

EXIT PLANNING EXCHANGE  
2015-2016 Case Study  
Background Information

To: XPX Members and Guests  
From: Programming Committee  
Re: Case Study for 2015-2016 XPX program year

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Welcome to the 2015-2016 Exit Planning Exchange (Connecticut Chapter) Case Study!

As an association of seasoned advisory professionals for business owners and their companies, we are all focused on delivering the highest level of subject matter expertise to our clients. However, none of us can work in a vacuum; each of us are part of a collective team effort that has to encompass a holistic approach to our clients and their needs. Each client is unique, as are the facts and circumstances surrounding each of our engagements. As a result, there are no standardized answers or 'cookie-cutter' solutions.

With this in mind, XPX has attempted to create a 'typical' case of a business owner and some (but certainly not all) of the issues that the owner is facing. We will be using this as our 'client' for the year and will be building upon this case for each XPX event this year. Each event will focus on our 'client' so that there is consistency and continuity in the preparation process throughout the year. Below is our tentative schedule of events, each of which build upon the prior event, each with a focus on our 'client'.

September 18, 2015:	Strategic Options Overview / Case Setup
October 16, 2015:	Managing Family Dynamics – How can the family prepare for success?
November 20, 2015:	Wealth Management Planning – How much do I really need?
December 18, 2015:	Estate Planning Options – Focus on after tax proceeds
January 15, 2016:	Business valuations – What is the business really worth?
February 5, 2016:	Successful Exit Stories: Joint meeting with ACG
March 18, 2016:	Investment Banking Process - The journey to a Closing
April 22, 2016:	Negotiating Strategies – How can I get what I need and want?
May 20, 2016:	Due Diligence Preparation and Pitfalls – War stories
June 17, 2016:	Legal Documents: What are they and what do they mean?
July 21, 2016:	Closing Cocktail party! A classic celebration for a successful exit

While we hope you will attend the entire series of our meetings, you will learn something at each meeting, whether or not you have participated in prior sessions. We look forward to seeing you soon!



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To: Advisory Team  
From: Bob Jones, CEO  
PeopleCo Manufacturing  
RE: Planning for the Future

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Thank you again for your time this morning to talk to us. I am glad that our mutual friend connected us.

Based on our conversation, I think we are prepared to move forward with you in helping us plan for a transition here at PeopleCo, and we are glad to have you on the team. As promised, here is some information and background that will help you understand our situation and our goals.

**Business Overview:**

The PeopleCo Manufacturing Company (“PeopleCo”) was founded in 1937 by Greg Smith Sr. My father, Robert, started in the company in 1946 as a machinist after high school. Greg was so impressed with my father’s skill, dedication and tenacity that he continued to promote him over the years. When Greg passed away in 1954, my father bought the company from the estate and continued to grow the company until 1982, when I took over for him as President and CEO. I too started on the factory floor and worked my way up through the ranks. My dad passed away a few years later in 1998. In 2003, during the low point of the last economic cycle, I bought out my brother’s share of the business, so now I own 100% of the company. However, as part of the settlement, he kept the real estate and we now have a long term lease with him. That may be a good thing, because we suspect there may have been some issues on the site many years ago—nothing serious, but as they say, “not our problem”.

PeopleCo is a machine shop that focuses on high-value-added manufacturing for highly technical aerospace components. We are a key supplier to the large aerospace manufacturers (Boeing, Airbus and Pratt & Whitney) who rely on us for our unwavering commitment to quality and a high-degree of personal service. I maintain strong personal relationships with each of our core clients, and see them all socially as well. Most of these relationships go back to when my father ran the business.

Attached are our summary financial statements that were prepared by our controller and blessed by my accountant (who happens to be my brother-in-law). My accountant suggested that we convert to an S Corp a couple of years ago to prevent "double taxation". Not sure if this changes anything.....

**Operations Overview:**

We are in a competitive industry where price and service matter. We try to be price competitive, but end up winning on our long-standing relationships and reputation for quality and service. We just do things better than our competitors.

