Strategic Considerations for Corporate Growth & Liquidity Options

September 18, 2025

Strategic Considerations for Business Owners and Management Teams

Business Owners Have Many Ongoing Strategic Questions to Consider

- The past five years have seen an unprecedented series of environmental factors/events that continue to impact how business owners think about their strategic options
  - Interest rate volatility, labor shortages, supply chain challenges, trade policy uncertainty/tariffs, proposed capital gains tax changes, viability of M&A markets, general geopolitical risk, etc. etc. etc…
  - Post-COVID impacts (financial as well as psychological)

Do I Continue to Drive Growth?	Do I Seek to Realize Some Liquidity?	Do I Seek to Monetize/Exit the Business?
➢ Invest in business for organic growth ➢ Grow business via acquisitions (inorganic growth) ➢ Partnerships, joint ventures, investments	➢ Taking “chips off the table” via various means ➢ Continue to control ownership and business decisions ➢ Diversify risk	➢ Full or partial sale of business ➢ Various investor types – Strategic, Private Equity, Family Office, Employees (ESOP) ➢ Legacy and liquidity considerations

In today’s environment, a full range of strategic options can be on the table

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Given Countless Considerations…

How do we make sense of them?

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Framework and Key Considerations in the Decision-Making Process

Owner Priorities

- Active vs passive involvement in the business
- Retirement objectives and timing
- Near-term liquidity needs
- Family legacy and ongoing family involvement

Business Performance

- Trajectory and sustainability of top-line growth, margins and cash flow
- Debt capacity and M&A firepower
- Market position relative to peers

M&A Opportunities

- Availability of acquisition targets
- Expertise in acquiring and integrating businesses
- Industry consolidation trends / acquisition activity / competitive dynamics

Market & Regulatory Conditions

- General market outlook (economic, regulatory and capital markets)
- Industry outlook and growth potential
- Debt / risk appetite and availability
- Potential changes in tax laws

The decision-making process is typically informed by owner priorities, business performance and general market conditions

Considerations for Acquisitions as Part of Growth Strategy

It All Starts With a Strategy…

STRATEGIC ASSESSMENT OF BUSINESS AND PERSONNEL

- Clear definition of what Company is today
  - Business strengths / opportunities
  - Assessment of functional personnel
  - Where are there gaps?
  - Competitive dynamics
- Strategic review for next 3 - 5 years and beyond
  - What should Company seek to be?
  - How best to build value for shareholders?
- Awareness that all strategic initiatives may not all be accomplished through organic means
  - Assess which initiatives might be best accomplished via an M&A option for optimal impact and efficiency
  - As longer-term part of overall strategy, focus on development of M&A capabilities

POTENTIAL STRATEGIC AREAS OF VALUE CREATION

	PRIORITY
Geographic Expansion	?
Channel Diversification	?
Add New / Related Products	?
Expand Into New Industries	?
Diversify Customer Base	?

Building a Successful M&A Strategy Framework

1	**Determine if M&A is the best avenue to achieve growth**	▪ How does a M&A strategy augment Company's overall strategy? ▪ Do you have the right capabilities to be successful? ▪ Why is it the highest and best use of time and capital? ▪ Ensure organizational "buy-in"
2	**Identify what you are looking to acquire, and why**	▪ What is the specific product or service you are wanting to acquire? ▪ How does sector / opportunity align with strategic roadmap? ▪ What will the screening criteria be for evaluating targets? ▪ How will you prioritize opportunities? ▪ Does the target "fit" strategically and culturally
3	**Designate who will drive the M&A strategy / integration**	▪ Who will own the M&A strategy internally or do you need external advisors? ▪ Establish clear process for evaluation and approval ▪ Do you need additional resources to build and execute an integration plan? ▪ How will you define success? ▪ Likely the most important part of a successful M&A strategy
4	**Establish a sourcing plan**	▪ How will you identify targets? Will you require outside assistance? ▪ Outbound targeting? Inbound targeting? Networking? ▪ Who in the organization will be involved? ▪ How will you stay within the pre-defined M&A strategy?

