



Anatomy of a LIVE ESOP Transaction

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Agenda

Company and Shareholder Overview

Transaction Timeline

- Design Phase
- Kickoff
- Due Diligence
- Initial Offer
- Trustee Counter Offer
- Key Deal Issues

Final Comparison of Deal Terms

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Company Overview

Company Overview

- Professional Services Firm
- S-Corporation
- 10 Shareholders
- 200 Employees

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Shareholder Overview

Shareholder Goals

- Liquidity
- Want to Maintain Culture and Jobs
- Receive a Fair Value in Sale
- Transition Ownership & Leadership
- Retain and Incentivize Employees

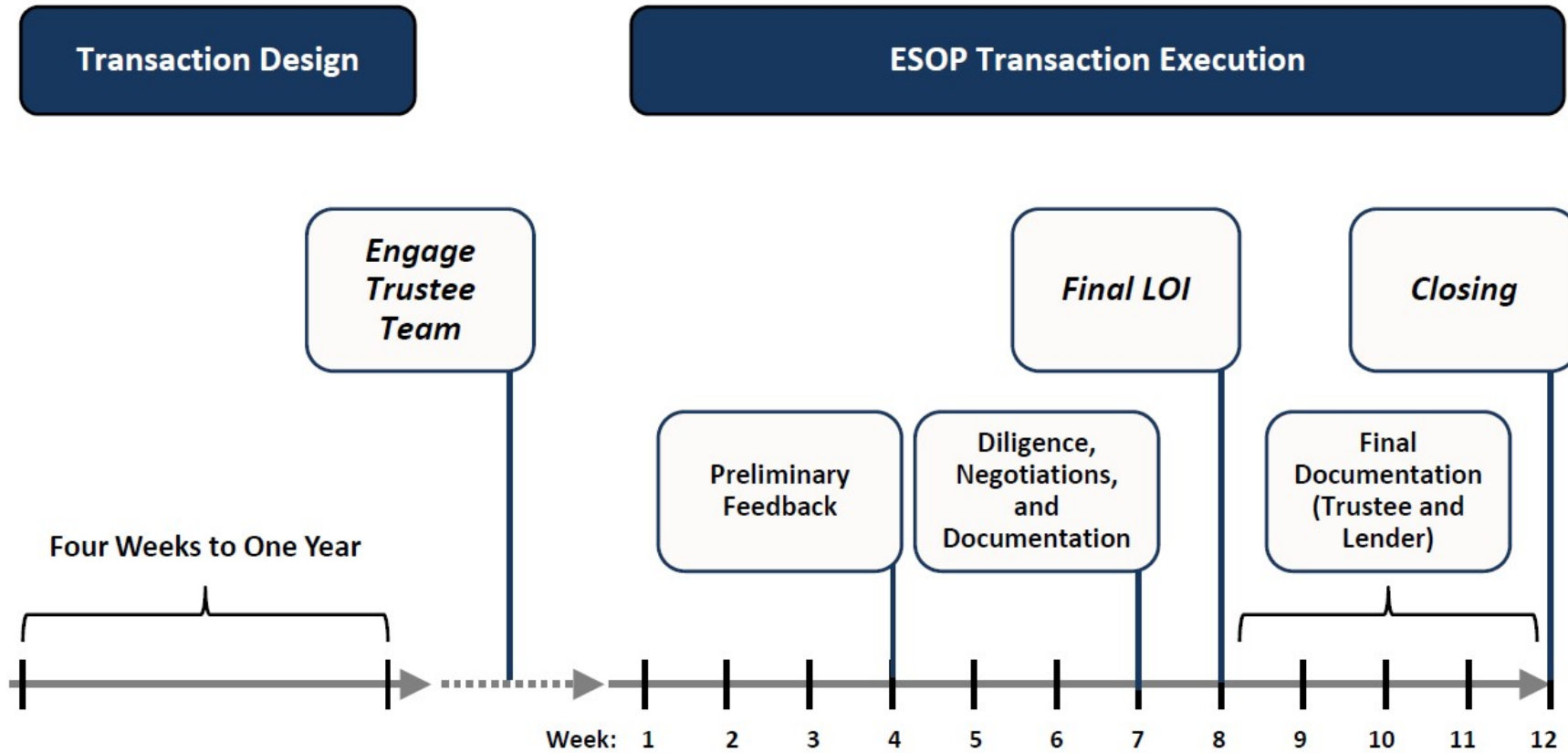
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Transaction Timeline



Design Phase

Key Transaction Design Considerations

- Shareholder dynamics
- Valuation expectations vs. buy/sell
- Compensation expectations of management
- Financing capacity
- Results of pre-transaction due diligence
- Seller Note IRR via warrants, if applicable
- ESOP design as a benefit plan
- Governance post-transaction
- Tax and accounting

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Transaction Team

The Company

- Financial Advisor
 - Feasibility
 - Transaction structure
 - Manage process
 - Debt raise
- Accountant
 - Vet feasibility
 - Tax considerations
- Legal Counsel – Corporate and ESOP
 - Prepare transaction docs
 - Review and negotiate lender docs
 - Prepare ESOP docs
 - ESOP design