We have a good management team, most of whom have been with me for 20+ years. They know their stuff cold. While I still make most of the big decisions, and step in when there is a problem, they manage most of operations and manufacturing where I tend to focus on the financials and customer relationships. I still get my hands dirty on the factory floor when I need to, as that is where I grew up.

My son Bobby is being groomed to take over the business and he is exceptionally smart and talented. He is a bit of risk taker, but has really driven our top-line growth over the last couple of years. In a few years, I will start to transition the business to him, but would like to stay involved – just not the same amount that I am today.

We aren't perfect, but we are in good shape. We had a couple of glitches over the years: one of our employees lost two of his fingers on the floor last year through his own carelessness. He is out on disability, and he claims he may never be able to work again, but we know better. Also, in the normal course of business, we are being sued by one of our former employees who claims that we are infringing on one of his new patents, but he is just trying to be a nuisance. We are not worried about it.

**Strategic Objectives:**

As we discussed, we have been approached by a large strategic player who wants to acquire us. We have not discussed valuation yet, but they seem really interested and there are some potential cost savings that could be realized if we put our companies together. They have approached us before, but they seem more serious this time. They told me that they would be willing to pay an above market multiple, and can close quickly because they would be buying only the assets of the business, but I don't really understand what that all means. I am also a little worried that they might fire many of my long-term employees, who helped me build the company's value. Ideally, I would like to see them get a bit of a bonus when the deal closes for helping us get here.


I was not contemplating selling, as I wanted to hand this down to my kids (two of whom are working their way through the management ranks, whereas one is more of an artist than a business person), as my father did for me. However, all my friends at the Club tell me now is a good time to sell and that valuations are sky-high. My wife and I think we should at least explore this in more detail. I also attach some of the information that a friend of mine gave me for valuation guidance (public companies in my space).

I was also asked to consider a private equity investor, but I honestly don't trust them. They don't know the business like I do and I don't need some kid with an MBA telling me how to run my business.

**Family Dynamics:**

Your questions this morning were definitely thought provoking, so I thought I would try to summarize some of our family dynamics:

- Robert Jones Jr., President and CEO (me).
  - o Age: 67
  - o Married nearly 40 years to my lovely wife Mary
  - o Three Children – see Below
- Robert Jones III (Bobby)
  - o Age: 45
  - o Currently my EVP of Manufacturing at PeopleCo
  - o Married to Libby who is a marketing executive at a large CPG company
  - o One child – Robert Jones IV (16) – Captain of his hockey team



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- Ruth (Jones) Smalls
  - o Age: 44
  - o Divorced – Works part time in the business in our marketing department
  - o Ex-Husband is paying child support and a small alimony, but not enough for her to live
  - o Three kids – Reece (15), Grace (13), Tommy Lee (11)
- Frederick (Rick) Jones
  - o Age: 41
  - o Fred is in construction working for a local contractor and musician
  - o Married to Janet who is a stay at home mom taking care of Sarah who has special needs
  - o Two kids – Freddy (12) and Sarah (11)

**Wealth Management:**

We have done well over the last few years since the recession. I have a couple million in the bank, but the business is the real asset of our family. We have our house here in town, and a modest vacation house on the Cape (we love having the kids every summer!). Clearly, Mary and I have to support the kids a bit more than we expected, but we are happy to do it.

I have been using my college roommate as my stockbroker forever. He is a good guy and knows all of the family well. While performance could be better, I think he does a good job.

A few years ago, about the same time as I bought out my brother, I did some estate planning with a lawyer / friend from the Club to make sure the kids are taken care of should something happen to me or Mary, but we should probably update it now that the business has been doing so much better (since removing my brother). I don't remember what we set up, but it seemed pretty straight forward.

Our lawyer and accountant have both been with us for years. They each have small local practices, where they do a little bit of everything. While they are not M&A specialists, they are good friends and have never steered me wrong.

