



Exploring the M&A Market During Uncertain Times

July 15, 2020

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Combined Transaction Team



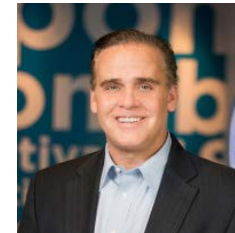
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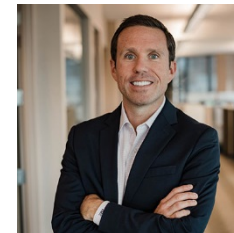
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GBQ Overview

SERVICES

- Assurance
- Federal Tax
- Forensic and Dispute Advisory
- Information Technology
- International Tax
- Outsourced Accounting
- Risk Advisory
- State and Local Tax
- Transaction Advisory
- Transfer Pricing
- Valuation and Financial Opinion

Empowering Growth

At GBQ, we empower growth; growth of our people, our communities and our clients' businesses.

1953-2020

67
YEARS
IN BUSINESS



200+
ASSOCIATES

CLIENTS IN

50
STATES

AND

25
COUNTRIES



100+
CPAs

4

OFFICE
LOCATIONS

- Cincinnati
- Columbus
- Indianapolis
- Toledo

INDUSTRIES

- | | | | |
|-----------------|----------------------------------|------------------------------|------------------|
| → Construction | → Healthcare | → Real Estate | → Service |
| → Credit Unions | → Manufacturing and Distribution | → Restaurant and Hospitality | → Technology |
| → Energy | → Nonprofit | → Retail | → Transportation |
| → Government | | | |



GBQ has been named a TOP 200 Accounting Firm by *INSIDE Public Accounting* from 2010 - 2019. The report ranks the nation's largest accounting firms.

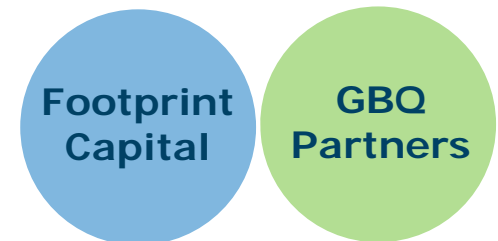
Footprint Overview

- Footprint Capital is a specialized investment banking firm focused on the middle market
- GBQ Partners is a top 100 regional accounting firm with approximately 200 associates
 - Headquartered in Columbus, Ohio, with offices in: Cincinnati, OH; Toledo, OH and Indianapolis, IN
- Footprint was formed in 2014 (replacing GBQ Capital), outside of the CPA firm, to simplify accounting independence and FINRA requirements
- This collaboration provides our clients with a unique mix of investment banking paired with transaction advisory services, including:
 - Sell-side advisory
 - Buy-side advisory
 - Capital sourcing
 - Due diligence
 - Tax structuring
 - Valuation
 - Ownership transition planning

Prior Structure



Current Structure



Independent Strategic Alliance

Representative IB Transactions



Buckeye Power Sales
Lawn & Garden Equipment Superstore

HAS ACQUIRED



Buy-Side Advisor



STONEHENGE PARTNERS, INC.
Private Capital Solutions

HAS ACQUIRED



Buy-Side Advisor



HAS BEEN ACQUIRED BY



Sell-Side Advisor



has completed the
acquisition of



Buy-Side Advisor



has been
acquired by



Sell-Side Advisor



WAS ACQUIRED BY



Buy-Side Advisor



SOLD CERTAIN INTERESTS TO



Sell-Side Advisor

the **Redstone** group

WAS ACQUIRED BY



A PORTFOLIO COMPANY OF



Sell-Side Advisor



has been
acquired by



Sell-Side Advisor



**FISHER EYE
& LASER CENTER**

has been
acquired by



Sell-Side Advisor

Transaction Advisory Services 2019 Year In Review

7



About GBQ Transaction Advisory Services in Affiliation with Footprint Capital

- Investment Banking with Footprint Capital
- Sell-Side Advisory
- Capital Raises
- Due Diligence Services
- Tax Structuring
- 17 TAS Team Members
- ESOPs
- Purchase Price
- Fairness Opinions
- Buy-Side Advisory
- Management Buyouts
- Ownership Transition Planning

Discipline	2019 Deals	Deals Last 5 Years
Assurance and Tax Due Diligence and Tax Structuring	28	135
Capital Markets w/ Footprint Capital -M&A	8	59
ESOP Formations	14	87
Purchase Price Allocations, Pre-Transaction Valuations and Fairness Opinions	28	267
Totals	78	548

ABOUT GBQ



Trends & Topics

COVID-19 has been a meaningful disruption to the M&A market and fundamentally changed the outlook of many buyers and sellers.

