Transition: Build the Blueprint for Your Company's Future

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Our Presenter

Tim Jamison

Director

Tim Jamison joined Prairie Capital Advisors in 2016 and is a shareholder in the firm. He is responsible for business development and growth initiatives and focuses on advising business owners about ownership transition alternatives including employee stock ownership plans (ESOPs) and mergers and acquisitions (“M&A”), among others. Services include adequate consideration analyses, feasibility studies, transaction financing and restructuring, fairness and solvency opinions, post-transaction cash flow analyses and annual valuations.

Tim has performed valuation and M&A work on a variety of companies in various industries. He also frequently presents webinars and speaks at conferences, including those hosted by Prairie as well as The ESOP Association, the National Center for Employee Ownership and the Ohio Employee Ownership Center on topics including ESOPs, sustainability, and other ownership transition matters. Tim also serves on the Advisory Committee of the Ohio/Kentucky ESOP Chapter, is an officer for the Michigan chapter of the ESOP Association and also sits on the Board of Directors for the Tennessee Center for Employee Ownership (TNCEO).

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OUR SERVICES

- INVESTMENT BANKING
- ESOP ADVISORY
- DUAL PATH PROCESS
- VALUATIONS & OPINIONS
- FINANCIAL REPORTING
- CONSULTING

COMPANY FACTS

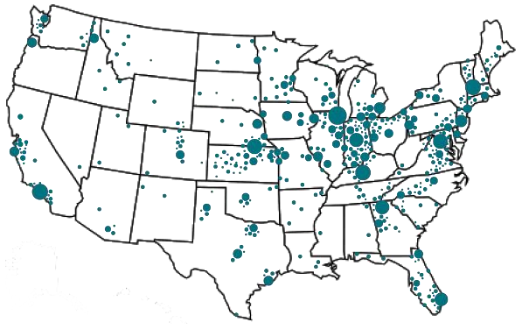
25+ Years of Serving Middle-Market Companies

475+ Annual Corporate Valuations

7 Offices

750+ Middle-Market Transactions

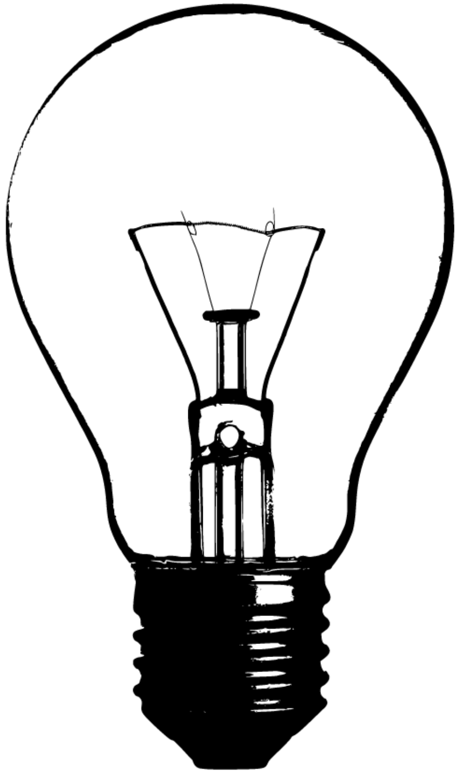
National Client Base



Consistently ranks as a Top 10 Fairness Opinion Provider, as reported by *Thomson Reuters* and was named the 2021 USA Valuations Firm of the Year by *M&A Atlas.*

Ownership Alternatives for Construction Companies

Start the Conversation



1. Where do you see the ownership of your company in the next 5 to 10 years?
2. Are the exit timelines consistent?
3. What strategies are available that will meet these expectations?
4. How do you assess your choices in ownership transition?
5. Do you understand the tax consequences of various exit types?
6. How can you prepare yourself and the company for an exit in order to maximize value?
7. How will ownership transition impact your estate plan?
8. How do you identify management succession issues?

