

# Transaction Feasibility

The following is a preview of the analysis we provide at no cost to companies that are exploring or considering a potential sale.

# PRELIMINARY FEASIBILITY ANALYSIS

*ButcherJoseph offers prospective clients a feasibility analysis that provides preliminary insights into the structural alternatives of a contemplated transaction, as well as an outline and timeline for a process*

## FEASIBILITY ANALYSIS COMPONENTS

- Prioritized transaction objectives and considerations
- Structural options given any exogenous constraints
- Potential valuation range by alternatives considered
- Potential financing structures, terms and sources
- Analysis of basic incentive plans for key employees
- Pro forma capital structure metrics
- Projected valuation and return outcomes
- Benchmarking and comparison of alternatives
- Discussion of structuring and governance issues
- Process outline and timeline

### ILLUSTRATIVE SOURCES & USES

ButcherJoseph customizes each transaction in an attempt to satisfy the needs of all stakeholders including selling shareholders, key management and capital providers

FY 2014E EBITDA \$ 39.6MM

Valuation Multiple 7.00x

Enterprise Value \$ 277.4MM

Sources US \$MM % x2014E EBITDA

Senior Debt 118.9 43% 3.00x

Mezzanine Debt 158.5 57% 3.00x

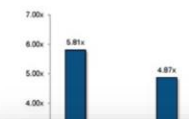
▪ All four shareholders receive \$29.7MM in cash upfront

▪ Shareholders 1 & 2 each receive seller mezzanine notes of \$40.2MM

▪ Shareholders 3 & 4 each receive structured

### KEY LEVERAGE RATIOS

The illustrated transaction shows the Company paying down debt and generating cash flow sufficient to cover credit service, working capital needs and capital expenditures

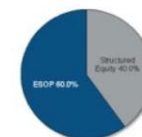


### EXIT EVENT SCENARIO

The successful operation of the Company, coupled with an exit event, can provide substantial benefit to shareholders and investors, including management and general employees

#### POST-TRANSACTION ECONOMICS

Fully-diluted



#### ABSOLUTE VALUE RECEIVED (OVER A TEN YEAR PERIOD)

Tax Treatment	Capital Gain (100% of investment cost)		Capital Gain	Total	Current Allocation	Historic Allocation
	Proceeds	Interest				
ESOP	-	-	\$ 159.4	\$ 159.4	-	-
Mezzanine Investor	-	23.8	39.8	-	63.4	-
Seller Mezzanine Debt	79.3	36.3	60.6	-	176.2	32.1%
Structured Equity	79.3	36.3	60.6	195.8	372.0	67.9%
<b>Total:</b>	<b>\$ 158.6</b>	<b>\$ 96.5</b>	<b>\$ 180.8</b>	<b>\$ 366.2</b>	<b>\$ 771.0</b>	

- Notes:
1. Exit terminal value based on a 7.0x 2019 EBITDA of \$97.6M
  2. Absolute value includes:
    1. Cash at closing
    2. Interest income from subordinated note, if applicable
    3. Return of subordinated note principal, if applicable
  3. Value of equity participation assuming a terminal exit event in year 5
  4. "Historic Allocation" reflects the relative profit allocation structure as provided by the Company
  5. "Current Allocation" reflects the relative total value of the Seller Mezzanine Debt to the Structured Equity
  6. Shareholders 1 & 2 are assigned to the Seller Mezzanine Debt, and Shareholders 3 & 4 are assigned to Structured Equity

- An ESOP is a perpetual investor, and as such there is no pressure to provide exit liquidity after a given period of time as with financial buyers
- However, in order to analyze shareholder liquidity options and investor returns as a result of the initial sale transaction, a terminal or exit event is projected at the end of a ten year period
  - A terminal event could be a whole or partial sale of the Company or a recapitalization

# TRANSACTION SUMMARY

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*The following hypothetical transaction illustrates a common structure used in transactions of this type*



## I. Transaction Objectives

- Provide a structured exit, succession planning for current shareholders
- Continued management involvement
- Economic interest in Company and participation in second exit



## II. Illustrated Transactions

- Sale of the Company to an ESOP
  - ESOP: Purchases 100% of existing Company shares
  - Funded through a combination of third-party debt and seller debt



## III. Future Considerations

- The continuing health of the Company
- Shareholders' and investors' returns
- Overall cost of capital
- Alignment of incentives
- Incremental financial stress



## IV. Terminal Event

- For model purposes, assumed to occur in five or ten years
- A terminal event is typically a recapitalization of the company in five to ten years to raise incremental debt to repay the remaining seller note balance and facilitate liquidity for the warrants
- Occasionally, the terminal event is a partial or full sale of the Company wherein all stakeholders (management, ESOP, noteholders, and warrant holders) receive liquidity

