>54.9%</td>
<td>344</td>
<td>1,035</td>
<td>23.0x</td>
<td>8.8x</td>
<td>0.4x</td>
<td>8.4x</td>
<td>6.7x</td>
<td>5.9x</td>
</tr>
<tr>
<td>Worthington Industries, Inc.</td>
<td>50.19</td>
<td>80.4%</td>
<td>3,164</td>
<td>3,672</td>
<td>17.7x</td>
<td>16.3x</td>
<td>1.2x</td>
<td>12.0x</td>
<td>10.8x</td>
<td>11.0x</td>
</tr>
</tbody>
</table>

**Group Median**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>80.4%</td>
<td>$1,942</td>
<td>17.7x</td>
<td>14.6x</td>
<td>0.7x</td>
<td>10.9x</td>
<td>8.9x</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Group Mean**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>76.8%</td>
<td>$2,441</td>
<td>20.0x</td>
<td>14.4x</td>
<td>0.7x</td>
<td>10.3x</td>
<td>9.5x</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Overall Median**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>20.3x</td>
<td>16.3x</td>
<td>0.8x</td>
<td>11.3x</td>
<td>8.7x</td>
<td>8.2x</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Overall Mean**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>24.4x</td>
<td>22.3x</td>
<td>0.9x</td>
<td>11.6x</td>
<td>10.6x</td>
<td>7.9x</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**

(a) Market value based on fully-diluted shares including conversion of all exercisable in-the-money options, less shares repurchased using option proceeds.
(b) Enterprise Value equals Market Value plus total straight and convertible debt, preferred stock and minority interest, less cash and investments in unconsolidated subsidiaries.
LTM EBITDA, EBIT and Net Income exclude extraordinary items.
Excluded from median and mean calculations.