Discipline and commitment of key decision makers is critical to success

Optimizing Success of Transaction Execution

Valuation

- Use investment thesis to estimate specific synergies, both top-line and cost-based
- Incorporate any potential dis-synergies (i.e. loss of customers or key employees, added complexity)
- Leverage business units early on to validate probability and reasonableness
- Conduct sensitivity analysis
- Determine walk-away price and maintain discipline around it

Due Diligence

- Focus on questions that drive value
- Validate value creation drivers identified in investment thesis
- Complete in-depth market assessment, customer review, and competitor analysis
- Identify cultural challenges early-on (i.e. leader style, structure, core values)
- Assess the degree of change required to achieve success
- Consider the risk profile of the existing business post-transaction

Deal Structure

- Utilize advisors (i.e. M&A attorney, bankers, CPAs)
- Determine preference for asset vs. stock structure
- Incorporate tax implications and contingent liabilities
- Establish normalized working capital for true-up
- Depending on business dynamics, consider contingent structures to mitigate risk

Build vs. Buy – Considerations for Organic and Inorganic Growth

Driving successful growth requires focus on what approach makes sense for the specific strategic initiative at hand, not solely what has worked in the past

	SHOULD I BUILD?	SHOULD I BUY?
Capabilities to Succeed	**Do you have the…..** ✓ Knowledge, process, and people to be successful ✓ Time, financial flexibility, and capital ✓ Superior resources to your competitors	**Do you have the…..** ✓ M&A execution capabilities ✓ Ability/experience to integrate and retain key people ✓ Financial flexibility
Ideal Market Characteristics	**Do the following exist…..** ✓ Growing end markets ✓ High barriers to entry ✓ Enhanced value proposition	**Do the following exist…..** ✓ Access to targets that align with strategic roadmap ✓ Available capital ✓ Reasonable valuation multiples
Benefits	✓ Relies on core competencies ✓ Scope/cost can be controlled ✓ Can be easier to maintain discipline	✓ Often fastest way to develop a product or service ✓ Can achieve diversification of revenue ✓ Synergies can bring additional value

Deciding to build or buy should be driven by what resources you need to strengthen existing competitive advantages or to lay the groundwork for new ones

Perspectives on Broader Liquidity and Transition Alternatives

Spectrum of Strategic Liquidity and Transition Alternatives

Ownership ↔ Liquidity

	Dividend Recapitalization	Leveraged Share Repurchase	Equity Recapitalization	ESOP	Sale of Company
Benefits	▪ Maintain full ownership ▪ Relatively easy to execute ▪ Low cost of debt relative to equity ▪ Provide tax shelter ▪ Allows for shelter diversification	▪ Provides shareholder liquidity ▪ Remaining ownership retains upside in growth ▪ Value accretion opportunity ▪ Liquidity for non-traded stock	▪ Creates liquidity and growth capital ▪ Enables shareholders to maintain some ownership ▪ Can be pursued in conjunction with acquisition strategy	▪ Creates liquidity and asset diversification ▪ Shareholders determine process and criteria ▪ Ownership incentives for employees ▪ Limited organizational change because stocks stay in friendly hands ▪ Lower valuation typically	▪ Maximizes current payout ▪ Eliminates business risk ▪ Capitalizes on potential synergies and product expansion opportunities ▪ Valuation not solely a result of capital markets environment
Considerations	▪ "Non productive" use of dry powder (i.e. no incremental cash flows) ▪ Potentially limits flexibility for additional senior debt ▪ Financial covenants ▪ Provides only partial shareholder liquidity & does not solve succession issues	▪ "Non productive" use of dry powder (i.e. no incremental cash flows) ▪ Potentially limits flexibility for additional senior debt ▪ Financial covenants ▪ Selective liquidity	▪ May reduce shareholders' upside ▪ Senior management expected to remain with the Company ▪ Shareholders may cede control ▪ Potential valuation discount for minority investment	▪ Tighter leverage standards and overall lending criteria ▪ ESOP administration costs ▪ Corporate obligation to repurchase shares ▪ May reduce Shareholders' upside	▪ Industry performance and timing ▪ Company positioning ▪ Uncertainty of shareholders' and management's future roles ▪ Integration and cultural issues