Short Term Impact

- Sharp M&A Decline
- EBITDA Deterioration
- Uncertainty of future performance
- Supply Chain Issues
- Employee and Labor Challenges
- Lengthened due diligence process

Longer Term Impact

- Increased virtual meetings
- QofE more necessary to normalize earnings
- Increase in PE dry powder
- Strong companies in control

Topics for Discussion

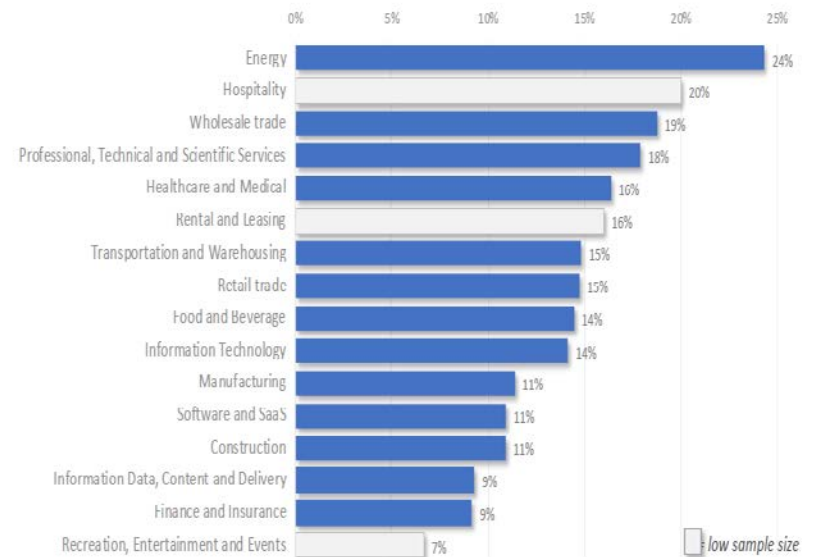
- Deals in Process
- Three Performance Categories
- Outlook for Deals
- Effect on Valuation
- Look into Capital Structure, including debt financing, equity, and seller participation
- PPP Loan Treatment in Transactions

COVID-19 Impact – Business Valuations

According to a survey completed by the AM&AA, the average drop in valuation, for deals that are still actively in-progress, was 14% and ranged by industry from 7% to 24%.

- All time highs to “it depends”
- No blanket approaches, each situation is unique
- Future cash flows are key
- Well performing companies will continue to have strong valuations, with significant interest from buyers as a result of fewer deals in market
- Companies who have a different long-term outlook, as a result of COVID-19, will have a negative valuation impact
- Increased use of contingent payments based upon future performance

Drop in Valuation for Active Deals Still in Progress (Figure 2.4)



* Out of 196 respondents. Q22: Since February 2020, has the total consideration for closed deals or the valuation for active in-progress deals dropped? Q24: In which industry/industries are those DEALS ACTIVELY IN PROGRESS located? Select all that apply.

COVID-19 Impact - Financing

From our experience financing has not prevented the closing of any transaction and capital remains readily available, but the process does seem to have more reporting, requirements and a longer timeline

- Initially slowed due to PPP loans
- Strong companies with solid banking relationships generally have not had issues obtaining financing, including those with short to medium term impact
- Weak companies will have issues obtaining financing due to banks closely monitoring potential problem loans and uncertainty in the market
- Certain issues may not be identified until Q2 covenant testing period
- Minority equity or subordinated debt could be solutions to strengthen balance sheets
- Buyers taking advantage of interest rates at all-time lows
- Liquidity expected to be heavily weighted in future underwriting
- Banks/Buyers looking as far back as 2007-2011 for past recession performance
- Questions related to accuracy of projections
- More analysis on supply chains, technology, customer and vendor relationships
- Earn-outs and seller notes are being utilized to bridge gaps in bank debt and purchase price

COVID-19 Impact – PPP Loans

PPP loans are not expected to negatively affect or restrict the M&A market, nor selling owners who took PPP funds.