Source: S&P Capital IQ as of 9/27/2017
Case Study #7 – Similar M&A Transactions

- Service Center M&A transactions
- Apply relevant valuation multiples

EBITDA Multiple Range: approximately 5.0x – 6.0x

<table>
<thead>
<tr>
<th>No.</th>
<th>Ann. Date</th>
<th>Target (Ownership)</th>
<th>Acquirer (Ownership)</th>
<th>Enterprise Value (a)</th>
<th>TTM Revenue</th>
<th>TTM EBITDA</th>
<th>Revenue</th>
<th>EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Jan-14</td>
<td>Material Sciences Corporation (Nasdaq: MASC) Acoustical products and galvanizing and coating</td>
<td>New Star Metals (Insight Equity) Flat-rolled steel processing and distribution</td>
<td>$103.9</td>
<td>$112.6</td>
<td>$110.0</td>
<td>0.9x</td>
<td>9.5x</td>
</tr>
<tr>
<td>2</td>
<td>Oct-13</td>
<td>Edgen Group Inc. (NYSE: EDG) Specialty pipe and components</td>
<td>Sumitomo Corporation of America Integrated global trading company</td>
<td>$1,190.0</td>
<td>$1,894.5</td>
<td>$123.1</td>
<td>0.6x</td>
<td>9.7x</td>
</tr>
<tr>
<td>3</td>
<td>Feb-13</td>
<td>Metals USA Holdings Corp. (NYSE: MUSA) Metals service center</td>
<td>Reliance Steel &amp; Aluminum Co. (NYSE: RS) Metals service center</td>
<td>$1,211.2</td>
<td>$1,983.6</td>
<td>$147.5</td>
<td>0.6x</td>
<td>8.2x</td>
</tr>
<tr>
<td>4</td>
<td>Aug-12</td>
<td>Apex Distribution Inc. Canadian distributor of oil &amp; gas tubular products</td>
<td>Russel Metals Inc. (TSX: RUS) Steel service center</td>
<td>$270.8</td>
<td>$270.8</td>
<td>$45.4</td>
<td>1.0x</td>
<td>6.0x</td>
</tr>
<tr>
<td>5</td>
<td>Nov-11</td>
<td>Tube Supply, Inc. Bar and tubular products to the oilfield service industry</td>
<td>A.M. Castle &amp; Co. (NYSE: CAS) Metals service center</td>
<td>$184.4</td>
<td>$207.5</td>
<td>$45.0</td>
<td>0.9x</td>
<td>4.1x</td>
</tr>
<tr>
<td>6</td>
<td>May-11</td>
<td>Chicago Tube and Iron Company Tubing, pipe, bar, valves and fittings</td>
<td>Olympic Steel, Inc. (Nasdaq: ZELS) Metals service center</td>
<td>$144.0</td>
<td>$208.9</td>
<td>$19.0</td>
<td>0.7x</td>
<td>7.6x</td>
</tr>
<tr>
<td>7</td>
<td>Mar-11</td>
<td>The Richardson Trident Company Value added non-ferrous products</td>
<td>Metals USA Holdings Corp. (NYSE: MUSA) Metals service center</td>
<td>$92.6</td>
<td>$148.0</td>
<td>$17.5</td>
<td>0.6x</td>
<td>5.3x</td>
</tr>
<tr>
<td>8</td>
<td>Jan-11</td>
<td>Macsteel Service Centers USA Steel service center</td>
<td>Klöckner &amp; Co. Srl (Lindsay Goldberg &amp; Bessemer) Distributes prime carbon steel products</td>
<td>$918.0</td>
<td>$1,300.0</td>
<td>$131.1</td>
<td>0.7x</td>
<td>7.0x</td>
</tr>
<tr>
<td>9</td>
<td>Feb-10</td>
<td>Steel Processing Assets (Gibraltar Ind.) Precision processor of cold rolled strip steel</td>
<td>Worthington Industries, Inc. (NYSE: WOR) Flat-rolled steel processor</td>
<td>$34.0</td>
<td>$259.6</td>
<td>$22.5</td>
<td>0.1x</td>
<td>1.5x</td>
</tr>
<tr>
<td>10</td>
<td>Jun-08</td>
<td>PNA Group, Inc. (Platinum Equity) Sheet steel, long products, and structural products</td>
<td>Reliance Steel &amp; Aluminum Co. (NYSE: RS) Metals service center</td>
<td>$1,065.0</td>
<td>$1,924.7</td>
<td>$177.1</td>
<td>0.6x</td>
<td>6.0x</td>
</tr>
</tbody>
</table>

© 2017 Equity Strategies Group
## Precedent Transaction Analysis
- Service Center M&A transactions
- Apply relevant valuation multiples