Business owners have a range of options to consider based on ultimate objectives

Understanding the Value of Your Business and Returns

Valuation

- ✓ Determine the fair market value of a business utilizing various valuation techniques

Discounted Cash Flow Analysis	Comparable Acquisitions Analysis	Comparable Trading Analysis	Leveraged Buyout Analysis

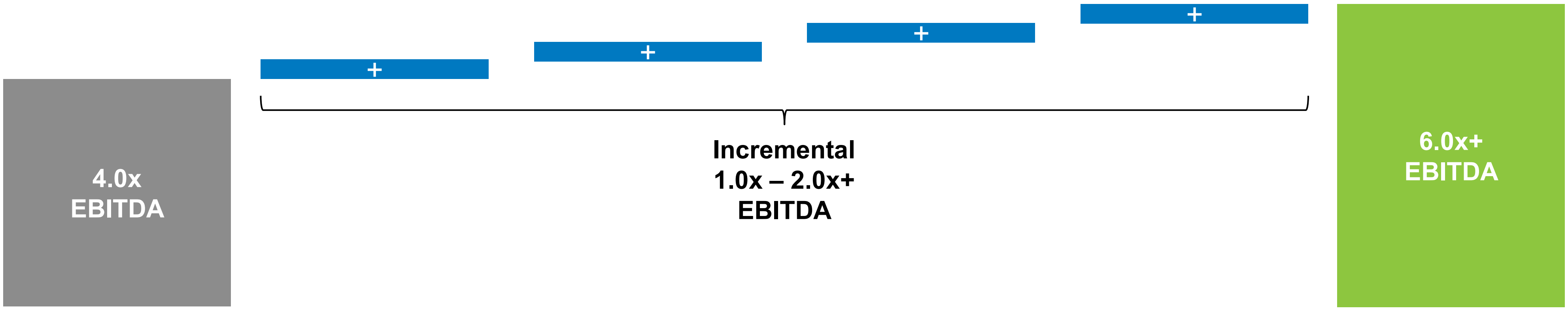
Returns

- ✓ Evaluate historical and projected returns in the business
- ✓ Compare returns vs. peers
- ✓ Understand the Company's weighted average cost of capital ("WACC")
- ✓ Ensure capital being deployed in assets / projects exceeds WACC
- ✓ Ensure equity returns commensurate with owning relatively small, illiquid, private company
- ✓ Private equity investors demand mid/high teens or better, why shouldn't you?

Before evaluating the alternatives, you must first be grounded in the value of your business and the returns it is generating

Valuation Considerations for Investors / Buyers

What traits attract a higher multiple compared to peers?



Fundamental Value	Value Enhancers		Synergies
Size	Investment Platform	Vertical Integration	Cost
Industry	Organic Growth Potential	Technology	Revenue
Product Suite	Management / People	Infrastructure / Process	
Margin Profile	End Markets	Company-Specific	
Free Cash Flow	Strong Supply Chain	Revenue & Cost Diversification	

Company specific characteristics can often inform valuation range

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Preparing for a Potential Sale

Preparation For A Sale Process Can Begin Years Before A Transaction Takes Place

Management Team

- Ensure strong management team is in place to guide next phase of growth, with robust track record pre-sale (unless asset is likely to sell to a strategic with existing management team)
- Lock in key individuals with stay agreements and build incentives around maximizing performance up to and during transaction

Financial Performance & Growth Initiatives

- Maintaining financial momentum throughout a process is critical to maximizing value and certainty of close
- In order to get credit for ongoing growth initiatives, tangible milestones should be achieved prior to or during the sale process (i.e., purchase order received for new, large client; new locations in pipeline and under development, etc.)
- Bring in an M&A advisor, tax specialist, and wealth manager early to help determine optimal process timing and individual financial strategies