Determining Goals & Objectives

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Reason for Sale

- Retirement / diversification
- Attractive M&A marketplace
- Industry forces
- Shareholder timing
- Lack of succession

Your Requirements

- Value expectations
- Tax planning
- Continued employment
- Continued ownership
- Size of transaction

Potential Deal Killers

- Minimum value
- Buyer fit
- Company legacy
- Employee welfare
- Intentions of acquirer

When selling a business, there are a number of factors, both economic and non-economic, that can impact the seller's decision.

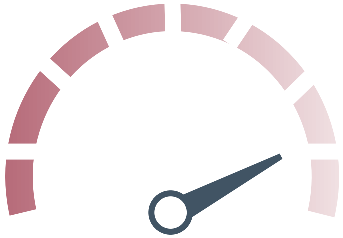
Market Timing Considerations

Unique Situation of Company

- Seller Objectives
- Liquidity Needs
- Health Issues
- State of Preparation

Industry & Company Dynamics

- Company Performance
- Sector Performance
- General Economic Performance
- Good Performance → Good Valuation
- Bonding
- Project Execution
- Backlog



Market Conditions

- Strategic Acquirer Activity
- Private Equity Appetite
- Bank Lending Conditions

Ownership Transition Alternatives

These paths move ownership in very different ways; however, each has its pros and cons.

External Sale

Strategic buyers

Financial buyers (i.e. private equity)

Whole or partial sale

Internal Sale

Employee stock ownership plan (ESOP)

Management buyout (MBO)

Leveraged recapitalization

Family transfer

Ownership Transition Alternatives

External Sale Pros & Cons

Strategic Buyers

- ✓ Potential to maximize value
- ✓ Potential to maximize liquidity at close
- ✓ Potential opportunities for management
- ✓ Strong understanding of the business
- ✗ Consolidation motive may eliminate jobs
- ✗ Potential loss of legacy

Private Equity

- ✓ Potential to maximize value
- ✓ May provide legacy protection
- ✓ Infusion of talent / expertise
- ✓ Opportunity for second liquidity event
- ✓ Possible management equity participation
- ✓ Owner may continue running the company
- ✗ Lack of in-depth business knowledge
- ✗ New owner / operator partner (partial sale)
- ✗ Investment rollover may be required

Ownership Transition Alternatives

Internal Sale Pros & Cons

ESOP

- ✓ Tax – advantaged buyout
- ✓ Partial / total transaction
- ✓ Controllable transaction / structural flexibility
- ✓ Ability to continue to manage business
- ✓ Maintain legacy / employee-owned culture
- ✗ No strategic pricing
- ✗ Partial liquidity at close
- ✗ Administrative costs / regulatory oversight
- ✗ Non-productive debt
- ✗ Need succession planning

MBO

- ✓ Business continuity
- ✓ Maintain legacy
- ✓ Opportunity for management to build wealth
- ✗ Lack of capital by management
- ✗ Negotiations can be adversarial
- ✗ Management motivations may change
- ✗ Need capable management team
- ✗ Non-productive debt

Ownership Transition Alternatives

Internal Sale Pros & Cons

Recapitalization

- ✓ No loss of ownership
- ✓ Partial liquidity
- ✓ Controllable transaction
- ✓ Ability to continue to manage business
- ✓ Use for redemption of shareholder
- ✗ No transition
- ✗ Tax inefficient
- ✗ Non-productive debt
- ✗ Limiting financing (asset light businesses)

Family Transfer

- ✓ Keep business in the family
- ✓ Provide future opportunities for family
- ✓ Opportunity for tax-efficient transfer
- ✗ Need capable management team
- ✗ Liquidity needs may not be met
- ✗ Value expectations may not be met
- ✗ No strategic value
- ✗ Family relationship complexities