If we were going to sell the business, we would need enough for us to live on for the rest of our lives, and make sure the kids (and grandkids) are taken care of. Ideally, we would like to retire to the Cape (for the summers) and buy a place in Florida (Mary does not love these New England winters as much as I do), and be able to travel a bit more. We have most of the toys we need, but I would love to have a bigger boat too. I am not sure how much we need, but more is always better.

Lastly, my father passed away from cancer many years ago and our family is very dedicated to the American Cancer Society. We give have a fundraiser every year in his memory and all donate to organization each year. I would love to be able to give a sizable donation there as well.

Is this something where you can help? Where do we go from here? What are the next steps?

I look forward to working with you and your team in helping us think about our strategic options.

**INCOME STATEMENT**

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015e</b>
<b>Revenue</b>	\$32,563	\$36,568	\$40,115	\$47,095
<i>% Growth</i>		12.3%	9.7%	17.4%
Cost of Goods	\$22,045	\$26,000	\$27,359	\$30,141
<b>Gross Profit</b>	\$10,518	\$10,568	\$12,757	\$16,954
<i>% Margin</i>	32.3%	28.9%	31.8%	36.0%
Operating Expenses	\$8,108	\$8,082	\$9,026	\$10,361
<b>Operating Profit</b>	\$2,410	\$2,487	\$3,731	\$6,593
<i>% Margin</i>	7.4%	6.8%	9.3%	14.0%
Depreciation	\$549	\$720	\$913	\$1,020
Interest	\$497	\$502	\$448	\$394
<b>EBITDA</b>	\$3,456	\$3,709	\$5,092	\$8,008
Owners Salary	\$850	\$850	\$850	\$850
Private Company Expenses	\$150	\$150	\$150	\$150
<b>Adjusted EBTIDA</b>	\$4,456	\$4,709	\$6,092	\$9,008
<i>% Margin</i>	13.7%	12.9%	15.2%	19.1%

**Comments**

**BALANCE SHEET**

	2012	2013	2014	2015e
<b>Assets</b>				
<i>Cash</i>	\$578	\$2,467	\$2,758	\$11,796
<i>Accounts receivable</i>	\$3,889	\$3,657	\$5,237	\$3,925
<i>Inventory</i>	\$8,683	\$8,837	\$9,472	\$9,812
<i>Prepaid &amp; Other Assets</i>	\$52	\$52	\$52	\$52
Total Current Assets	\$13,203	\$15,013	\$17,519	\$25,584
PP&E (net)	\$8,235	\$8,715	\$9,151	\$8,881
Other Assets	\$117	\$117	\$117	\$117
<b>Total Assets</b>	<b>\$21,555</b>	<b>\$23,845</b>	<b>\$26,787</b>	<b>\$34,582</b>

**Liabilities & Sharholder Equity**

<i>Accounts Payable</i>	\$1,715	\$2,167	\$2,204	\$2,512
<i>Accrued Expenses</i>	\$225	\$269	\$276	\$288
<i>Deferred Revenue</i>	\$4,251	\$5,181	\$6,129	\$7,849
<i>Bank Line of Credit</i>	\$1,750	\$950	\$0	\$0
Total Current Liabilities	\$7,941	\$8,567	\$8,608	\$10,649
<i>Term Loan</i>	\$2,975	\$2,275	\$1,575	\$875
<i>Mortgage</i>	\$5,177	\$5,055	\$4,925	\$4,786
Long Term Debt	\$8,152	\$7,330	\$6,500	\$5,661
<i>Common Equity</i>	\$1	\$1	\$1	\$1
<i>Retained Earnings</i>	\$5,460	\$7,947	\$11,678	\$18,271
Shareholder Equity	\$5,461	\$7,948	\$11,679	\$18,272
<b>Total Liabilities and Equity</b>	<b>\$21,555</b>	<b>\$23,845</b>	<b>\$26,787</b>	<b>\$34,582</b>