ESOP Trust

- Trustee
- Financial Advisor
 - Valuation range
 - Fairness Opinion
- Legal Counsel
 - Review and negotiate transaction docs
 - Review ESOP docs

Lender

- Provide Financing
- Legal Counsel
 - Prepare financing docs

Selling Shareholders

- Financial Advisor (sometimes)
 - Model expected returns
 - Assist in 1042 Process
- Legal Counsel (sometimes)
 - Review and negotiate transaction docs

Kickoff Phase

Kickoff and Diligence

- Selection and Engagement of Trustee Team
 - Selection process is important to protect the Company's Board of Directors and the Selling Shareholders from an ERISA fiduciary perspective
- Management Presentation
 - Company Overview
 - Interview Management
 - Financial Results
 - Projections
 - Overview of the Transaction Structure

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Kickoff Phase (cont'd)

Kickoff and Diligence (cont'd)

- Prepare Dataroom
- Transaction Presentation
 - Overview of Legal and Financial Due Diligence Findings
 - Valuation Analysis
 - Fairness Analysis
 - Legal Items

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Kickoff Phase (cont'd)

While this is occurring, the Company and its Financial Advisor will typically run a similar process with potential lenders

The Management and Transaction Presentations are much smoother if the Company has worked with an advisor who has done much of this work in the Design Phase

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Proposed Term Sheet

	Proposed
Valuation	\$22,500,000
Structure	20% Sale to ESOP - \$4.5mm 80% Redemption - \$18mm
Bank Financing	\$8.5mm
Seller Financing	\$14mm
Warrants (fully diluted)	30%
Interest Rate	3%
Internal Return	15%
Management Incentive Plan	15%
Retention SARs	7.5%
Performance SARs	7.5%
Event Protection	None
Claw back	None
Governance	New Independent Bd Members
ESOP Loan	30 Years
Working Capital Adjustment	None

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Diligence, Negotiation and Documentation

Key Areas of Focus

- Historical financial results and normalization adjustments
- Backlog and income statement projections
- Competitive position of the Company within the industry
- Industry outlook
- Company-specific risk factors, such as customer concentration, management, etc.
- Potential liability, such as environmental, litigation, etc.
- Corporate records
- Projections

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Trustee's Response to Proposed Term Sheet

	Proposed	Response
Valuation	\$22,500,000	\$17,500,000
Structure	20% Sale to ESOP - \$4.5mm 80% Redemption - \$18mm	20% Sale to ESOP - \$3.5mm 80% Redemption - \$14mm
Bank Financing	\$8.5mm	\$8.5mm
Seller Financing	\$14mm	\$9mm
Warrants (fully diluted)	30%	20%
Interest Rate	3%	3%
Internal Return	15%	12%
Management Incentive Plan	15%	15%
Retention SARs	7.5%	0%
Performance SARs	7.5%	15%
Event Protection	None	Yes
Claw back	None	Yes
Governance	New Independent Bd Members	New Independent Bd Members
ESOP Loan	30 Years	20 Years
Working Capital Adjustment	None	Yes

Key Deal Issues

Focus on Key Deal Issues

- Goals of sellers – 100% sale vs. minority sale
- Financing
 - Terms and conditions
 - Seller vs. third-party
 - Warrants?
- Management SARs – reward for prior service, retain or incentivize for future performance?
- Valuation
- Projections and financial performance

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Key Deal Issues (cont'd)

Focus on Key Deal Issues (cont'd)

- Liquidity and working capital at closing
- Representations and warranties (both in the purchase agreement and the financing docs)
- Working capital adjustments
- Claw back
- ESOP design – reward for prior service or incentive for future performance?
- Event protection – pre-negotiate how the ESOP loan is handled in the event the Company is sold or the ESOP is terminated prior to repayment

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Final Negotiated Terms

	Proposed	Response	Final Terms
Valuation	\$22,500,000	\$17,500,000	\$20,000,000 with no claw-back \$22,000,000 with \$4mm cb
Structure	20% Sale to ESOP - \$4.5mm 80% Redemption - \$18mm	20% Sale to ESOP - \$3.5mm 80% Redemption - \$14mm	20% Sale to ESOP - \$4.4mm 80% Redemption - \$17.6mm
Bank Financing	\$8.5mm	\$8.5mm	\$8.5mm
Seller Financing	\$14mm	\$9mm	\$13.5mm
Warrants (fully diluted)	30%	20%	25%
Interest Rate	3%	3%	3%
Internal Return	15%	12%	14%
Management Incentive Plan	15%	15%	15%
Retention SARs	7.5%	0%	2%
Performance SARs	7.5%	15%	13%
Exit Protection	None	Yes	Negotiated Compromise
Claw back	None	Yes	Selected
Governance	New Independent Bd Members	New Independent Bd Members	New Independent Bd Members
ESOP Loan	30 Years	20 Years	30 Years
Working Capital Adjustment	None	Yes	Yes



Questions ?

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