Class VI Partners

CLASS VI RAPIDS ARE DEFINED AS EXTRAORDINARILY DIFFICULT AND ONLY NAVIGABLE WHEN WATER LEVELS AND CONDITIONS ARE FAVORABLE.

This whitewater should be left to paddlers of Olympic ability only.

Figuratively speaking, the same applies when it comes time to transition away from your company.

When navigating the Class VI rapids of your business, you need an experienced guide.

Who is Class *VI* ?

Our DNA

Hustle

We are available 24x7 - we will not stop until you get what you want – we will have your back!

Humility

With entrepreneurs, we know we are not “the smartest guys in the room” – we collaborate with you to get the very best results.

Relationships

We measure wealth in relationships, not dollars – we play the long game, not the transaction game

80%
Sell-side prep & advisory

10%
Buy-side prep & advisory

10%
Family office

$3B+
In closed transaction value since 2012

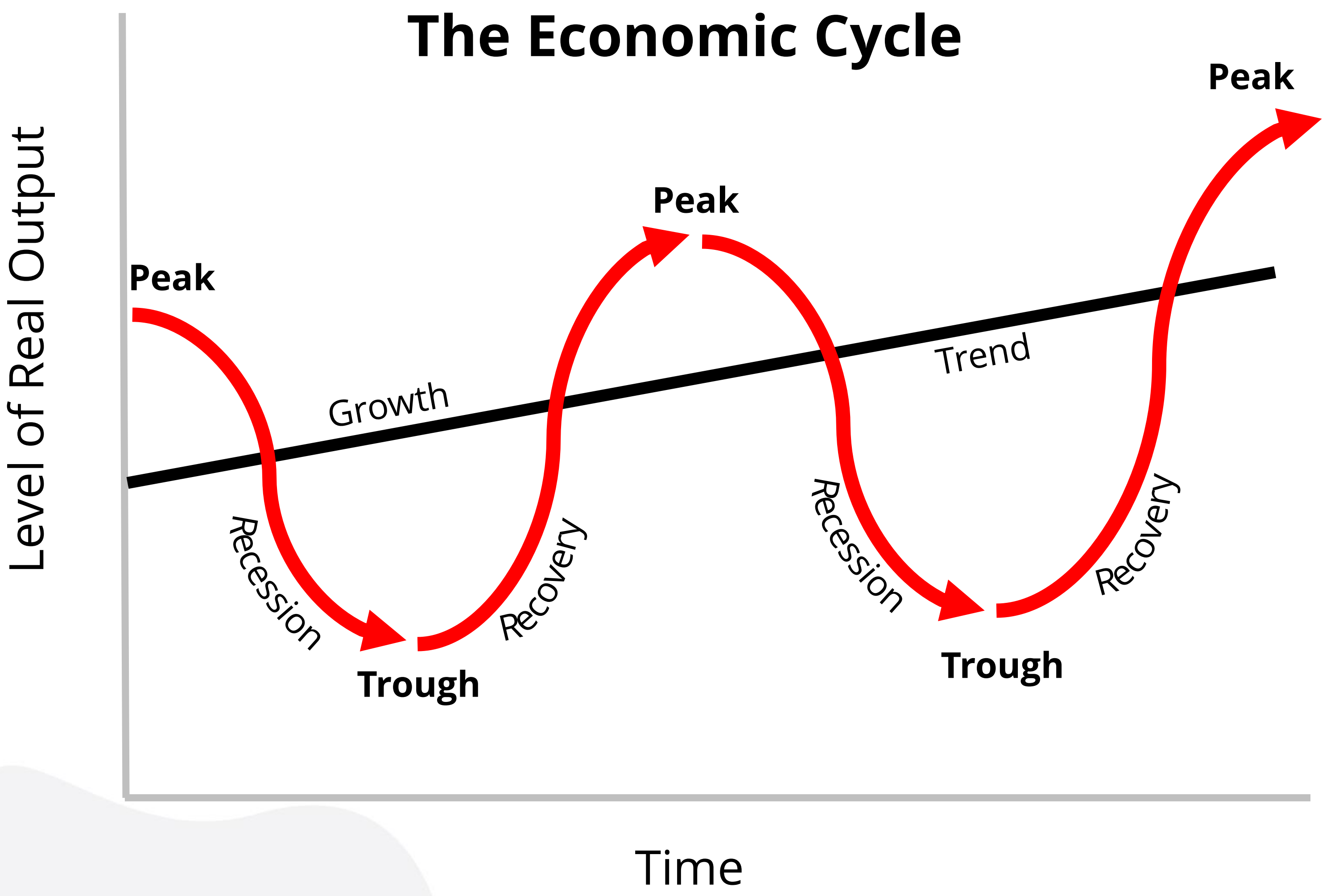
36
Professionals

61
Deals closed since 2015

$58m