**Assumptions**

<i>AR Days</i>	43	36	47	30
<i>Inventory Days</i>	96	87	85	75
<i>AP Days</i>	28	30	29	30
<i>Accrued Expenses</i>	10	12	11	10
<i>Deferred Revenue</i>	47	51	55	60
<i>CapEx per Year</i>	\$950	\$1,200	\$1,350	\$750

**Comments**

Rent Deposit and Loan to employee

Per CapEx schedule below

Includes 1967 Shelby Cobra

\$3.5m CapEx loan - Per schedule

\$6m Mortgage 12 years into 30 ry loan - Proceeds used to buy out brother

**CASH FLOW STATEMENT**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015e</u>	<u>Comments</u>
Cash Flow from Operations					
Net Income		2,487	3,731	6,593	
Non Cash Items		720	913	1,020	
Changes in Working Capital					
Accounts receivable		233	(1,580)	1,313	
Inventory		(154)	(634)	(340)	
Prepaid & Other Assets		0	0	0	
Accounts Payable		452	37	308	
Accrued Expenses		44	6	12	
Deferred Revenue		929	948	1,721	
Change in Working Capital		1,504	(1,223)	3,013	
Total Operating Cash Flow		<u>\$4,711</u>	<u>\$3,421</u>	<u>\$10,627</u>	
Cash Flow from Investing					
Capital Investment		<u>(1,200)</u>	<u>(1,350)</u>	<u>(750)</u>	
Cash Flow from Investing		<u>(1,200)</u>	<u>(1,350)</u>	<u>(750)</u>	
Cash Flow from Financing					
Other Assets		0	0	0	
Bank Line of Credit		(800)	(950)	0	
Term Loan		(700)	(700)	(700)	
Mortgage		<u>(122)</u>	<u>(130)</u>	<u>(139)</u>	
Cash Flow from Financing		<u>(1,622)</u>	<u>(1,780)</u>	<u>(839)</u>	
Beginning Cash Balance		578	2,467	2,758	
Net Free Cash Flow		<u>1,889</u>	<u>291</u>	<u>9,038</u>	
Ending Cash Balance		<u>578</u>	<u>2,467</u>	<u>11,796</u>	