- Private Equity Groups encouraged sellers to apply for an obtain PPP funds prior to finalizing deal terms.
- Footprint advises clients create detailed PPP audit trails to clearly identify PPP proceeds and expenses in order to maximize forgiveness.
- From our experience and perspective, unforgiven/outstanding balance of PPP loans would be held in escrow or by the buyer. If the loans are not forgiven at the end of the test period, funds will be used from escrow to retire the debt. If the loans are forgiven, they will be returned to the seller.
- Example: Project Plunger received \$362,000 in PPP funds.
 - The buyer assumed the PPP loan
 - \$362,000 of cash was left in the business
 - The purchase price was increased by the loan amount of \$362,000
 - The funds will be held by the buyer until the forgiveness application is processed and finalized.
 - If the loan is forgiven, the funds will be returned to the seller in the form of cash, less taxes due with the income associated with the forgiveness.
 - If the loan is not entirely forgiven, buyer will use these funds to payoff any unforgiven loan amount and return the remainder, net of taxes, to the seller.

Deals in Process: Pause to Assess

Buyers, Sellers and Capital Providers are pausing deals in-progress to assess the economic impacts of COVID-19 prior to completing the transaction.

There are three possible outcomes as a result:

Proceed with transaction as planned and move to closing

Adjust deal terms and proceed to closing

Discontinue process and terminate transaction



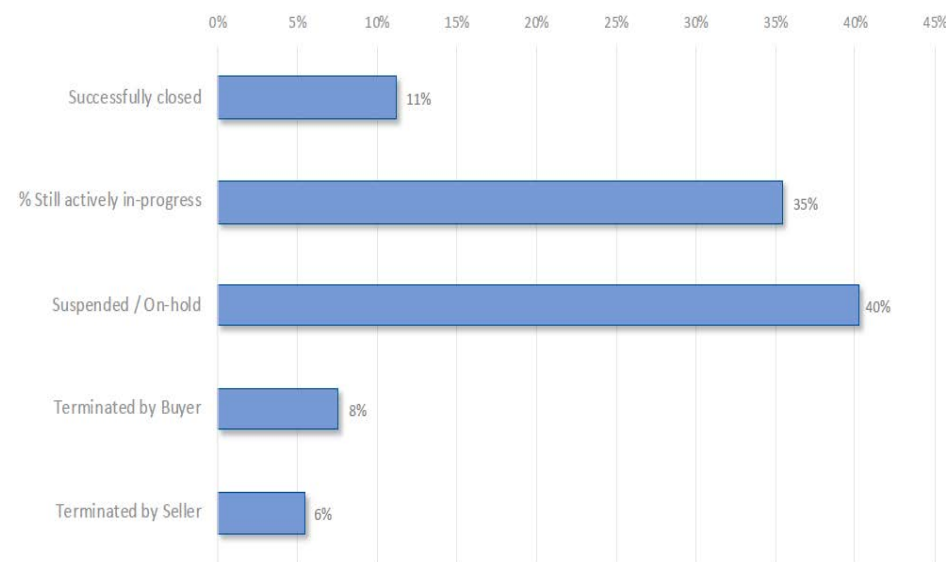
Note: COVID-19 may or may not be a MATERIAL ADVERSE change that allows the buyer to terminate the transaction.

Significant Impact to Deals in Process

According to a survey completed by the Alliance of Merger & Acquisition Advisors: Deals in-process during COVID-19 were significantly impacted, with 40% suspended and 14% terminated

- The impact on deals in-process since the outbreak varied by industry from 30% to 80%
- 60% of respondents reported at least one new deal since Feb 20 – 40% reported no new deals
- 42% of new deals in Manufacturing and Medical
- Corporate Buyers vs. Financial Buyers about 50/50; seems like PE is a lot more aggressive right now. Corporate Buyers are also slower due to travel restrictions.
- Generally, less impact on M&A in small to mid-sized end of market
- “Strategic Acquisitions” rule in Current Environment