Average auction deal size since 2015

100%
Client referral record!

What is a Recession?



What Happens in a Recession?

1. **Demand softens,** especially for cyclical industries
2. **Liquidity tightens –** credit less available, many capital providers
3. **Frequent RIFs to reduce cost structures**
4. **Correct the misallocation of investment capital – asset bubble burst**
5. **Economic "reset" on demand / supply forces for price stability**
6. **Drive for efficiency – do more with less, leverage technology and automation**
7. **Great companies innovate,** improve and become stronger; poor companies may file bankruptcy or struggle to survive, address risk to positioned to win the good times return

In the past three recessions what percent of companies...

Went bankrupt and/or were acquired?

Survived but with flat sales growth rates three years later?

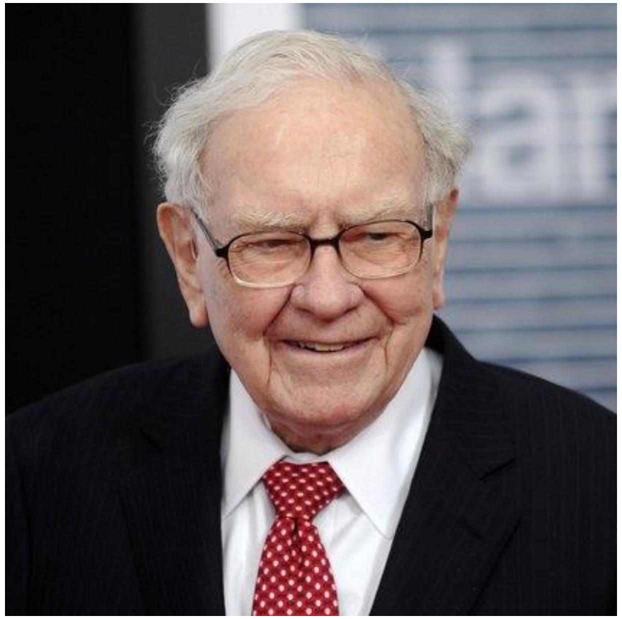
Grew three years later and outperformed rivals?

In the past three recessions what percent of companies...