# PeopleCo Manufacturing

## Comparable Company Coverage Universe

As of: 9/1/2015

US\$ millions

Ticker	Company	Market Information		LTM Financials		Operating Metrics			TEV to LTM		Debt / EBITDA	Current Ratio
		\$ / Share	TEV	Revenue	EBITDA	Growth	GM%	EBITDA%	Revenue	EBITDA		
<b>Diversified Aerospace Cos</b>												
UTX	United Technologies Corporation	\$89.72	\$98,109	\$64,038	\$12,358	-0.2%	28.3%	19.3%	1.66x	8.61x	1.8x	1.29
BA	The Boeing Company	\$127.44	\$86,067	\$94,944	\$9,479	7.4%	15.1%	10.0%	1.01x	10.11x	1.0x	1.17
HON	Honeywell International Inc.	\$95.96	\$75,330	\$39,362	\$7,111	-1.5%	29.2%	18.1%	2.08x	11.60x	1.4x	1.49
NOC	Northrop Grumman Corporation	\$159.37	\$34,485	\$23,945	\$3,585	-0.8%	23.7%	15.0%	1.47x	9.89x	1.8x	1.25
RTN	Raytheon Company	\$100.04	\$33,748	\$22,753	\$3,336	-0.7%	23.6%	14.7%	1.55x	10.56x	1.6x	1.54
SAF	Safran SA	\$76.56	\$34,137	\$18,956	\$3,454	17.3%	50.0%	18.2%	1.81x	11.90x	1.3x	0.83
RR.	Rolls Royce Holdings plc	\$11.15	\$21,630	\$21,791	\$2,647	2.3%	23.0%	12.1%	0.94x	6.94x	1.4x	1.34
TXT	Textron Inc.	\$37.17	\$13,498	\$13,846	\$1,606	8.5%	17.9%	11.6%	1.11x	9.84x	2.4x	1.99
FNC	Finmeccanica SpA	\$13.34	\$14,222	\$16,784	\$1,692	17.0%	36.5%	10.1%	0.89x	8.40x	4.0x	1.02
ZC	Zodiac Aerospace	\$30.18	\$9,901	\$5,047	\$652	10.9%	60.2%	12.9%	1.97x	15.30x	2.6x	1.48
	<b>Mean</b>	<b>\$74.09</b>	<b>\$42,113</b>	<b>\$32,147</b>	<b>\$4,592</b>	<b>6.0%</b>	<b>30.8%</b>	<b>14.2%</b>	<b>1.45x</b>	<b>10.32x</b>	<b>1.9x</b>	<b>1.34</b>
	<b>Median</b>	<b>\$83.14</b>	<b>\$33,943</b>	<b>\$22,272</b>	<b>\$3,395</b>	<b>4.8%</b>	<b>26.0%</b>	<b>13.8%</b>	<b>1.51x</b>	<b>10.00x</b>	<b>1.7x</b>	<b>1.32</b>
<b>Defense Primes</b>												
LMT	Lockheed Martin Corporation	\$197.62	\$66,568	\$45,398	\$6,146	1.3%	11.7%	13.5%	1.51x	10.61x	1.4x	1.21
GD	General Dynamics Corporation	\$138.89	\$44,205	\$31,779	\$4,632	4.1%	19.4%	14.6%	1.48x	10.30x	0.7x	1.24
LSE:BA.	BAE Systems plc	\$6.82	\$24,502	\$25,647	\$2,493	2.0%	57.0%	9.7%	1.01x	9.04x	2.1x	0.69
SAAB B	SAAB AB (publ.)	\$25.58	\$3,070	\$2,876	\$188	4.0%	24.5%	6.5%	1.03x	15.39x	3.7x	1.44
	<b>Mean</b>	<b>\$92.23</b>	<b>\$34,586</b>	<b>\$26,425</b>	<b>\$3,365</b>	<b>2.8%</b>	<b>28.1%</b>	<b>11.1%</b>	<b>1.26x</b>	<b>11.34x</b>	<b>2.0x</b>	<b>1.15</b>
	<b>Median</b>	<b>\$82.23</b>	<b>\$34,353</b>	<b>\$28,713</b>	<b>\$3,562</b>	<b>3.0%</b>	<b>21.9%</b>	<b>11.6%</b>	<b>1.26x</b>	<b>10.45x</b>	<b>1.7x</b>	<b>1.23</b>
<b>Engines / Equipment</b>												
MGGT	Meggitt PLC	\$7.50	\$6,900	\$2,561	\$562	5.3%	40.6%	21.9%	2.66x	11.70x	2.3x	1.82
ATI	Allegheny Technologies Inc.	\$18.58	\$3,428	\$4,265	\$314	6.8%	9.5%	7.4%	0.89x	12.07x	4.8x	2.68