Note: This illustration is hypothetical and for discussion purposes only

# ILLUSTRATIVE SOURCES & USES

ButcherJoseph customizes each transaction in an attempt to satisfy the needs of all stakeholders including selling shareholders, key management and capital providers

<b>2017E EBITDA</b>	<b>\$6.1 MM</b>
( x ) Valuation multiple	6.0x
Enterprise Value	\$36.6 MM
Less: Net Debt	(1.6)
Equity Value	\$35.0 MM

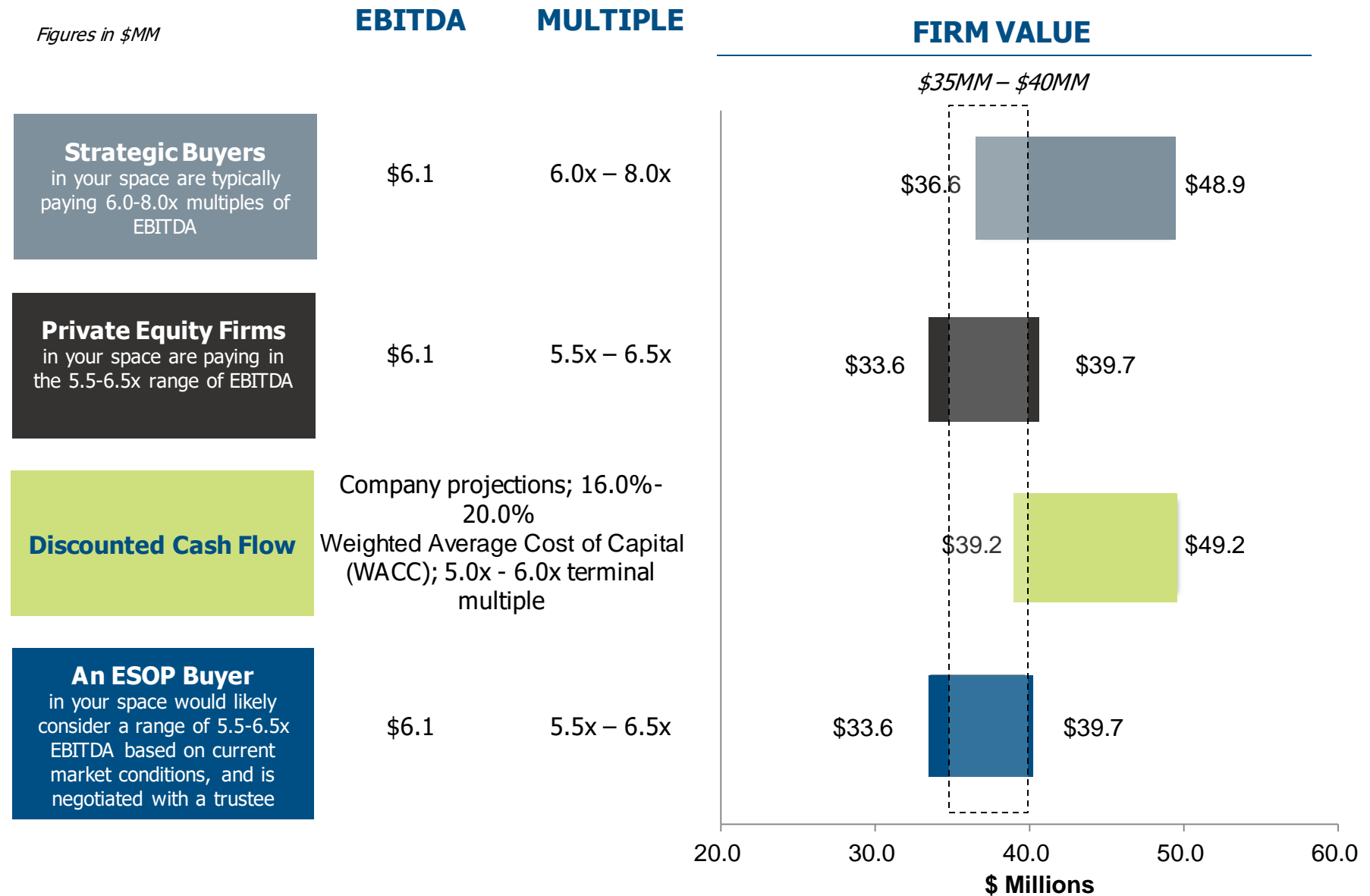
Sources	US \$MM	%	xEBITDA
Senior debt	12.2	33%	2.0x
Seller subordinated debt	24.4	67%	4.0x
<b>Total Sources</b>	<b>36.6</b>	<b>100%</b>	<b>6.0x</b>