Current Status of Pre-COVID-19 Deals (Figure 2.1)



Mid-Market Viewed in Three Categories

No Negative Impact or a Beneficiary

- Companies that were largely unaffected or were benefited in as a result of the pandemic
- No decrease in sales or even increased in sales
- Were deemed “essential” and did not experience a shutdown

Short or Medium-Term Impact

- Companies that were affected by the pandemic, however, have either recovered or operations will likely normalize soon
- Sales decreased, but company was able to utilize liquidity to weather the storm
- Shutdown was short-term and was considered a one-time event

Long-Term or Permanent Impact

- Companies that still have not rebounded from the affects of the pandemic
- Sales decreased and it is unclear when/if sales will rebound
- Shutdown has had long-term impact, which may be consumer, supplier or industry related

Deal Case: No Negative Impact

Project Plunger

Business Description: NE Ohio residential plumbing and drain cleaning business

Industry: Residential Services

Size: Approx. \$10 million enterprise value, roughly a 6x multiple

Footprint Role: Exclusive Sell-Side Investment Banker

Acquirer: Chicago based Private Equity Group with platform in the space

Situation: Our client was deemed essential and continued working throughout COVID with a minimal impact to revenue. After the buyer requested a 30 day pause beginning in late March, the deal resumed at the pre-COVID-19 price and terms. Footprint and our client had a socially distanced meeting with the private equity buyer May 1st, which at the time was ahead of when most buyers were taking meetings, providing them a competitive advantage in getting the deal to close.

Closing Date: Targeted for July 10, 2020

PPP Dollars: Yes, \$362,000

Deal Case: Short / Medium Term Impact

Project Group Eye

Business Description: Acquisition of two ophthalmology and optometry buying groups, which distribute products used by doctors as well as consumer products purchased by patients to practices through the United States and Canada

Industry: Healthcare

Size: Approx. \$10 million enterprise value, roughly a 6.5x multiple

Footprint Role: Buy-Side Investment Banker, leading Capital Raise

Acquirer: European strategic acquiring/seeking to set up operations in North America

Seller: Divestiture from a public company

Situation: After a 60 day pause, the transaction will be moved from an all cash transaction to roughly two-thirds of the transaction being based upon future performance (see following slide for summary)

Closing Date: Targeted for August 31, 2020

PPP Dollars: No

Deal Case: Short / Medium Term Impact

Cash at Close	\$3.5 million								
Seller Note	<p>\$0.5M</p> <p><i>3 year term, interest only; 6% PA paid annually</i></p>								
<p>Earn Out – Measurement Period #1</p> <p><i>One Year Anniversary</i></p>	<p>At the one-year anniversary, there will be a multiple of EBITDA applied to the trailing twelve month EBITDA.</p> <p>The multiple will depend on the EBITDA achieved based on the following schedule:</p> <ul style="list-style-type: none"> • \$0 to \$500K – 2.5x • \$501K to \$750K – 3.5x • \$750K to \$1M – 4.5x • \$1.001M to \$1.250M – 5.5x • \$1.251M to \$1.454M – 6.5x <p>The Earn Out payment will be reduced by the \$3.5M Cash at Close payment and the \$0.5M Seller Note</p>								
<p>Earn Out – Measurement Period #2</p> <p><i>Second Year Anniversary</i></p>	<p>At the second-year anniversary, the same exercise (using the same metrics) will be applied.</p> <p>The Earn Out payment will be reduced by (i) \$3.5M Cash at Close payment and (ii) the \$0.5M Seller note and (iii) any earn-out paid related to Measurement Period #1</p>								
Total Potential Deal Value	<table> <tr> <td>Cash at Close</td><td>\$3.500M</td></tr> <tr> <td>Seller Note</td><td>\$0.5000M</td></tr> <tr> <td>Earn Out - \$1.454M x 6.5x, less \$4M</td><td><u>\$5.451M</u></td></tr> <tr> <td>Total</td><td>\$9.451M</td></tr> </table>	Cash at Close	\$3.500M	Seller Note	\$0.5000M	Earn Out - \$1.454M x 6.5x, less \$4M	<u>\$5.451M</u>	Total	\$9.451M
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Seller Note	\$0.5000M								
Earn Out - \$1.454M x 6.5x, less \$4M	<u>\$5.451M</u>								
Total	\$9.451M								