HEI	HEICO Corporation	\$49.78	\$3,473	\$1,152	\$286	2.2%	35.8%	24.8%	3.20x	13.24x	1.0x	3.15
MAL	Magellan Aerospace Corp.	\$12.63	\$901	\$701	\$103	8.1%	17.1%	14.7%	1.50x	10.39x	1.8x	2.02
HRX	Heroux-Devtek Inc.	\$8.75	\$403	\$302	\$38	27.5%	16.3%	12.5%	1.31x	10.78x	2.8x	1.99
BZC	Breeze-Eastern Corporation	\$14.31	\$117	\$92	\$19	8.7%	41.8%	20.3%	1.05x	6.20x	0.0x	4.75
SIF	SIFCO Industries Inc.	\$12.98	\$87	\$106	\$5	-10.3%	17.9%	4.8%	0.79x	9.25x	7.6x	3.90
	<b>Mean</b>	<b>\$17.79</b>	<b>\$2,187</b>	<b>\$1,311</b>	<b>\$190</b>	<b>6.9%</b>	<b>25.6%</b>	<b>15.2%</b>	<b>1.63x</b>	<b>10.52x</b>	<b>2.9x</b>	<b>2.90</b>
	<b>Median</b>	<b>\$12.98</b>	<b>\$901</b>	<b>\$701</b>	<b>\$103</b>	<b>6.8%</b>	<b>17.9%</b>	<b>14.7%</b>	<b>1.31x</b>	<b>10.78x</b>	<b>2.3x</b>	<b>2.68</b>
<b>Aerostructures &amp; Components</b>												
PCP	Precision Castparts Corp.	\$229.60	\$35,827	\$9,897	\$2,832	1.9%	31.9%	28.6%	3.19x	11.51x	1.9x	2.99
COL	Rockwell Collins Inc.	\$79.25	\$12,567	\$5,262	\$1,195	9.7%	30.6%	22.7%	2.53x	11.09x	2.0x	1.44
SPR	Spirit AeroSystems Holdings, Inc.	\$49.97	\$7,053	\$6,708	\$1,052	2.7%	17.1%	15.7%	1.13x	7.45x	1.1x	2.53
BEAV	B/E Aerospace Inc.	\$47.63	\$6,889	\$2,682	\$474	47.5%	39.1%	17.7%	2.68x	15.14x	4.5x	2.19
HXL	Hexcel Corp.	\$46.77	\$4,982	\$1,871	\$397	5.7%	28.4%	21.2%	2.76x	12.94x	1.3x	2.68
TGI	Triumph Group, Inc.	\$48.08	\$3,881	\$3,951	\$372	6.3%	19.2%	9.4%	1.10x	10.88x	4.2x	2.64
CW	Curtiss-Wright Corporation	\$63.91	\$3,713	\$2,222	\$397	0.6%	34.5%	17.8%	1.76x	9.67x	2.4x	2.87
WWD	Woodward, Inc.	\$44.06	\$3,592	\$2,041	\$361	2.4%	29.6%	17.7%	1.87x	10.59x	2.4x	3.08
MOG.a	Moog Inc.	\$61.23	\$3,085	\$2,574	\$346	-3.0%	29.0%	13.4%	1.27x	9.52x	3.1x	2.83
B	Barnes Group Inc.	\$37.07	\$2,443	\$1,243	\$274	4.1%	35.3%	22.0%	1.98x	8.86x	1.8x	2.52
AJRD	Aerojet Rocketdyne Holdings, Inc.	\$20.02	\$1,734	\$1,636	\$172	3.0%	14.2%	10.5%	1.18x	11.27x	4.2x	1.27
DCO	Ducommun Inc.	\$23.20	\$495	\$724	\$62	-1.6%	17.2%	8.6%	0.69x	7.36x	4.3x	3.03
LMIA	LMI Aerospace Inc.	\$11.83	\$425	\$376	\$43	-6.6%	20.2%	11.4%	1.05x	9.54x	6.4x	3.88
	<b>Mean</b>	<b>\$58.66</b>	<b>\$6,668</b>	<b>\$3,168</b>	<b>\$614</b>	<b>5.6%</b>	<b>26.6%</b>	<b>16.7%</b>	<b>1.78x</b>	<b>10.45x</b>	<b>3.0x</b>	<b>2.61</b>
	<b>Median</b>	<b>\$47.63</b>	<b>\$3,713</b>	<b>\$2,222</b>	<b>\$372</b>	<b>2.7%</b>	<b>29.0%</b>	<b>17.7%</b>	<b>1.76x</b>	<b>10.59x</b>	<b>2.4x</b>	<b>2.68</b>



# PeopleCo Manufacturing

## Comparable Company Coverage Universe

As of: 9/1/2015  
 US\$ millions

Ticker	Company	Market Information		LTM Financials		Operating Metrics			TEV to LTM		Debt / EBITDA	Current Ratio
		\$ / Share	TEV	Revenue	EBITDA	Growth	GM%	EBITDA%	Revenue	EBITDA		

9/1/2015