M&A Overview

M&A Process and Timeline

I. Marketing Preparation	II. Deal Marketing	III. Pre-LOI Diligence	IV. Confirmatory Diligence
Preparation; Pre-Marketing	Marketing; Preliminary Bids	Buyer Due Diligence; Final Bids & Negotiations	Negotiate & Execute Definitive Agreements; Sign & Closing
3 to 4 Weeks	4 to 6 Weeks	4 to 6 Weeks	6 to 8 Weeks
▪ Review shareholder objectives ▪ Initial due diligence ▪ On-site kick-off meeting ▪ Prepare confidential information presentation (“CIP”) ▪ Develop marketing strategy ▪ Develop financial projections ▪ Compile universe of potential buyers and lenders	▪ Contact potential buyers to execute confidentiality agreements ▪ Distribute CIPs and tell the “story” ▪ Prepare management presentations ▪ Finish compiling data room ▪ Solicit and evaluate indications of interest (IOIs) ▪ Select qualified group of buyers to move forward	▪ Coordinate and conduct management presentations ▪ Provide limited data room access ▪ Solicit and evaluate letters of intent (LOIs) ▪ Negotiate detailed LOI (price, structure, terms, net working capital) with selected buyers ▪ Select final buyer and sign most attractive LOI	▪ Enter into LOI, as applicable ▪ Open full virtual data room ▪ Facilitate requests for information for confirmatory due diligence ▪ Negotiate and finalize terms of the transaction ▪ Complete and execute documentation ▪ Obtain all approvals, waivers, and consents ▪ Closing (wire funds)
3 to 4 Weeks	7 to 10 Weeks	11 to 16 Weeks	17 to 24 Weeks

Majority or Outright Sale – Benefit/Challenges

	Benefits	Challenges
Business	✓ Acquiror with experience in relevant industries could be a source of knowledge, experience and relationships to help grow the Company ✓ Access to outside equity capital could be used to fund acquisitions and enhance organic growth opportunities ✓ Potential for significant management incentive programs including direct equity investment and options program	✓ Leverage could constrain operational flexibility and requires disciplined cash management ✓ New investors can influence the direction of the business in ways that may not be viewed as positive ✓ Often temporary home for Company creating longer-term uncertainty unless permanent capital, such as family office or strategic company funding, is identified
Shareholders	✓ Potential to generate premium market-based value ✓ Provides significant liquidity with potential to maintain equity participation for shareholders that select to reinvest (less common if acquired by strategics) ✓ Equity rollover can be achieved on a tax differed basis	✓ For ongoing shareholders, control is transferred to the new majority owner ✓ Distributed proceeds are taxable ✓ Existing shareholders relinquish opportunity to participate in attractive future equity returns

Possible Sale Scenarios

The pros and cons of each sale scenario are described below.

	Preemptive Negotiation	Targeted Sale (Limited)	Controlled Auction
Process Overview	▪ Conduct "one-off" negotiations with single party	▪ Highly scripted initial calls ▪ Tailored management presentations	▪ Deliberate and thorough ▪ Highly scripted initial calls ▪ Tailored management presentations
Potential Buyers	▪ One or two interested parties	▪ Five to ten candidates	▪ 10 to 100+ potential buyers
Time Required to Signing	▪ Four to five months	▪ Six to eight months	▪ Six to eight months
Typical Disclosures	▪ Extremely limited	▪ Discrete	▪ Discrete
Benefits	▪ Rapid execution ▪ Limited disclosure ▪ Generally the least disruptive	▪ Control over process ▪ Degree of competition	▪ Robust competition ▪ "Market clearing" valuation ▪ High degree of control
Considerations	▪ No competition ▪ Risk of choosing wrong counterparty ▪ Completion risk	▪ Could miss emotional bidder ▪ Confidentiality risks	▪ Requires managed process ▪ Burden to maintain confidentiality

ESOP Overview

What Makes a Good ESOP Candidate?