Operations & Capex

- Operational initiatives should be prioritized to maximize cost reductions and overall EBITDA trajectory ahead of the transaction without jeopardizing the long-term viability of the business
- Capex investments pre-sale should be balanced to properly maintain PPE without unnecessarily overspending

Third Party Preparation

- Legal steps need to be evaluated and diligenced prior to launch; company-specific environmental, regulatory, and patent/copyright issues should be analyzed by independent consultants; industry market study produced, if justifiable
- Performing a Quality of Earnings before going to market to determine normalized earnings, EBITDA add-backs, and stand-alone costs (if relevant) is highly recommended and prevents issues on the back end
- Working with wealth management advisors early can minimize tax impact of a transaction

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ESOP Overview and Key Considerations

Overview

- An ESOP formation is a form of a leveraged share repurchase, whereby selling shareholders sell part or all the company's shares to a trust for the benefit of the employees. Over time, the shares are allocated to the company's employees.
  - ESOPs are highly regulated defined contribution retirement plans governed by ERISA
  - Formation transactions are typically financed with a mix of senior and seller debt

Company Key Considerations

- ✓ **Corporate Tax Savings**: Contributions to the ESOP are tax deductible;100% S-Corp ESOPs pay no federal income taxes
- ✓ **Legacy**: Preserves the culture, legacy, and employee base
- ✓ **Continuity**: Limited organizational change as stock stays in friendly hands; management team remains in place
- ✓ **Employees**: Motivate, retain and reward employees through allocation of shares at no cost to themselves – creates an "ownership mentality"
- × **Leveraged Transaction:** May limit debt capacity available for growth initiatives
- × **Repurchase Obligations**: Cost to repurchase shares from terminated participants
- × **Administrative Requirements:** ESOP administration and reporting requirements

Shareholder Key Considerations

- ✓ **Liquidity**: Vehicle for ownership transition, providing liquidity and asset diversification
- ✓ **Flexibility:** ESOP does not need to purchase a controlling stake - can sell 1% to 100% of the company's shares; creates a buyer for eventual full exit
- ✓ **Tax Benefits:** Sellers can defer and potentially eliminate the capital gains tax through 1042 election (C-Corp only)
- ✓ **Continuity:** Can continue to be a member of the management team or on the Board of Directors
- ✓ **Legacy**: Maintains company legacy
- × **Timing:** In most situations, offers only partial upfront liquidity, making an ESOP sale a longer-term solution
- × **Cash at Close:** Cash to shareholders is limited by the company's debt capacity

What Makes a Good ESOP Candidate?

Owner Priorities

- Generating stable cash flows and growing organically or via M&A
- Ability to attract / retain employees is critical to business success
- EBITDAE >$2 million generally
- Defensible and sustainable market position

Company

- Strong, committed management team
- Experience operating and growing a business with leverage
- Ownership mentality with limited / no equity today

Owner / Selling Shareholder

- Preserving legacy and employee base is paramount
- Interested in liquidity and diversification of wealth, but willing to be patient with full cash exit
- Limited interest from next generation or third-party buyers

Employees

- 20+ full-time employees (based in U.S. and non-union)
- Culture that would embrace / benefit from employee-ownership
- Long-tenured employee base

Current M&A Market Dynamics

The M&A Landscape Has Been Impacted by Various Factors

M&A markets were bursting at the seams during COVID, into 2021, and for the majority of 2022; what precipitated since has resulted in a normalization and cautious environment as buyers and sellers approach transactions

2021 & 2022

Deal making continues unabated

- Near Record Dry Powder
- Aggressive Strategics
- "Normal" Inflation
- Low Interest Rates
- Post-Covid Optimism
- Capital Gains Tax Avoidance
- Covid Burnout (Generational Exits)