Went bankrupt or were acquired? 17%

Survived but with flat sales growth rates three years later? 74%

Grew three years later and outperformed rivals? 9%

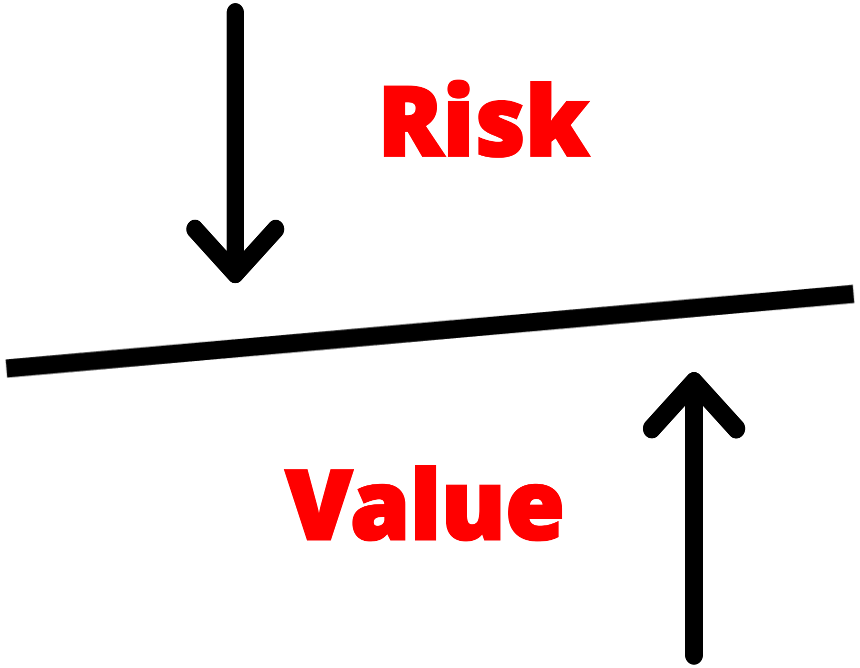


"Only when the tide goes out do you discover who has been swimming naked".

-Warren Buffett

Not all *cash flows* are created equal...

Focus on *managing risk*...



A Buyer's Perspective
We are all products of our own experience

Financial Buyers	vs.	Strategic Buyers

Financial Buyers

- Use of debt is big factor in deals
- Certainty of cash flow is important
- Covenants are important – leverage ratios
- Evaluation of risk as a fundamental discipline
- Active buyers – always interested in looking at good businesses
- Best evaluation proxy for a "good business"

Strategic Buyers

- Usually, interested for specific reasons
    - Geography
    - Product/Service
    - Team/Capabilities
    - Customers
    - Synergies
- Can get comfortable with specific risks
- Harder to predict
- Not always available
- Focusing on as a buyer can lead to higher risk of no deal
- In active markets, companies can get put into a "box"

Value Drivers Comparison Exercise:

The “PE Window”

Charismatic, Innovative, Driven Founder/CEO

OR

Experienced, Deep Team

Exclusive Distribution Rights in Market

OR

Very Strong Reputation in Market

80% Gross Margins, Losing Money

OR

35% Gross Margins, Making Money

Audited Financials **OR** **Strong, Recurring Cash Flow**

Loyal Employees, Very Low Turnover

OR

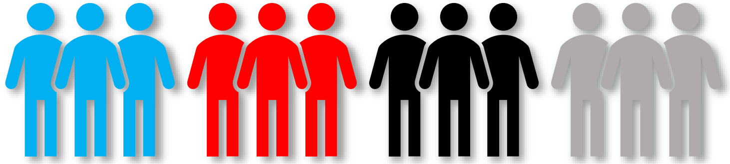
Dynamic Workforce, Higher Turnover

Niche-market focus

OR

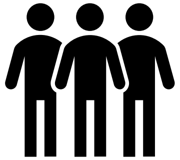
Horizontally focused in large market

Wide Diversity in Customer Base, but More Churn



OR

Highly Concentrated Customer Base, With No Churn

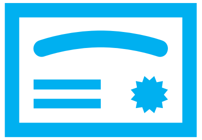


Fast-Growing, $250M Market

OR

Slower Growth $2B Market

Patented Products



OR

Proprietary Processes Delivering Best Service in Market

Recurring Revenue Base, Growing at 15% Per Year

OR

30% Average Annual Growth (3 Years), But Volatile

Growing 5-8% Per Year, Even Through Recessions

OR

Growing 20% Per Year, But In Recession Lost Money for Two Years

Reinvests 30% of EBITDA in R&D (Growing 15%)

OR

Reinvests 30% of EBITDA in Capex (Growing 15%)