**EBITDA Multiple Range:** approximately 5.0x – 6.0x

### Case Study #7 – Similar M&A Transactions

<table>
<thead>
<tr>
<th>No.</th>
<th>Ann. Date</th>
<th>Target (Ownership)</th>
<th>Acquirer (Ownership)</th>
<th>Enterprises Value ($)</th>
<th>TTM Revenue</th>
<th>EBITDA</th>
<th>Enterprises Value / EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Jul-07</td>
<td>Ryerson, Inc. (NYSE:RYI) Metals service center</td>
<td>Platinum Equity LLC Private investment firm</td>
<td>$1,787.6</td>
<td>$6,235.5</td>
<td>$264.9</td>
<td>0.3x 6.7x</td>
</tr>
<tr>
<td>12</td>
<td>Jun-07</td>
<td>Novamerican Steel Inc. (Nasdaq:TONS) Steel service center, processor and tubing manufacturer</td>
<td>Symmetry Holdings Inc. (AMEX:SH) Special purpose acquisition company</td>
<td>$494.2</td>
<td>$832.3</td>
<td>$81.5</td>
<td>0.6x 6.1x</td>
</tr>
<tr>
<td>13</td>
<td>Feb-07</td>
<td>Steel Technologies, Inc. (Nasdaq:STIX) Processor and converter of flat-rolled steel</td>
<td>Mitsui &amp; Co. (U.S.A.), Inc. Diversified global trading company</td>
<td>$532.0</td>
<td>$888.9</td>
<td>$45.9</td>
<td>0.6x 11.6x</td>
</tr>
<tr>
<td>14</td>
<td>Jan-07</td>
<td>Sigma Metals, Inc. Sells aluminum, stainless, and titanium aircraft materials</td>
<td>Air Industries Group, Inc. (OTCBB:AIIR) Manufactures aircraft structural parts and assemblies</td>
<td>$6.2</td>
<td>$18.0</td>
<td>$1.9</td>
<td>0.3x 3.3x</td>
</tr>
<tr>
<td>15</td>
<td>Aug-06</td>
<td>Transstar Metals, Inc. (H.I.G. Capital Management) High-end alloys for commercial, general and military aerospace</td>
<td>A.M. Castle &amp; Co. (AMEX:ASC) Metals service center</td>
<td>$180.0</td>
<td>$250.0</td>
<td>$27.7</td>
<td>0.7x 6.5x</td>
</tr>
<tr>
<td>16</td>
<td>Mar-06</td>
<td>Venture Steel Inc. Custom flat rolled steel processor</td>
<td>Royal Laser Corp. (TSE:RLC) Manufactures custom metal and wood products</td>
<td>$37.1</td>
<td>$230.4</td>
<td>$7.9</td>
<td>0.2x 4.7x</td>
</tr>
<tr>
<td>17</td>
<td>Feb-06</td>
<td>PNA Group, Inc. (TUI AG) Sheet steel, long products, and structural products</td>
<td>Platinum Equity Private investment firm</td>
<td>$365.4</td>
<td>$1,250.3</td>
<td>$72.4</td>
<td>0.3x 5.0x</td>
</tr>
<tr>
<td>18</td>
<td>Jan-06</td>
<td>Earle M. Jorgensen Company (NYSE:JOR / Kelso &amp; Co.) Bar, tubing, and plate service center</td>
<td>Reliance Steel &amp; Aluminum Co. (NYSE:RS) Metals service center</td>
<td>$972.6</td>
<td>$1,714.9</td>
<td>$187.0</td>
<td>0.6x 5.2x</td>
</tr>
<tr>
<td>19</td>
<td>May-05</td>
<td>Chapel Steel Corp. Carbon and alloy steel plate</td>
<td>Reliance Steel &amp; Aluminum Co. (NYSE:RS) Metals service center</td>
<td>$111.0</td>
<td>$273.9</td>
<td>$29.0</td>
<td>0.4x 3.8x</td>
</tr>
<tr>
<td>20</td>
<td>May-05</td>
<td>Metals USA, Inc. (Nasdaq:MUSA) Metals service center</td>
<td>Apollo Management LP Private investment firm</td>
<td>$715.2</td>
<td>$1,618.2</td>
<td>$175.4</td>
<td>0.4x 4.1x</td>
</tr>
</tbody>
</table>

