STRATEGIC ALTERNATIVES *for* LIQUIDITY:
How Business Owners Can Assess Options For Growth, Liquidity and Succession

Private Company Report

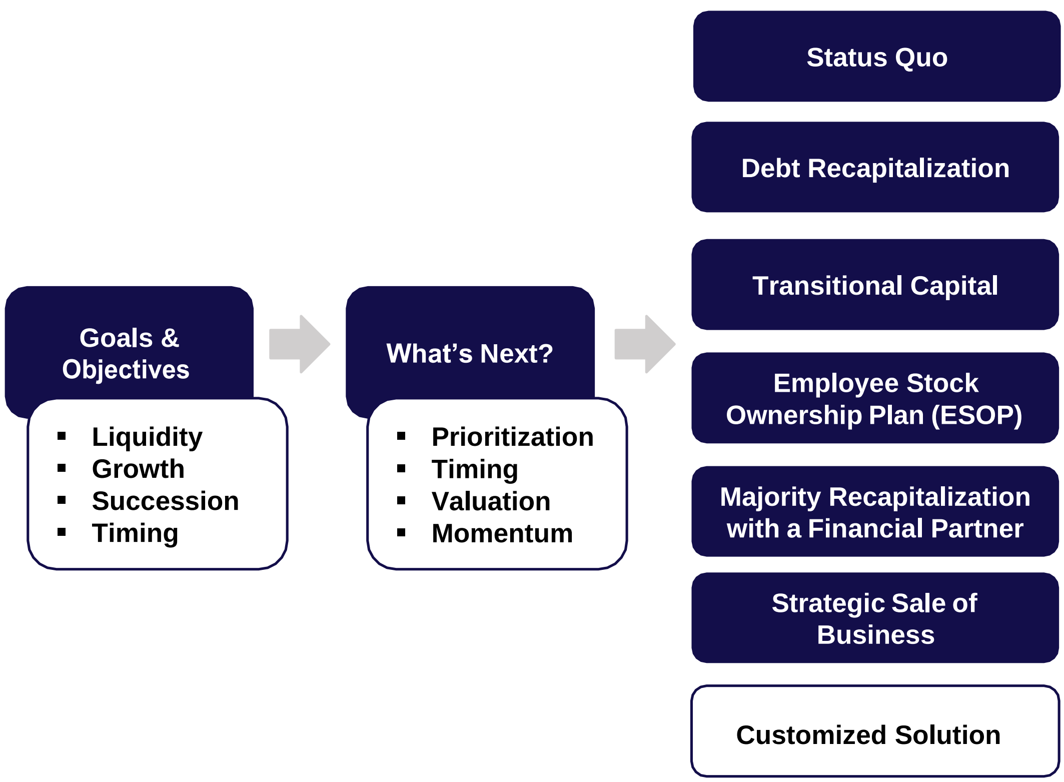
VESTICOR

The Challenge: What's Next?

Congratulations. You've built a business that has significant value. You've worked hard…At this point, clients often ask themselves, "What's next?"

- Do I want to lead my company for another 5-20 years?
- Am I ready to move on to different pursuits and to transition the business to a capable team that can continue my work?
- Where is the balance between my desire to grow the company by investing more capital vs. achieving personal financial goals?
- Do I need liquidity to provide for retirement and my family?
- Is the timing right to take some chips off the table and will the markets allow me to do so under favorable terms?

At Vesticor, we know answering these questions can be difficult at best and gut-wrenching at worst. Leveraging our expertise and relationships, we offer owners of private businesses a set of tools that help frame their thoughts about a potential liquidity event, along with highly customized solutions aimed at achieving economic and non-economic goals.



There Are Multiple Paths to Achieving Your Goals and Objectives

Unfortunately, many successful business owners are given limited advice by many investment bankers — usually along the lines of "You should sell!" "Multiples are high!" "A strategic acquirer is interested!" For many bankers, the value created in a private business automatically equates to a change-of-control transaction.

Vesticor's view is that while a change-of-control transaction is often the right answer, sometimes it is not. And even when it is, thoughtful advance work can make the difference between a disruptive process that fails to meet your goals and one that smoothly achieves all of your objectives and results in an outsized outcome. At Vesticor, we don't make a recommendation until we know and understand all the objectives — economic and non-economic — of an ownership group.

Typically, there are several different approaches/structures that can and should be considered when considering a transaction. At Vesticor, we work to understand what you want to accomplish in a transaction. Then, and only then, do we propose a solution.

