GROUP CASE STUDY FORMAT

I. Process:

a) The cases will be distributed by email and to the participants for discussion. (we may have small groups depending on size.
   i) If small groups, a designate for Discussion Facilitator, Note Taker, Time/Agenda Keeper, and Presenter will be selected/volunteered. NOTE: They can all be the same person.
b) Participants will be given 20 to 30 minutes to discuss
   i) Each table will then be asked to present table consensus or range of ideas or questions that need to be answered to provide the best solution.
c) The Moderator will finalize discussion with conclusions or comments, or highlight key points or novel ideas

II. Facilitator Questions:

Questions will be somewhat unique to each case study. There are conversation starters as well as areas that may lead to conclusions.

CASE STUDY: Where Do We Go From Here?

Wednesday, September 25, 2019, Bucks County Meeting

Who is the best buyer for this business, and what would be the FINANCIAL issues in structuring a deal, maintaining HUMAN CAPITAL productivity and managing RISK?

1. Background

The company is a privately-held First Generation Roofing Contractor headquartered in the Philadelphia suburb. They operate in PA, NJ, and Del. They have two divisions. One specializes in the Education/School Market, and the other division specializes in Commercial projects in roofing and runoff mitigation. Revenues are equally split between the divisions, and business has been stable over the past five years. The company is 35 years old with an excellent reputation in the industry. The greatest challenge is workforce related (hiring and staffing), trying to keep level of employment to meet but not exceed staffing needs of project-based business.

It is not cap-ex intensive business. However, there is a requirement for bonding equivalent to $15M annually. Bonding roughly would require $1M+ in average Working Capital and $2M in Equity to fund bonding requirements and will require personal guaranties.

The business can be cyclical. There are multiple owners, most not working in the business.

- History of strong positive cash flow and steady top line
- 2018 annual revenue was $25M
- EBITDA margins in the 10% range approaching $2.5M annually
- Topline is flat but stable over the last ten years
- Only long-term debt is a shareholder (founder) loan to the company of $2Mwill
- Has $1.5M line of credit that is paid to $0 annually

2. Ownership/Management

1) ***Ownership structure:***
    a) *Parental ownership/children ownership*
        i) Four kids (10% ownership each)-Do not work in the business
            (1) All in their 40s and 50s
            (2) Only 2 of the kids can run the business-which would be the “mom’s” ideal situation.
        ii) Mom share 27.5%
            (1) Age 70 and in good health
            (2) Oversees bookkeeper
        iii) Dad share 27.5%

(1) Age 79- health not good
(2) Key salesperson and has relationships with clients/ contractors

2) Three key managers

a) CFO-Age 50
 i) CFO also has some funds to invest. Can individually buy out more of the company than the Operating Managers (would want a partnership with operating managers and possible outside investment and open to either debt or equity

b) OP MGR. Division A-Schools-Age 45
 i) Key mgr. 64 and in good health. He does have a substantial investment opportunity (retirement funds) – 50% of his retirement funds would have to be tied up into the acquisition

c) OP MGR. Division B-Roofing Age 64
 i) This manager has an interest in buying the business, but no significant equity, and not substantial enough assets/cash to buy out the owner
  (a) Has trained a manager to take over when he retires (next 2 -5 yrs.)

3. Present problem or opportunity

a) The founder wants to sell. He has an interest in selling to current management, but a Third Party sale is also okay. Founder's wife wants to sell or give it to the kids
b) None of the kids are interested in running the business or are qualified
c) Key managers would like to consider buying
d) Management will not stay if kids come on board to take over the company
e) Funding a sale to managers will force the seller to take back a loan as managers do not have enough equity/cash or ability to qualify for a commercial loan to purchase the company outright
f) The Company is operated by management, and most of the institutional knowledge resides with the managers, staff, and founder. Current management is competent
g) The bonding requirements will be substantial

Facilitator Questions:

1. The owner desires to sell to current management. Discuss challenges related to Financial, Human, and Risk Capital that need to be considered to make that happen?

2. Does the company have the right attributes for a recapitalization with a management buyout? What are other options? What are the pros and cons of each?

3. What issues might occur if the Founder is no longer involved in managing the business? What other issues should we know about regarding current management?

4. What XPX members would be best to help assist the family and why?