2023 & 2024

Both sides proceeding with caution

- Hold Back of Portfolio Companies
- Weak Exit Opportunities for Sponsors
- Buyer-Seller Valuation Disconnect
- Demand / Outlook Uncertainty
- Geopolitical Instability
- Tightening Lending Conditions
- Family-Owned Remaining Attractive

Outlook for 2025

Renewed but cautious interest

- Continued Record Level of Dry Powder
- Quality Assets Still Remain in Favor
- Healthy Backlog of Deals from Banks
- Potential Recovery in Exit Opportunities
- LP's Potentially Demanding Returns
- "Normal" Interest Rate Environment
- New Administration Implications

Select Key Indicators Influencing U.S. M&A Outlook for 2025

17.8%
Increase in M&A deal value YoY in Q3 2024

~50%
US PE Transactions were Founder-Owned as of YTD Sept. 2024

5.8 years
Median Holding Period of US PE Investments Exited as of YTD Sept. 2024

> 7%
Average Borrowing Cost

How Deals Are Getting Done in This Environment

PRIMARY FACTORS

Preparation on the seller front is paramount to any successful transaction – having your company in order is key to a successful process

Clear and articulate outlook and levers to drive growth in a business, either through **product line extensions, new geographies**, etc. (what are the immediate low hanging fruit opportunities)?

Timeliness and ability to procure information in an efficient manner to keep **engaged parties moving forward without losing steam**

Having some skin in the game via roll-over, typically **gives comfort to buyers, especially financial** – or having a framework on **how the business can sustain itself on a go-forward basis is critical**

Other Key Influencing Factors

- ***Customer Concentration***
- ***Exposure to Tariffs***
- ***Supplier Diversification***
- ***Bench of Management***
- ***Leveraging an M&A Advisor***
- ***Clean Financial History***
- ***Valuation Expectations Aligned***
- ***Limit the Sudden Surprises***

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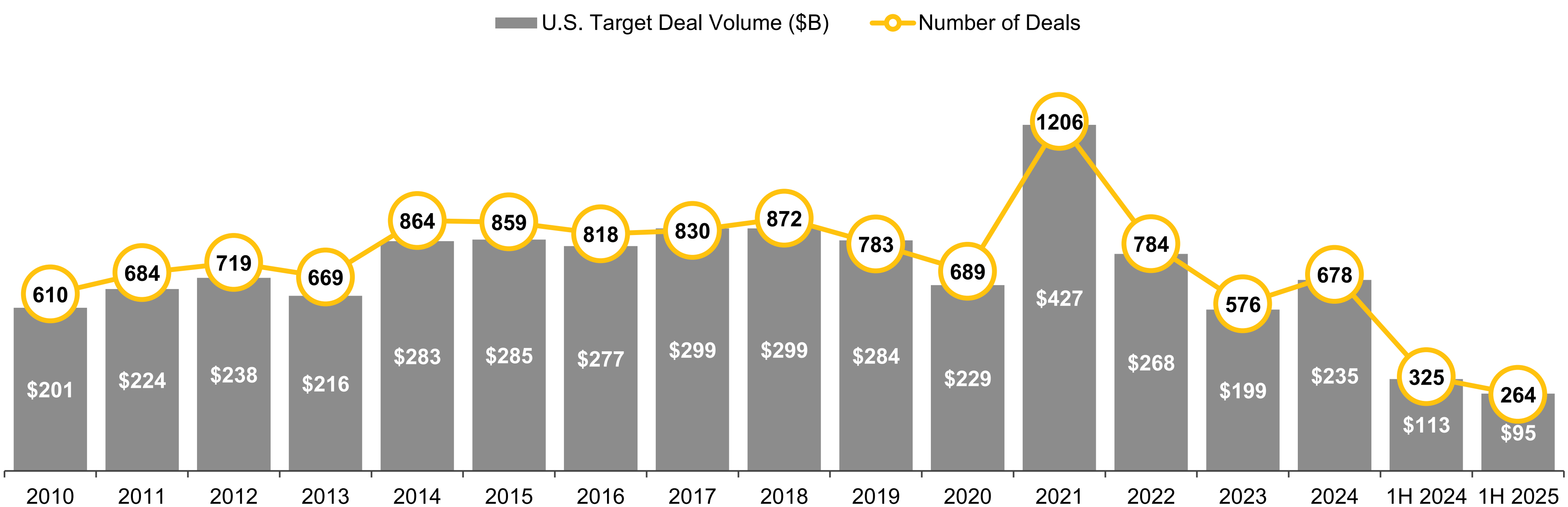
U.S. Middle Market M&A Deal Value and Volume