Deal Case: Long-Term Impact

Project Balance

Business Description: Canadian based manufacturer of custom, prescription orthotics

Industry: Healthcare

Size: Approx. \$10 million enterprise value, roughly a 5x multiple

Footprint Role: Exclusive Sell-Side Investment Banker

Acquirer: Not yet under LOI, between IOI and LOI, three strong buyers including one strategic, one local independent sponsor and one PE buyer with podiatry holding company

Situation: The process remains on hold. While performance has started to improve, it seems that ordering of orthotics has lagged other increase in performance of other healthcare practices. The buyers would like to see historical performance return to normal for a continuous 90 day period to hold the pre-COVID price and terms in place.

Closing Date: Unknown

PPP Dollars: No, Canadian

Three Categories By Industry/End Market

No Negative Impact or a Beneficiary

- Much of healthcare
- Food and food packaging
- Online retailers
- IT services
- Residential Services (emergency repair, lawn care, pest control, etc.)

Short or Medium-Term Impact

- Manufacturing
- Transportation & Logistics
- Construction
- Engineering services
- Financial services
- Specialty physician practices
- Discretionary Commercial Services (HVAC, sewer drain, preventative maintenance and repair)

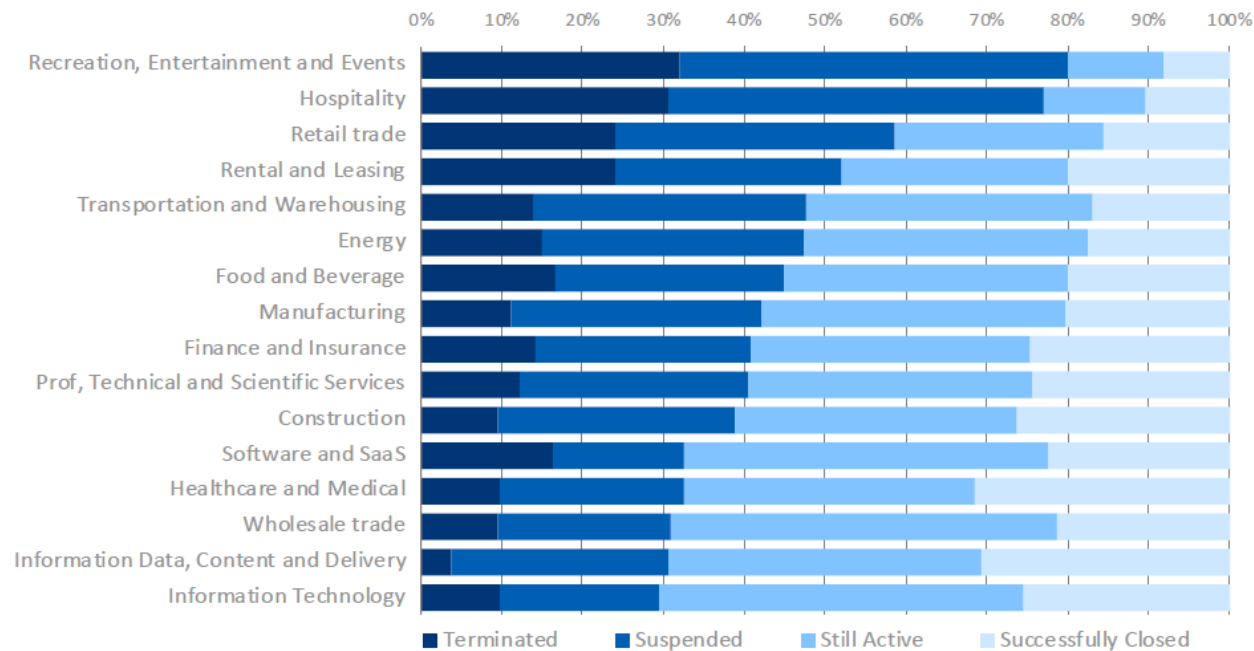
Long-Term or Permanent Impact

- Restaurants
- Hospitality
- Travel related (aerospace, automotive, etc.)
- Entertainment related
- Children's services
- Fitness