Questions to Assist With Prioritizing Goals and Objectives

It can be difficult for owners to lay-out their objectives and prioritize them — you and your management team have a business to run. So we have created a set of questions that we work with you to answer:

- What is your business worth today?
- What are the key drivers of that value?
- How much is needed, and when, to achieve your financial goals and those of other shareholders and stakeholders?
- What are your non-financial goals? How do you prioritize them?
- What business risk factors need to be mitigated?
- Do you want to establish a management incentive or equity plan?
- What is the optimal capital structure for achieving the company's goals?
- What are potential transaction, wealth transfer and estate planning alternatives to consider?
- What, if any, reporting, management, governance and other organizational issues need to be addressed before a transaction?

By working with you to answer these questions — and adjusting them where necessary to fit your unique situation — our team is able to present you and other shareholders with a thoughtful and complete overview of your strategic alternatives, complete with the analysis necessary to compare each alternative on an apples-to-apples basis. This overview of strategic alternatives forms the basis for decision making and the formation of a plan that shareholders and management can rally around to move forward.

First Step is Valuation

The first step toward figuring out the right plan for you and your company is to know where you're starting from. That is why all of our engagements begin with preliminary due diligence and a thorough valuation. A valuation assesses the company's fair market value and serves as a starting point for surveying alternatives. It enables our professionals to develop a solid and realistic perspective on your options.

We believe that initial discussions involved in generating a valuation establish a basis for trust, understanding and alignment of objectives over the course of an engagement.

Vesticor valuations are based on:

- Detailed, thorough financial modeling
- Analysis of what an institutional investor would view as your company's "true" earnings
- Insight into industry dynamics that comes from our senior bankers' expertise
- Research and analysis of the most relevant comparable transactions and publicly traded companies
- An assessment of key value drivers for future growth

Once we establish value, Vesticor investigates all available alternatives.

Most Common Strategic Alternatives to Consider

Every situation is different. At Vesticor, we pride ourselves on delivering highly customized solutions to all our clients. Some companies can and should access the public markets. Some can and shouldn't. Some cannot. Some have access to unique government subsidies and programs. For the purposes of this discussion, we will highlight the six scenarios that we discussmost frequently with our clients.

1. Status Quo

It is always helpful to compare any theoretical scenario to one in which no transaction is entered into in the near term. In the Status Quo scenario, you continue to run the business for the foreseeable future, distributing excess cash to existing shareholders. While this option avoids any transactional risk, the company and shareholders remain fully exposed to market and business risk factors.

The Status Quo is not an option that will remain appropriate indefinitely, but it can be a desirable outcome when a business generates reasonable cash flow and is in the midst of acquiring a major new customer, transitioning thesenior management team or absorbing an acquisition. In almost every instance, these types of corporate activities are the ideal time to stay thecourse while laying the groundwork for an eventual transaction.

2. Debt Recapitalization

In a debt recapitalization, Vesticor approaches senior lenders and subordinated lenders to borrow funds that will be used to refinance existing debt and potentially pay a dividend to existing shareholders. The current and expected cash flows generated by the company are key determinants in the amount and type of financing available to the borrower.

The most attractive aspect of a debt recapitalization is the ability to obtain some liquidity while retaining 100% percent control of the business. In most instances the process is discreet, minimizing management distraction, and may provide an opportunity to eliminate personal borrowing guarantees.However, owners will want to feel comfortable with the amount of debt borrowed by the company, as well as the period of time over which the debt can be paid off.

3. Transitional Capital

Broadly defined, Transitional Capital aims to carry a company or business owner from one stage in the corporate life cycle to the next. Transitional Capital is ideal in situations where a business owner is seeking some level of liquidity but wants to retain control to benefit from anticipated future growth opportunities.

In a Transitional Capital transaction, we approach senior and subordinated lenders to refinance existing debt and borrow additional funds to pay a dividend to existing shareholders – similar to a debt recapitalization. In addition, we simultaneously approach equity investors who will purchase a minority stake in the equity of the company. The proceeds from the sale of a minority equity position are added to the debt recapitalization proceeds to pay a larger dividend to existing shareholders and/or to fund appropriate growth initiatives. Furthermore, the new minority equity investor will likely augment the depth of existing management and provide insight and assistance on the growth initiatives without a loss of majority ownership. Beyond liquidity, key considerations for an owner considering a Transitional Capital partnership might include non-economic considerations such as cultural fit and the prospective board or management structure, particularly as it relates to corporate decision making.