- U.S. Middle Market M&A has experienced a slight decline year-over-year compared to the first half of 2024 with a ~16% decline in deal volume and a corresponding ~15% decline in the number of deals
  - While investor sentiment improved following the 2024 U.S. presidential election and the new administration's perceived pro-business stance, uncertainty around tariffs, trade policy, and rate cuts continues to weigh on dealmaking confidence
  - Limited availability of high-quality assets and delayed rate cuts suppressed deal flow, while buyers remained selective amid ongoing political and economic volatility
- Private Equity firms continued to accumulate record levels of dry powder, prompting increased interest in Middle Market transactions, particularly for high-quality assets with strong growth and profitability profiles
- The outlook for U.S. Middle Market M&A for the remainder of 2025 is cautiously optimistic, with expectations for a gradual recovery in deal volume supported by stable interest rates, improved credit conditions, and a backlog of PE-owned companies seeking exits
- Sellers who proactively prepare for market conditions—through robust diligence, realistic valuation expectations, and clear growth narratives—will be best positioned to capitalize on emerging opportunities in the second half of 2025



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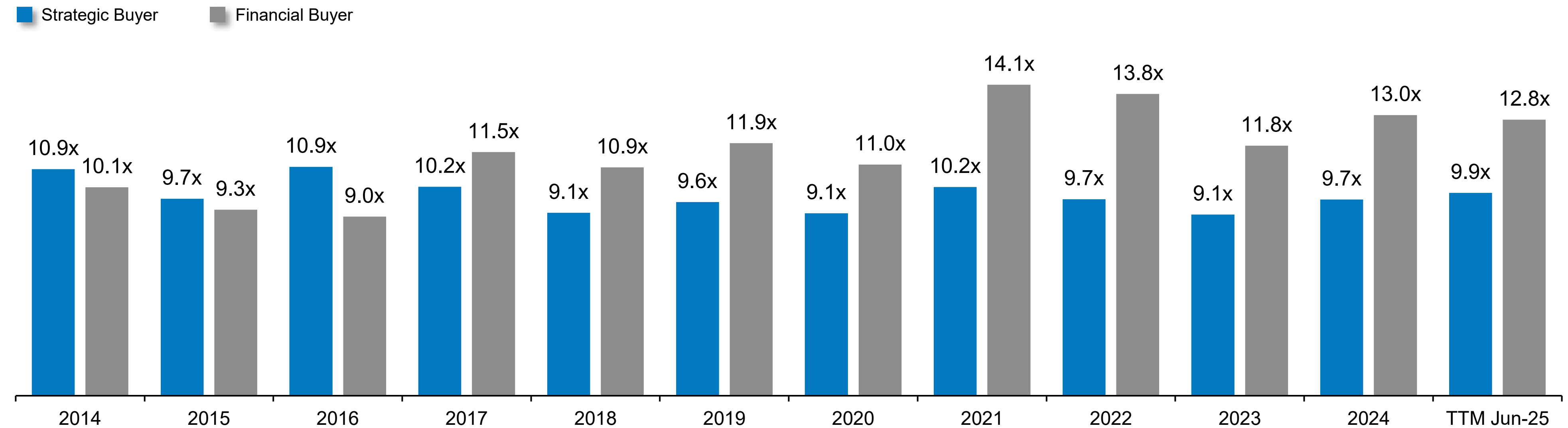
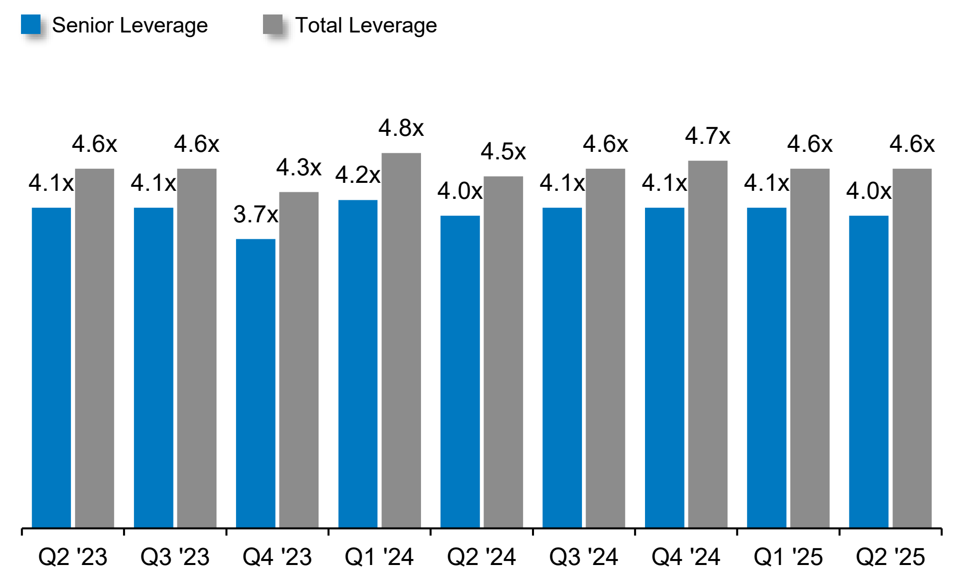
U.S. M&A Purchase-Price Trends