Survey Impact on Deals by Industry

According to a survey completed by the Alliance of Merger & Acquisition Advisors: The impact on deals in-process since the outbreak of COVID-19 varied by industry from 30% to 80%

Relative Percentage of Deal Outcomes by Industry (Figure 2.3)

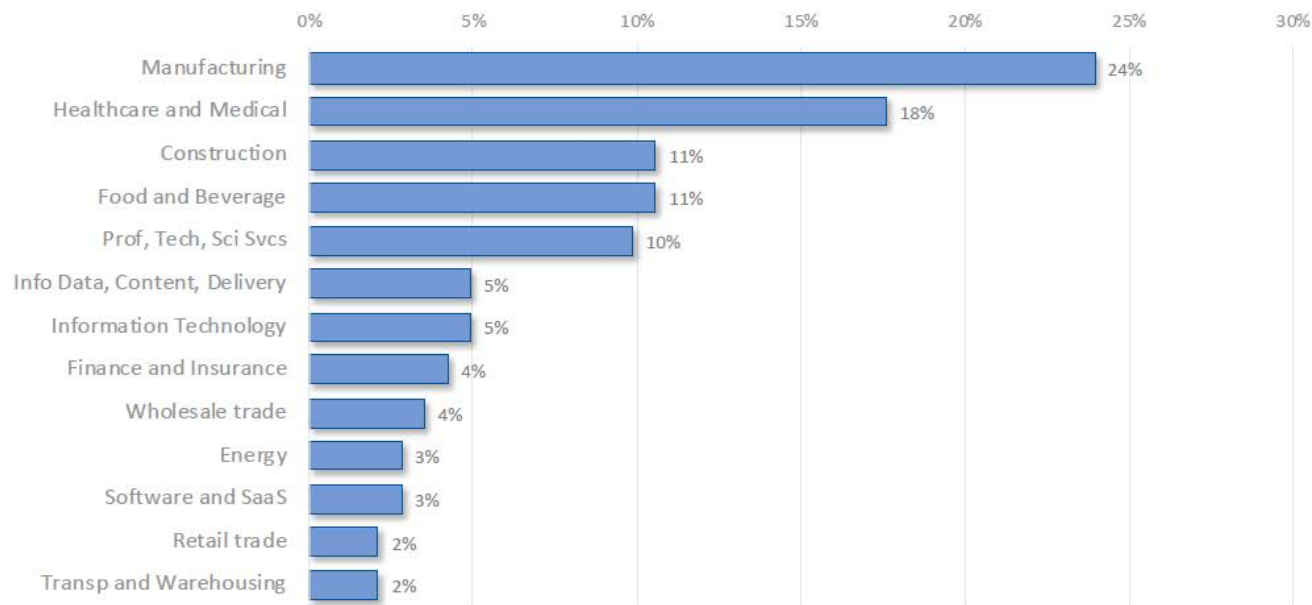


* Relative percentage of responses by industry. Impacted = terminated or suspended. Q20: In February 2020, before the impact of COVID-19, how many deals was your firm working on?
Q23-26: Which industry/industries were those deals in? Select all that apply.

Survey New Deals by Industry

According to a survey completed by the Alliance of Merger & Acquisition Advisors: New deals, since COVID-19, are focused in Manufacturing and Healthcare/Medical

New Deals Since COVID-19 by Industry (Figure 2.7)