Transitional Capital may be a good option for companies and owners that want to:

- Limit financial risk and possibly eliminate personal borrowing guarantees
- Provide partial liquidity and a vehicle for complete liquidity at a later date
- Consolidate control when a large number of minority shareholders or dissenting investors exist
- Grow the company with help from industry veterans and/or institutional capital
- Maintain a more conservative capital structure to accommodate greater flexibility during a growth phase

Vesticor actively targets financial sponsors focused on minority investing.Our proprietary database gives us insight into how leading providers of Transitional Capital work, what structures they will consider and where they may add the most value.

4. Employee Stock Ownership Plans (ESOP)

ESOPs are a type of employee benefit plan. As such, qualified ESOPs are subject to ERISA rules as well as other extensive legal and tax laws regulating their establishment and ongoing operation. It is beyond the scope of thisReport to outline the various limitations and costs of an ESOP as they may apply to your company and employee base, but we are happy to work with your legal and tax advisors to determine whether an ESOP might be a viable alternative for your company.

ESOPs can take a number of different forms but generally offer two major benefits to private company owners. First, an ESOP is a tax-advantaged, employee benefit program that can facilitate the distribution of ownership in the firm to employees over time or in a lump sum. Second, under certain scenarios, the ESOP structuring process can provide liquidity to existing shareholders on a tax-advantaged basis. While the initial cash distribution from the ESOP transaction is typically financed with debt, management may undertake multiple financings over time and thereby avoid over-levering the business at the outset.

The simplified mechanics of an ESOP is as follows:

i. Company establishes an ESOP Plan and Trust with legal and tax advisors;

ii. Company raises debt (or guarantees debt) and transfers the borrowings to the ESOP;

iii. The ESOP uses the loan proceeds to purchase shares in the company (cash to existing shareholders) and the acquired shares are held by the ESOP for eventual distribution to employees over a vesting period;

iv. The company makes annual pre-tax contributions to the ESOP that flow back to the company where they are then used to make pre-tax interest and principal payments on the debt;

v. Shares are distributed over an established vesting period to employees;

vi. Company incurs annual costs to maintain and operate the ESOP Trust as well as obtain an annual independent valuation of the ESOP Trust assets; and

vii. ESOP transactions are limited to certain corporate structures and typically require a conversion to a C-Corporation to maximize the benefits.

5. Majority Recapitalization with a Financial Partner

A majority recapitalization offers selling shareholders the opportunity to realize a substantial portion of the value tied-up in an investment built over a lifetime. Financial partners typically utilize leverage in their transaction structures and can also be desirable partners who support the business'sgrowth with operational and/or industry-specific expertise. A financial partner tends to ideally suit owners who desire to have some form of ongoinginvolvement and ownership in the business:

- Most financial buyers look to partner with, not replace; senior management and board representation is typical
- Selling shareholders can — and are sometimes expected to — re-invest a portion of their proceeds in the company, which can create an opportunity for additional value creation
- Senior management team members who are not currently owners often receive equity through a management incentive plan
- Some financial partners may want to use the transaction as an opportunity to support an owner's 12- to 24-month succession plan

In today's market, a financial partner can often pay a premium value for a company that meets its target investment criteria – often values that are competitive with strategic buyer valuations.

6. Strategic Sale of the Business

A strategic sale of the business typically involves merging your companywith a larger enterprise. Strategic buyers often present the greatest potentialto maximize liquidity with a "spike" value given their ability to generate synergies either through cross-selling and other revenue enhancements or through cost-containment measures. While the upside is compelling, business owners must also weigh the risks of sharing sensitive competitive intelligence. A sale to a strategic buyer is ideally suited for those owners who desire to have limited future involvement in the business and haveestablished or completed a viable succession plan.

Conclusion

There are many options regarding the "right" process for a business owner who asks, "What's next?" At Vesticor, we approach every situation with a focus on what the business owner wants to achieve and base our feedback on rigorous analysis and sound judgment. As fellow entrepreneurs, we knowthat no two situations are the same. Please contact us to explore how we can help you answer the question, "What's next?"

Visit and Connect with Vesticor

Vesticor Advisors provides M&A and capital raising advisory services exclusively to closely-held companies in the lower and middle markets. Vesticor was founded on the principle that owner-operated companies in the lower middle market are unique and require specialized advice when considering strategic investment and exit opportunities. Vesticor addresses the needs of entrepreneurs, founders and shareholders of private companies by bringing a differentiated perspective to client engagements throughexperiences as company founders, operators, investors and advisors.

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