Uses	US \$MM	%
Purchase of equity (100%)	35.0	96%
Repay existing net debt	1.6	4%
<b>Total Uses</b>	<b>36.6</b>	<b>100%</b>

- The transaction is financed through a combination of senior debt and seller subordinated debt from the shareholders
- Shareholders receive \$10.6 MM in cash upfront funded by senior debt
- Shareholders receive subordinated debt principal investment of \$24.4 MM and warrants for 35% of diluted equity
- Seller debt can be customized to fit the needs of various shareholders
- Ultimately, the value of the Company is negotiated between the trustee and shareholders

Note: This illustration is hypothetical and for discussion purposes only

# PRELIMINARY VALUATION ASSESSMENT SUMMARY



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# ILLUSTRATIVE GENERAL EMPLOYEE & KEY EXECUTIVE EXAMPLES

- When the company performs as expected, there is a significant benefit to management and employees, with **no investment required**

- Note the illustrated amounts are contingent upon a number of factors, including the company achieving projected earnings growth

- The **allocation** mechanism is assumed to be the “comp-to-comp” safe harbor method

- This method assumes the number of shares allocated to an eligible ESOP participant (an individual) each year is determined by the percentage of that individual’s compensation as a percentage of the Company total, applied to the number of ESOP shares allocated that year

- Many clients, however, elect to use a points system whereby an individual’s tenure at the Company is also considered along with his/her percentage of total compensation

- The value in employees’ accounts **vests** over time, ensuring that employees who leave do not receive the benefit that accrues to long term employees

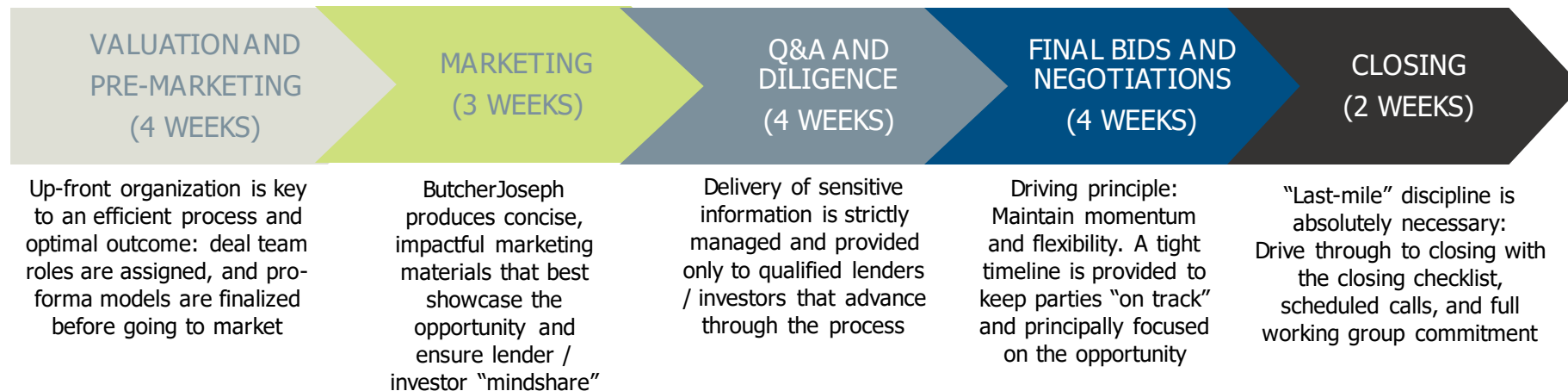
- The value that accrues annually to the employee accounts is a function of the amortization of the “inside loan.” We have assumed a **30-year amortization**

Salary Level	Individual ESOP Balance in Year 5
\$30,000	\$11,608
50,000	19,346
70,000	27,085
90,000	34,823
110,000	42,561
130,000	50,300
\$150,000	\$58,038

**Interests of management and employees are fully aligned with the ESOP structure**

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# TRANSACTION PROCESS: FRAMEWORK



## TRANSACTION MANAGEMENT SERVICES



Identify and explain the key considerations and potential implications of the transaction to Board of Directors, management, and employees



Draft the transaction calendar and coordinate weekly status calls to ensure milestone dates are met



Conduct advanced feasibility analysis, which will include customary transaction due diligence



Create financial models to analyze various aspects of the business in light of the transaction



Organize and manage the financing process, raising debt or equity capital, as applicable, from interested parties within our proprietary network of capital providers



Prepare trustee memorandum, valuation analysis and term sheet/offer for trustee consideration



Populate data room and coordinate due diligence on the part of interested financing sources, and the ESOP trustee and its independent financial advisor and legal counsel



Manage the negotiation process with the trustee



Coordinate the documentation process with respect to both the transaction and financing on behalf of the Company



Manage, negotiate, structure and execute the transaction