© 2017 Equity Strategies Group
Case Study #7 – Similar M&A Transactions

- Service Center M&A transactions
- Apply relevant valuation multiples

**EBITDA Multiple Range:** approximately 5.0x – 6.0x

<table>
<thead>
<tr>
<th>No.</th>
<th>Ann. Date</th>
<th>Target (Ownership)</th>
<th>Acquirer (Ownership)</th>
<th>Enterprise Value(s)</th>
<th>EBITDA</th>
<th>Revenue</th>
<th>EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td>Dec-04</td>
<td>Edgen Corporation (Harvest Partners)</td>
<td>Jefferies Capital Partners</td>
<td>$124.0</td>
<td>$207.8</td>
<td>$24.2</td>
<td>0.6x</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Specialty pipe and components</td>
<td>Private investment firm</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Oct-04</td>
<td>Integris Metals (Alcoa Inc. / BHP Billiton)</td>
<td>Ryerson Tull Inc. (NYSE:RT)</td>
<td>$644.0</td>
<td>$2,003.7</td>
<td>$122.0</td>
<td>0.3x</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Aluminum and stainless steel service center</td>
<td>Metals service center</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Jun-04</td>
<td>J&amp;F Steel (Arcelor)</td>
<td>Ryerson Tull Inc. (NYSE:RT)</td>
<td>$55.0</td>
<td>$175.7</td>
<td>$11.9</td>
<td>0.3x</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Steel sheet service center</td>
<td>Metals service center</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>Jun-03</td>
<td>Precision Strip, Inc</td>
<td>Reliance Steel &amp; Aluminum Co. (NYSE:RS)</td>
<td>$246.0</td>
<td>$121.8</td>
<td>$45.2</td>
<td>2.0x</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Carbon steel, aluminum, and stainless steel metal products</td>
<td>Metals service center</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Apr-03</td>
<td>Loroux Steel Inc</td>
<td>Russel Metals Inc. (TSX:RUS)</td>
<td>$127.7</td>
<td>$396.8</td>
<td>$21.3</td>
<td>0.3x</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Steel plates, sheets, coils, bars, and tubes</td>
<td>Steel service center</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>Jul-01</td>
<td>Service Center Business (Pitt-Des Moines, Inc.)</td>
<td>Reliance Steel &amp; Aluminum Co. (NYSE:RS)</td>
<td>$97.5</td>
<td>$216.2</td>
<td>$18.8</td>
<td>0.5x</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Metals service center</td>
<td>Metals service center</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes:
- Enterprise Value = (share purchase price x fully diluted shares outstanding) + (total straight + convertible debt + preferred stock + minority interest) - (cash and investments in unconsolidated subsidiaries).
- Apex financials represent full year results as of April 30, 2012 converted to USD as of the announced date. Transaction value includes fair value of earnout.
- Macsteel EBITDA excludes synergies.
- Gibraltar financials represent average of prior 3 fiscal years.
- Transtar EBITDA represents annualized six months ended June 30, 2006.
- Chapel Steel financials represent annualized six months ended June 30, 2006.
- Loroux financials represent average of prior 5 fiscal years.
Case Study #7 – Process & Timing

Process Timeline: 6-8 Months to Complete

**PREPARE FOR MARKET**
- Develop transaction strategy and timeline
- Submit information request list
- Draft confidential memorandum
- Develop strategic, hybrid, & financial buyer list
- Draft other marketing materials (teaser, CA, process letter)

**INITIATE THE PROCESS**
- Contact Potential Buyers
- Release memorandum
- Follow-up calls and discussions
- Receive indications of interest
- Evaluate initial offers and invite select groups to management presentation

**SELECT THE FINALIST(S)**
- Management Presentations/tours
- Provide additional information via dataroom
- Circulate LOI process letter and purchase agreement draft
- Receive letters of intent
- Evaluate letters of intent

**EXECUTION PERIOD**
- Confirmatory due diligence
- Additional meetings/tours
- Finalize structure and terms
- Negotiate draft definitive agreements
- Resolve open issues
- Prepare Tender Offer Materials, Commence Tender Offer
- Offer Outstanding 20 Business Days
- Execute Short-Form Merger
- Closing

24 – 32 Weeks in Total

© 2017 Equity Strategies
Preparing for a Transaction

- Identify due diligence/business vulnerabilities
- Review and “clean up” all material contracts
- Reduce/eliminate contingent liabilities
- Identify key milestones achieved during 2014-2017
- Develop detailed projections 2017-2020
- Identify barriers to entry
- Review intellectual property – proof of ownership, trademarks, copyrights
- Review organization and reliance on management
- Provide a roadmap for strategies and tactics needed to accelerate growth
- Detailed analysis of Capital Expenditure requirements
- List of potential areas of investment with additional capital
- Identify potential acquisition targets
The 6 Step Exit Planning Process

6 Execute Exit Plan

“In any moment of decision the best thing you can do is the right thing. The worst thing you can do is nothing.”