- ✓ Ownership Is, *or Should Be*, Considering Transition
- ✓ Profitable and Growing
- ✓ Strong Management Team
- ✓ Solid Operating Model
- ✓ Desire for Independence
- ✓ Looking For Tax Favored Exit
- ✓ Debt Capacity

3 Things about ESOPs

1 Liquidity Strategy

- Owners can sell a fractional amount or the entire company to an ESOP
- It's a more controllable and friendly process when compared to a typical third party sale
- Provides continuity of corporate culture and company legacy

2 Retirement Plan

- The ESOP is an ERISA protected retirement plan
- Value within participants accounts grows on a tax deferred basis
- Company is responsible for repurchase of all stock when employees leave

3 Tax Efficiency

- Debt is repaid with pre-tax dollars
- 100% ESOP-owned S-Corporation does not pay taxes
- Capital gains deferral on C-Corporation transactions if certain criteria is met (1042)

Structural Balance

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The ESOP has three primary constituencies; consideration must be given to all impacted parties

Company Concerns

- Unproductive debt on balance sheet
- Board composition
- Management succession

Seller Expectations

- Cash at close
- Value expectations
- Corporate legacy

ESOP Trustee Concerns

- Adequate consideration
- Relative fairness
- Dilutive impacts of stock appreciation rights, warrants and other

Structural Considerations

Prairie provides structural guidance tailored to a seller's objectives and their intersection with anticipated company and employee outcomes

Size of Transaction: Minority vs. Control

Financing: Senior Debt /Subordinated
Seller Debt / Mezzanine Debt

ESOP Features: Benefit level / Vesting

Other Features: Synthetic Equity / Warrants

Tax Treatment: S-Corp v. C-Corp / 1042 deal

Financing

Prairie has extensive experience structuring ESOP transaction financing and will work with you and your client to find the structure that works best for the client's unique situation.

Senior Bank Debt

The least expensive form of debt

Availability and structure of financing will depend on company cash flow, borrowing base, and liquidity requirements of the seller

Subordinated or Mezzanine Debt

This debt can be costly

If the seller's goal is to maximize liquidity at close, a form of external subordinated / mezzanine debt will be required.

- The external market for junior capital market is nearly non-existent for companies with EBITDA of less than $5MM
- Professional mezzanine investors typically require minimum funding of $10MM

Seller Financing

Seller financing can be flexible

Seller has the ability to finance the entire transaction. Seller financing returns may be difficult to replicate in the public markets

Cash or 401(k) Rollover

Unique funding mechanisms

Employees may have an option to rollover a portion of their 401(k) to fund the ESOP purchase

While a range of financing options may be available to meet specific needs, our experience shows that the majority are completed utilizing only senior bank debt and seller financing.

ESOP Transaction Overview & Debunking Myths about ESOPs

ESOP Process & Timeline

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#	PHASE 1: PROCESS PREPARATION	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
1	Kick - off meeting	●																							
2	Data collection / due diligence		▨	▨	▨																				
3	Finalize valuation				●																				
4	Transaction structuring / Decision point to move forward		▨	▨	▨	▨	●																		
	PHASE 2: PROCESS IMPLEMENTATION																								
5	Interview company side advisors (CPA, legal, & TPA) (if required)						▨	▨																	
6	Interview ESOP trustee candidates / other trust side advisors							▨	▨																
7	Lender outreach (existing bank or new lenders if financing is being competitively bid)							▨	▨	▨	▨	▨	▨												
8	Lender due diligence / follow up discussions							▨	▨	▨	▨	▨	▨												
9	Lender term sheet due												●												
	PHASE 3: MANAGING PROCESS / NEGOITATIONS																								
10	Initial trustee team due diligence (financial / legal)													▨	▨	▨	▨	▨	▨						
11	Deliver term sheet to trustee														●										
12	Negotiate and finalize financing													▨	▨	▨	▨	▨	▨	●					
13	Term sheet negotiations															▨	▨	▨	▨						
	PHASE 4: TRANSACTION EXECUTION																								
14	Legal documentation																▨	▨	▨	▨	▨	▨	▨	▨	▨
15	Final transaction negotiations																				▨	▨	▨	▨	▨
16	Respond to final due diligence requests (trustee / lender)																			▨	▨	▨	▨	▨	▨
17	Sign documents and fund transaction																								●