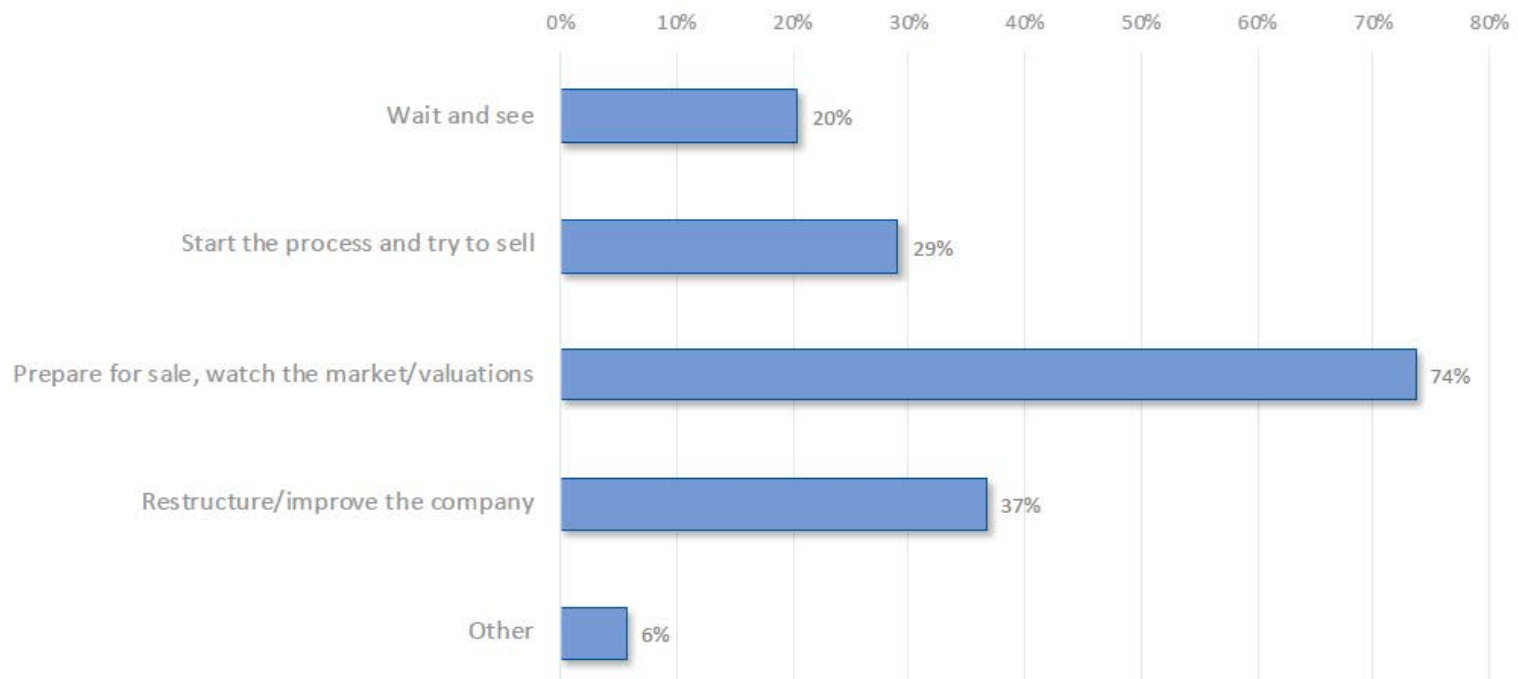


* Out of 142 respondents. Q31: How many new deals has your firm started since February 2020?

Advice to Potential Sellers

According to a survey completed by the Alliance of Merger & Acquisition Advisors: Advisors' advice to sellers in light of COVID-19 focused on active preparation, readiness and monitoring the market.

Advice to Sellers (Figure 2.9)



Summary & Thank You

- For M&A, buyers, sellers and capital providers may be pausing to assess the situation
- Deals in-process may be unaffected, renegotiated or terminated.
- New deals have launched since the beginning of the pandemic; however, volume is slower.
- M&A is seen as a top way to regain lost revenues and profits from COVID-19.
- Generally, there has been less impact on M&A in the small to mid-size end of the market.
- Valuations may fluctuate due a wide range of factors, but there is no blanket approach to identifying them.
- Financing is still available for strong borrowers; credit is widely available compared to 2008-2009.
- Deal structures are being modified to include earn-outs and/or seller notes to bridge gaps in traditional financing.
- PPP is not expected to affect M&A, nor negatively impact sellers.

Thank you – please let us know if we can be helpful to you in any way

GBQ's Webinar Series Continues

- July 22, 2020, 11:30 AM – 12:30 PM EDT
 - [Lost Profits in the Era of COVID-19](#)

Each webinar qualifies for 1.0 hour of CPE based on Ohio CPE requirements and 1.0 hour of CLE pending approval by the Ohio Supreme Court and Kentucky Bar Association.

Visit our [events page](#) to see what else we have scheduled and view our past webinar recordings [here](#).