Successfully Growing Organically 15% Per Year

OR

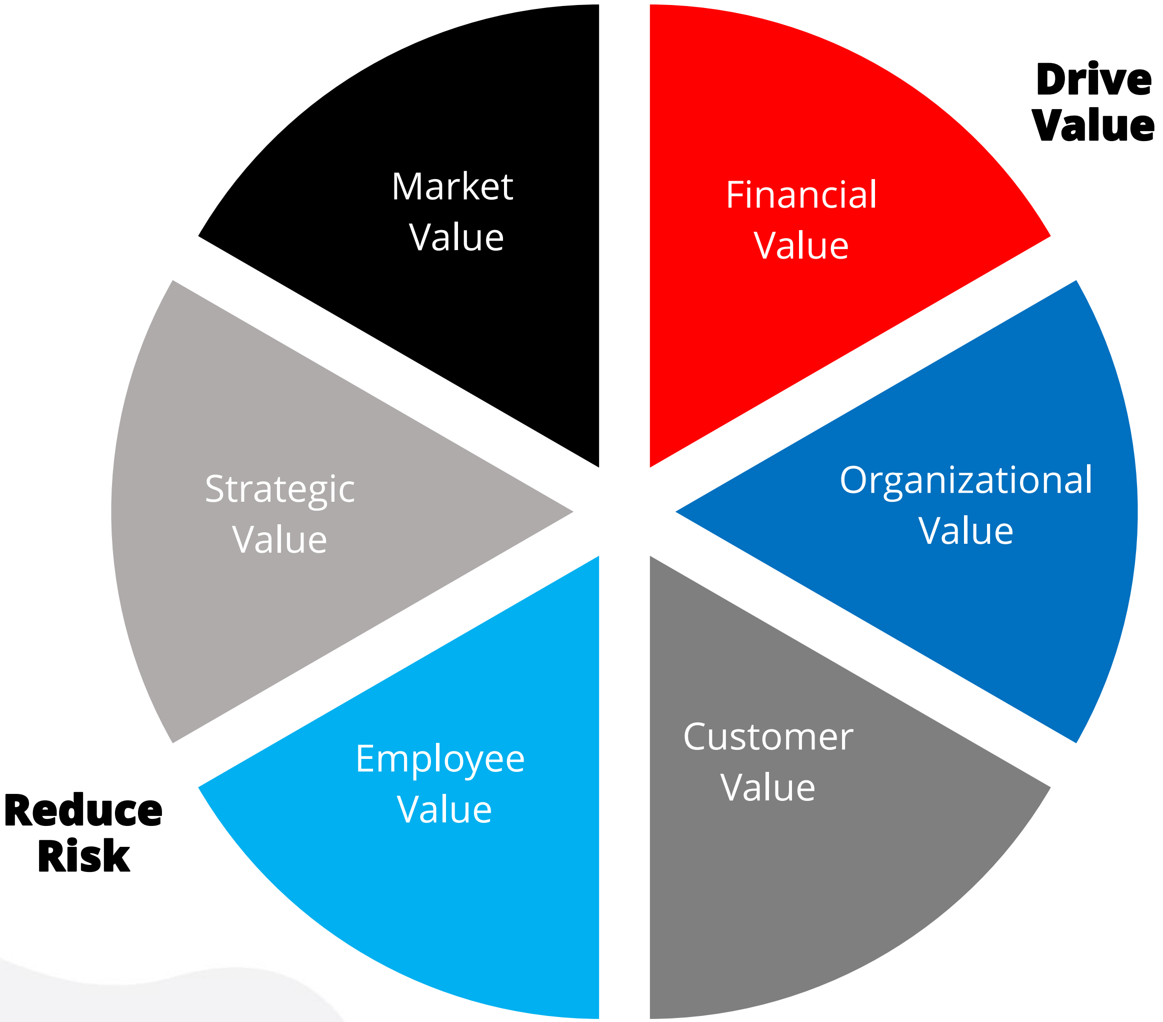
Successfully Growing Organically 6% Per Year, And Successfully Acquired and Integrated 3 Companies

Owner Committed to >2 Years of Continued Work

OR

Owner Seeking to Transition

What Drives Value?



1. Financial Value

1. Consistent and improving performance (historical and benchmarked)
2. Financial statements in good order (preferably, reviewed and/or audited)
3. Strong accounting firm
4. Efficient access to reports, records
5. Solid internal financial controls
6. Solid banking relationships

2. Organizational Value

NO SURPRISES...

