ECONOMICS *of* EQUITY ROLLOVER

Private Company Report

VESTICOR

Economics of Equity Rollover

How much equity can management retain in an M&A transaction?

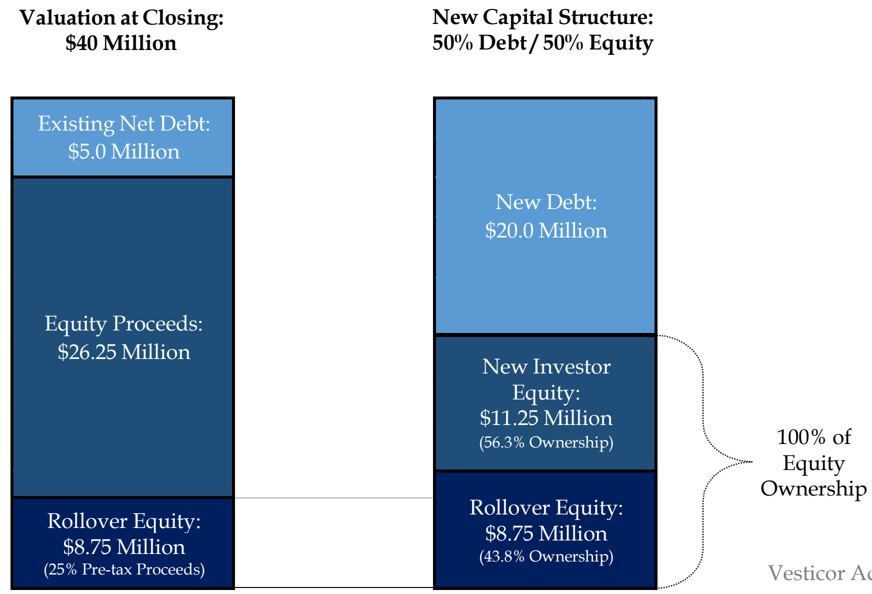
The answer may surprise you.

For business owners interested in achieving liquidity, a change-of-control transaction or minority investment in partnership with a financial sponsor is often an attractive option. Financial sponsors can provide growth capital as well as expertise in a variety of areas such as executive recruitment, geographic expansion and industry expertise. Such partnerships often provide owners and management teams with the opportunity to retain meaningful equity ownership through co-investment with the Company's new partner and participation in an equity incentive plan, providing owners and management teams with the opportunity to retain significant upside potential via participation in the future growth of the business. Although it seems illogical, sometimes management ends up owning more of the new Company than they expected would be possible. Management's ownership in the business post-transaction can vary depending upon the valuation of the business, current capital structure, amount of desired management equity rollover and the capital structure of the entity post-transaction.

As owners and management teams consider such transactions, the professionals at Vesticor are often asked to provide examples of how such "rollovers" work. Below is an example illustrating an equity rollover scenario for a business with the following characteristics:

- $5 million of annual EBITDA.
- $5 million of net debt on the balance sheet pre-transaction.
- The current management team would like to re-invest 25% of their pre-tax proceeds from the transaction into the business post-transaction.

This example assumes that management partners with a financial sponsor in a transaction that values the business at 8.0x LTM EBITDA, or a $40 million total enterprise value. The transaction is funded with $20 million of new debt, or 50% of the Company's enterprise value. Under these terms, management would own 43.8% of the Company's equity post-transaction despite only re-investing 25.0% of the proceeds from the sale of the business.



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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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