Leverage ESOP Transaction – Benefit/Challenges

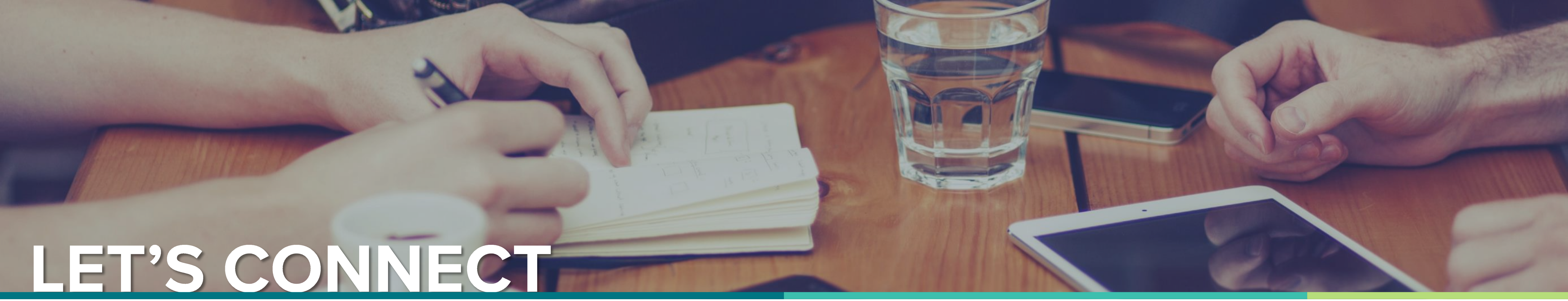
	Benefits	Challenges
Business	✓ Continuation of corporate culture amongst employees and incentivizes employees by giving them ownership benefits ✓ Tax deductibility of interest and principal payments enhance after-tax company cash-flows ✓ If S-Corporation election is made, company can operate tax-free to extent of ESOP ownership identity ✓ Diminish risk of consolidation, loss of jobs, and relocation	✓ Complexity of transaction and ongoing ESOP management ✓ ESOP share repurchase obligation should be forecasted and risk assessed ✓ Absence of value-added institutional equity partner to help develop business ✓ Need for more formalized corporate governance
Shareholders	✓ Ability to provide significant liquidity for shareholders ✓ Permits shareholders to select extent of liquidity ✓ Tax deferral for selling shareholder via 1042 election with potential for full step-up in basis (permanent reduction in taxes) ✓ Powerful estate planning tools (i.e., warrants gifting programs) ✓ Meaningful management participation in SARs incentive program post-transaction	✓ Potential loss of "strategic valuation" ✓ Achieving ultimate liquidity for shareholders, in full, will take longer than "day-one" liquidity from a sale ✓ The Company and the ESOP will have debt burden associated with the purchase of shares which it will have to manage

Debunking ESOP Myths

1. An ESOP transaction won't give you the same value consideration as an M&A transaction.
2. I will lose control of my company & executive decisions after becoming an ESOP.
3. Trustees will have the ability to impact day-to-day operational decisions.
4. Employees will own the stock & be entitled to get the company's financial information.
5. Company must be a C-corporation & ESOP must own ≥ 30% of the company.
6. ESOPs prevent companies from rewarding key employees due to non-discriminatory allocation methods.
7. Employees don't have the money to buy the company stock.
8. ESOPs are more likely to fail than traditional companies.
9. Employees won't have the security of diversification in their stock portfolio.

Dual Path Overview

Dual Path Process



LET'S CONNECT

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