# BUTCHERJOSEPH & CO.

St. Louis, MO 63102

## TRANSACTION FEASIBILITY ANALYSIS

THE FOLLOWING IS A PREVIEW OF THE ANALYSIS WE PROVIDE AT NO COST TO COMPANIES THAT ARE EXPLORING OR CONSIDERING A POTENTIAL SALE

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### PRELIMINARY FEASIBILITY ANALYSIS

ButcherJoseph & Co. 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

Several		es are employed to determ ating performance, geogra			ected by company	v size,	ч.		
	CLY TRADED		CEDENT TIONS METHOD	DISC	COUNTED CASH FI	LOW ("DCF")			
xamines the mar ompanies relative nd projected fina ading multiples everal comparat owever, most are	SELLER RE	TURN ANALY	SIS – FIVE	YEARS PO	OST-CLO		ACTION ILLUST	RATION	
nd markets	(\$ in thousands) SELLER TOTAL PROCEEDS	AT CL	DSE 2023	2024	2025	2026	2027		
aluation benchm EBITDA	Total Cash Proceeds	\$126.4		-	-	-	-	_	
Revenue	Seller Subordinated Debt Cash Seller Subordinated Debt Pri	nterest -	8.6	8.6	8.6	8.6	8.6		
Revenue	Participation in Terminal Ever Annual Total Total Value Received	EXIT ANALY	SIS – LIQU	IDITY EV	ENT			— TRANSACT	ION ILLUSTRATI
Revenue	Annual Total Total Value Received SELLER DEBT RETURNS A Initial Investment Seler Subordinated Debt Ca: Seler Subordinated Debt Prir		SIS - LIQU	outright sale, the E			dity through de		ION ILLUSTRATI
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FIRM PROFILE

### **OPTIMAL RESULTS BASED ON THOROUGH ANALYSIS**

We meet the needs of our clients by reviewing all options and pursuing the best solution

- Transaction goals drive multiple structural options
- Comprehensive analysis helps clients to better understand the profile of a well-considered transaction
- By investing in meaningful analysis, we are able to provide answers to your most pressing questions such as:

What is your business worth?

What are the transaction solutions that best fit your needs and are available to you?

What are the implications of whose solutions?



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### SUMMARY EARNINGS EXHIBIT

(\$ in thousands)	HISTORICAL FINANCIALS			MANAGEMENT PROJECTIONS				
	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Total Revenue	\$100,000	\$105,000	\$115,500	\$132,825	\$139,466	\$146,440	\$153,762	\$161,450
% Growth	NA	5.0%	10.0%	15.0%	5.0%	5.0%	5.0%	5.0%
Total Cost of Sales	(65,000)	(68,250)	(75,075)	(86,336)	(90,653)	(95,186)	(99,945)	(104,942)
Gross Profit	35,000	36,750	40,425	46,489	48,813	51,254	53,817	56,507
% Margin	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Operating Expenses	(15,000)	(15,750)	(17,325)	(19,924)	(20,920)	(21,966)	(23,064)	(24,217)
Operating Income	20,000	21,000	23,100	26,565	27,893	29,288	30,752	32,290
% Margin	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Other Income / (Expenses)	2,000	2,100	2,310	2,657	2,789	2,929	3,075	3,229
EBIT	22,000	23,100	25,410	29,222	30,683	32,217	33,828	35,519
% Margin	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
Interest Expense	(1,500)	(1,575)	(1,733)	(1,992)	(2,092)	(2,197)	(2,306)	(2,422)
Earnings Before Taxes	20,500	21,525	23,678	27,229	28,591	30,020	31,521	33,097
%Margin	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
EBITDA Build								
Earnings Before Taxes	20,500	21,525	23,678	27,229	28,591	30,020	31,521	33,097
(+) Depreciation & Amortization	1,000	1,050	1,155	1,328	1,395	1,464	1,538	1,614
(+) Interest Expense	1,500	1,575	1,733	1,992	2,092	2,197	2,306	2,422
EBITDA	\$23,000	\$24,150	\$26,565	\$30,550	\$32,077	\$33,681	\$35,365	\$37,133
% Margin	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
% Growth	NA	5.0%	10.0%	15.0%	5.0%	5.0%	5.0%	5.0%