1. Records, documents, files organized and accessible
2. Repeatable documented processes and procedures
3. Solid, signed contracts with suppliers & customers
4. Trademarks, patents, documentation, etc.
5. Information technology systems

3. Customer Value

1. Diversification: # of customers and geography
2. Recurring, contracted revenues
3. Lead sources & loyalty
4. Quality of customers: size and creditworthiness
5. New business development process: repeatable, documented process for generating business
6. Strategic customer selection

4. Employee Value

1. Management team depth and key employee strength
2. Employee skill sets
3. Limited daily owner involvement
4. Turnover / Retention
5. No single point of failure
6. Employment agreements, benefits, ties to business

5. Strategic Value

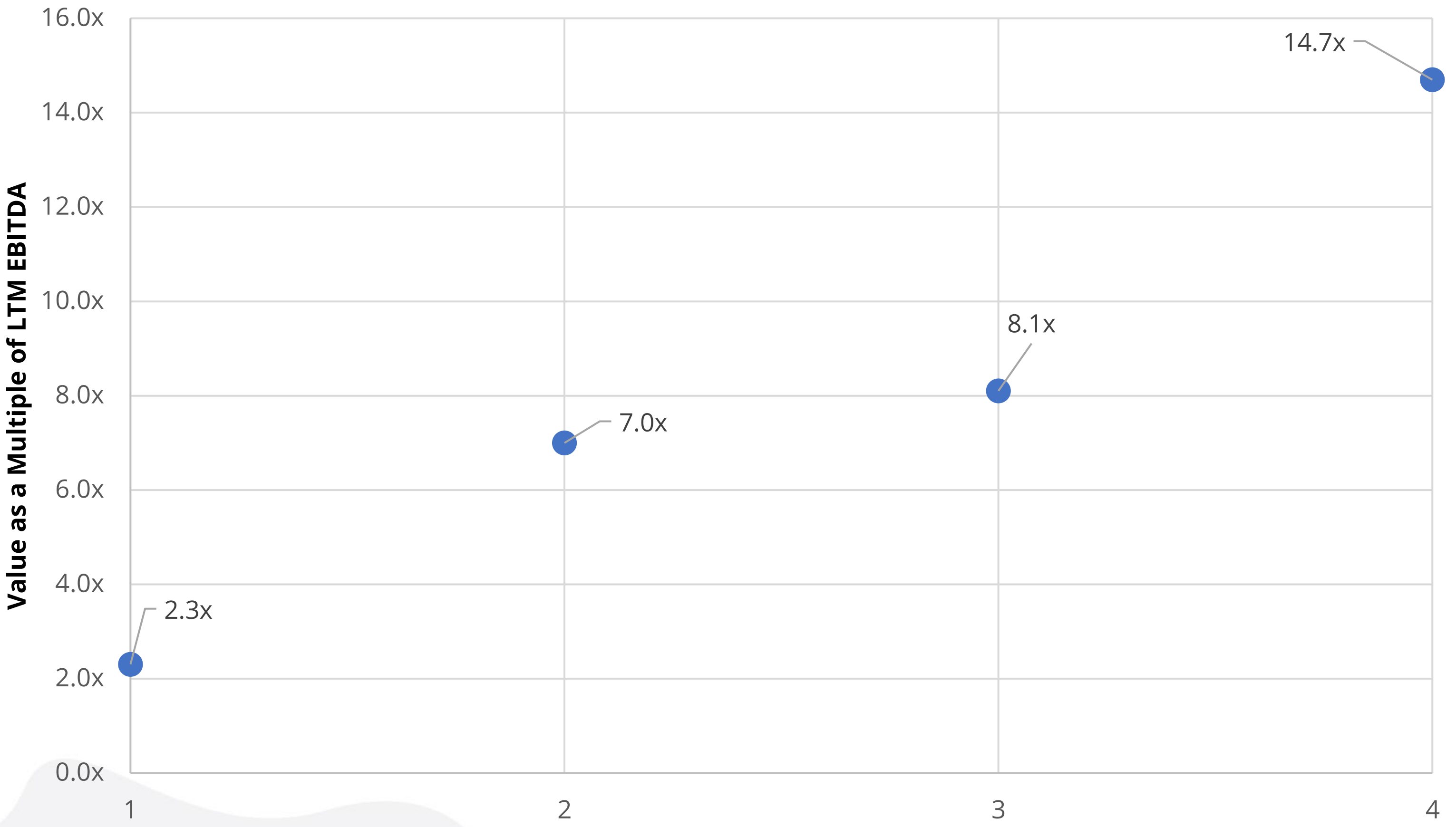
1. Strategic growth and execution plan
   > Growth opportunities
   > Market: forecasts, health
   > Demonstrated execution
2. Brand recognition/brand equity
3. Competitive differentiation
4. Barriers to entry
   > Intellectual property: patents, trade secrets, etc.
   > Exclusive distribution rights
   > High capital cost to enter market