- Theodore Roosevelt
Case Study #8 – Third Party Sale of C Corporation

- 5 yr. old medical services company - growing rapidly
- 2008 EBITDA $800K, 2009 Projected EBITDA of $4MM - $5MM
- Company needed an infusion of working capital of $4 MM - $6 MM
- Introduced to us by ESG in June 2008 & Engaged in January 2009 for two-pronged plan:
  - Working capital would be sought
  - Determine market interest w/ Private Equity Groups (PEGs) & synergistic companies for an outright acquisition or recapitalization.
Case Study #8 – Options & Opportunities

- Working capital proposals all required more equity than desired
- As a result an outright sale was emphasized – procured 15-20 interests
- Received multiple offers:

<table>
<thead>
<tr>
<th>Offer</th>
<th>Company</th>
<th>Proposal</th>
<th>Progression</th>
<th>Final</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>Synergistic</td>
<td>$25 million</td>
<td>$50 million</td>
<td>$55 million</td>
</tr>
<tr>
<td>2nd</td>
<td>PEG</td>
<td>$29 million</td>
<td>-</td>
<td>$43 million</td>
</tr>
<tr>
<td>3rd</td>
<td>PEG</td>
<td>$16-$22 million</td>
<td>-</td>
<td>Not Enough</td>
</tr>
</tbody>
</table>

- Accepted $55MM offer & began onsite due diligence
Case Study #8 – The Story Gets Better – Final Deal & Outcomes

- $60MM topping offer received during due diligence from another synergistic company
- Decided to rescind acceptance of first synergistic company offer
- Final purchase price ended up at $66.3 MM – Closed transaction November 2009

Summary:
- Timeline – 11 months from engagement
- Clients Valuation Expectation - $15MM to $25MM
- Final Purchase Price Achieved - $66.3M
- Final EBITDA Multiple – 83 x 2008 EBITDA & 13.2 x 2009 Projected EBITDA
- Client’s Satisfaction – Very, Very, Very HAPPY!!!
Leverage Your Resources

- Attorney
- Accountant
- Equity Strategies Group (ESG)
- M&A Professionals
- Investment Bankers
- Financial Advisors
Offerings:

- BERI
- Marketability Assessment
- ESG Website: www.equitystrategiesgroup.com
  - Advisor Page
- ESG Newsletter
- Books
Identify Your Opportunities

Client Profile

- Businesses with a minimum of $10 million in sales; best prospects with EBITDA (Earnings) greater than $1 million
- 20 employees or more
- Business owner age 45+
- Owner interested in maximizing value upon exit from business
Identify Your Opportunities

As always, start first with those you already do business with. All of the successful medium size business owners whom you do business with are exit planning prospects. Start up a conversation, lead it to a discussion of business owner planning and let them know you have the resources through ESG that can help them.

Start with your “A” client list. Ask yourself:

- Do you have clients who are business owners?
- Do you have clients who may have expressed desire to sell or retire?
- Have you addressed their business exit plan? Do they know you have this capability?
- Do you have clients who have put off proper business exit planning?
Explaining Our ESG Process to a Client

Questions to ask:

1. What is the value of your business in today’s economic environment?
2. What is your future exit strategy?
3. When do you plan to exit from your business?
4. Who do you plan to sell/transfer your business to? (outside sale, family, employees)
5. What steps have you taken to be sure that all of your future cash flow needs are met?
6. What programs have you put in place to ensure that your key employees continue to work diligently to grow your business and are “handcuffed” to the business?

- We’ve all had those moments when we learned the hard way. We’ve said “If I only knew then what I know now!” and “I wish someone would have told me about that!”

- “Let’s get together to see if, by working together, and with the members of our strategic network, we can help you achieve your goals. When would be a good time for us to meet for 45-60 minutes?”
QUESTIONS?
Thank You!

John P. McCaughan
CBEC®

61 South Paramus Road
Paramus, NJ 07652
201.556.4613
Jack.Mccaughan@lfg.com
www.equitystrategiesgroup.com
www.youronewayout.com