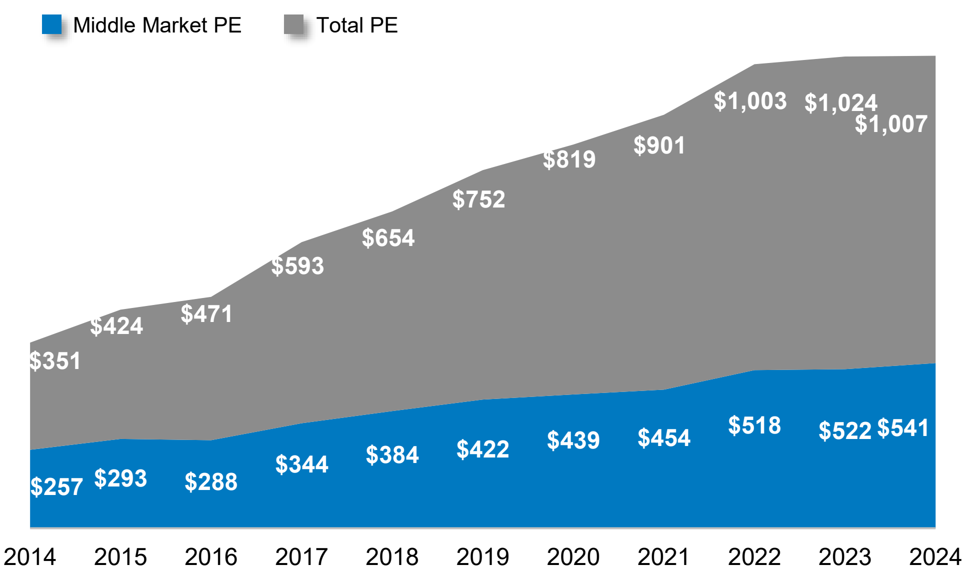
MEDIAN U.S. M&A EV / EBITDA MULTIPLES[1]



AVERAGE SENIOR AND TOTAL LEVERAGE MULTIPLES



U.S. PE MIDDLE MARKET DRY POWDER[2] ($B)



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