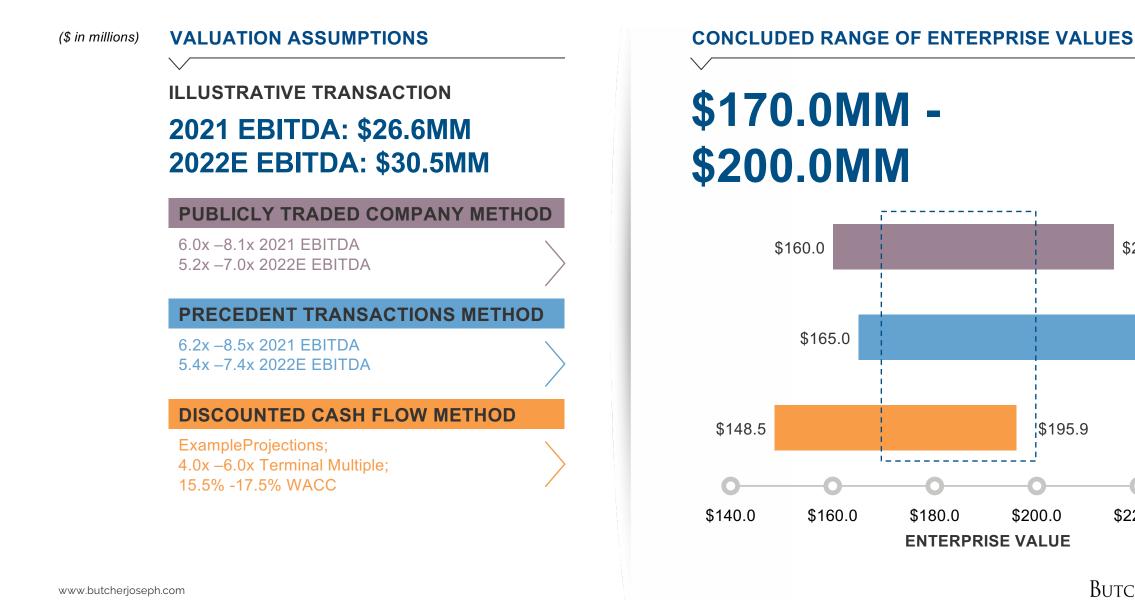
Source: Illustrative example financials

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\$215.0

\$220.0

### **VALUATION RECONCILIATION & CONCLUSION**



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\$240.0

\$225.0

### **ILLUSTRATIVE TRANSACTION ASSUMPTIONS**

#### **VALUATION CONCLUSION**

$\bigvee$	
	\$MM
2022E EBITDA	\$30.5
Implied Multiple	6.0x
Enterprise Value	\$183.3
(+) Cash	50.0
( – ) Existing Debt	-
Equity Value	\$233.3

#### **TRANSACTION SOURCES & USES**

SOURCES	xEBITDA	\$MM			
Cash on Balance Sheet	1.6x	\$50.0			
Senior Debt	2.5x	76.4			
Seller Subordinated Debt	3.5x	106.9			
Total Sources	7.6x	\$233.3			
USES		\$MM			
Purchase of Equity		\$233.3			
Total Uses		\$233.3			
Proceeds at Close		\$126.4			

 As illustrated, the transaction is financed through \$76.4MM in third-party funded debt in the form of a Senior Term Loan with assumed bank terms, as well as a Seller Subordinated Note with warrants for 25.0% of diluted equity (value to be negotiated with ESOP trustee)

Through the transaction as illustrated, shareholders receive \$126.4MM in cash upfront

Note: Expenses not illustrated in sources and uses; figures may not sum due to rounding

### **EMPLOYEE UPSIDE – INCENTIVE ALIGNMENT**

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

- The illustrated amounts are contingent upon a number of factors, including the Company achieving projected earnings growth
- The total value that accrues annually to the employee accounts is a function of the amortization of the "inside loan"

	EMPLOYEE ACCOUNT BALANCE		
W2 WAGES	YEAR 5	YEAR 7	YEAR 10
\$40,000	\$61,336	\$118,056	\$231,748
50,000	76,670	147,570	289,685
60,000	92,004	177,084	347,622
70,000	107,337	206,598	405,559
80,000	122,671	236,112	463,495
90,000	138,005	265,625	521,432
100,000	153,339	295,139	579,369

The goal is to have the interests of management and employees fully aligned within the ESOP structure

### **ESOP ALLOCATION & VESTING**

#### ALLOCATION

- Comp-to-comp allocation 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
- Alternatively, a points system, whereby an individual's tenure at the Company is also considered along with his/her percentage of total compensation, is commonly used by companies seeking to recognize the contribution of long-tenured employees

Comp-to-Comp	Points System
Your base compensation eligible employees	1 point for every \$1,000 in base compensation Your points Your points • • • • • • • • • • • • • • • • • • •

#### VESTING

- The value in employees' accounts vests over time, ensuring that employees who leave do not receive the benefit that accrues to long term employees
- Common vesting strategies include graded vesting or cliff vesting:

	% of account vested			
Years of service	Graded vesting	Cliff vesting		
1 year	20%	0%		
2 years	40%	0%		
3 years	60%	100%		
4 years	80%	100%		
5 years or more	100%	100%		

Note: An employee becomes fully vested when upon reaching retirement age (65), death, or disability

The goal is to have the interests of management and employees fully aligned within the ESOP structure

### **GENERAL TRANSACTION PROCESS & FRAMEWORK**

PRE-MARKETING	MARKETING	Q&A / DILIGENCE	FINAL BIDS AND	CLOSING
4-6 WEEKS		8-10 WEEKS	NEGOTIATIONS	4-6 WEEKS
Upfront organization is key to an efficient process and optimal outcome: deal team roles are assigned, and pro-forma models are finalized before going to market	ButcherJoseph produces concise, impactful marketing materials that best showcase the opportunity and ensure lender / investor "mindshare"	Delivery of sensitive information is strictly managed and provided only to qualified lenders / investors that advance through the process	Driving principle: Maintain momentum and flexibility. A tight timeline is provided to keep parties "on track" and principally focused on the opportunity	"Last-mile" discipline is absolutely necessary: Drive through to closing with the closing checklist, scheduled calls, and full working group commitment

#### FULL-SERVICE TRANSACTION MANAGEMENT



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



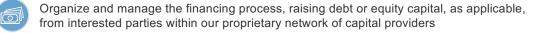
Draft the transaction calendar and coordinate weekly status calls to ensure milestone dates are met



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



- 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, 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