6. Market Value

1. Size of market (TAM)
2. Growth profile of market
3. Fragmented vs. consolidated market
   > Acquisition opportunities
   > M&A Consolidation
4. Barriers of entry in the market
5. Economic resiliency of market (pet products vs. construction)
6. Opportunity for cost and revenue synergies

Which dot are you?

Sample of Recent CPG Transactions



What is CoPilot?

CoPilot™

by Class VI Partners

CoPilot does exactly what its name implies. As a proprietary online application, it takes you through the necessary steps in preparation for your transaction and it's designed to uncover aspects of your business that could compromise your position and your value.

It will also highlight strengths, giving you an unbiased assessment.

Understand what is working....

Let's have a look at what's working!

Although this report will mostly focus on Risks that could impair your company's value or impede a potential transaction, it is also important to highlight the areas where we see distinct strengths in your business, so you know what to continue to focus on. Nice job on building these areas of strength in your business!

Your Attributes:

1. Market Attribute: Large Addressable Market
2. Market Attribute: Opportunity to Grow Market Share
3. Team Attribute: Key Financial Metrics Shared With Management Team
4. Team Attribute: Well Defined Growth Plan
5. Team Attribute: Customer Relationships Independent of Owner
6. Team Attribute: Low Employee Turnover
7. Organizational Attribute: Supplier Redundancies In Place
8. Organizational Attribute: Solid Safety Record
9. Strategic Attribute: Diversified Product/Service Mix
10. Strategic Attribute: Well Protected Intellectual Property
11. Financial Attribute: Growing Faster Than Competitors
12. Financial Attribute: Above Average Gross Margins
13. Financial Attribute: History of Increased Gross Margin Capture
14. Financial Attribute: Business Performs Well in Recessions
15. Growth Attribute: Revenues Projected to Grow
16. Growth Attribute: Revenue Not Dependent on New Customers
17. Growth Attribute: Revenue Not Dependent on New Products or Services
18. Customer Attribute: Long Term Customer Contracts

And risks that may be holding you back...

What is business risk?

Business risks are associated with the overall operation of a business entity. Business risks impair a company's ability to provide investors and stakeholders with adequate financial returns.

Your Risks (In order of bang for your buck):

1. Financial Risk: Company Size Too Small
2. Financial Risk: Volatile Financial Performance
3. Team Risk: Single Point of Failure Within Business
4. Team Risk: No Formal Succession Plan In Place
5. Growth Risk: Inability To Scale The Business
6. Financial Risk: Company Must Reinvest Too Much In Capex
7. Market Risk: Market Growth Is Flat, Shrinking, Or Unknown
8. Organizational Risk: Regulatory Risk Is Too High
9. Financial Risk: Customers Pay For Products/Services After Delivery
10. Customer Risk: Contracts Not In Place For Top 5 Customers
11. Organizational Risk: No Contracts In Place With Top 5 Suppliers
12. Market Risk: Geographic Concentration Is Too High
13. Team Risk: Business Too Dependent On Owner
14. Growth Risk: Accounting System Not Scalable
15. Growth Risk: Lack Of Acquisition Experience

Thank you!

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