

CONFIDENTIAL

Employee Ownership Feasibility Analysis - Sample Company Inc.

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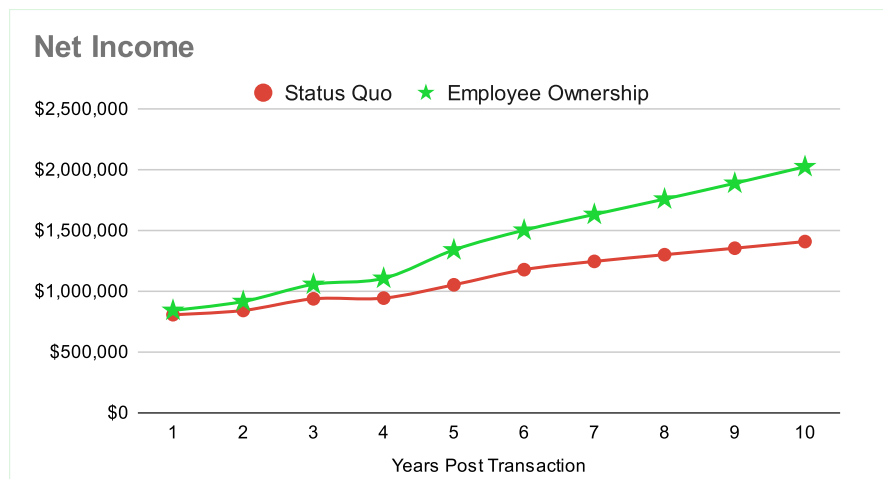
Introduction

This document was prepared by Small Capital, an investment firm working to give access to employee ownership to more businesses. It was created for Sample Company Inc. to demonstrate the effect that an employee ownership conversion would have on employees, owners, and the business itself.

To create this report, we ingested basic Sample Company Inc. financials and created a financial model of a hypothetical employee ownership transaction. We created multiple scenarios to understand how to increase benefit for all parties, as well as performed research on enterprise valuation, compensation, industry benchmarks, and more.

The Data Is Clear - Businesses Are Better Off Employee Owned.

Comparing the current status quo of Sample Company Inc. vs. with the benefits of employee ownership.



\$287,109

more in Net Income by Year 5 from performance improvements associated with employee ownership.

** Spike in delta is due to ability to write off employee distributions as expenses, producing lower tax liability.*

That's \$678,300 more earnings in the first five years alone. This results from increased employee motivation, as employee owned firms see an average of 5% increased productivity in the first year after transition.

The bottom line is just the tip of the iceberg.

Employee ownership benefits nearly all aspects of the business...

More Durable through Downturns

29%

less dissolution than non-employee owned firms
(Burdin 2014)

Better Employee Retention

46%

longer median tenure among worker-owners (5.1 years) than
non-owner-workers (3.5 years)
(NCEO 2018)

Faster Growth

2.0%

faster sales growth than non-employee owned firms
(Blasi, Kruse, & Weltmann 2013)

with Better Margins

8.5%

higher profit margins (6.4% vs. 5.9%) than non-employee owned firms
(DAWI 2014)

For Sample Company Inc., this means you can expect faster growth and higher profits after employee ownership.

Are you ready to sell to your employees?

At Small Capital, we consider three pillars of a good employee-ownership buyout: financial health, fair market exit, and meaningful wealth creation for employees.

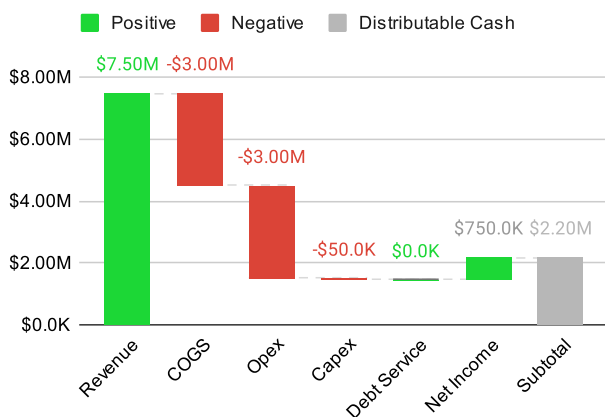
Industry	Year Founded	Number of Employees	Annual Revenue
Commercial Signs And Awnings	2000	20	\$7,500,000

Here is how Sample Company Inc. stacks up:

1. Financial Health of the Business

Employee ownership transitions rely on stable, profitable business. This shows up as positive cash flow and revenue growth.

Current Financials (Cash Flow)

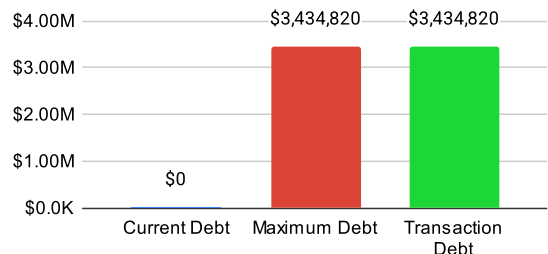


5-year CAGR

4.6%

Sample Company Inc. grew its annual revenue from \$6,000,000 to \$7,500,000 over 5 years.

Debt



2. Fair Market Value for Business Owners

We believe that business owners deserve a fair market exit for selling their business to their employees. We analyzed companies of similar industries and sizes to find a median EBITDA multiple for enterprise valuation.

Adjusted EBITDA

\$1.43M

*

Median Industry Multiplier

2.20

=

Median Market Value

\$3.15M



Small Capital Multiplier

3.00

=

Derived Valuation

\$4.29M

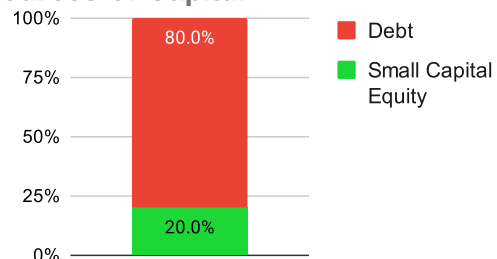
Preliminary valuation estimate based on adjusted EBITDA and Median Multiple for comparable industry and size companies, plus initial analysis of business. This is not necessarily the final valuation of your business. We strive for accuracy in our valuation, and do not have an incentive to "buy low, sell high."

Modeled Portion of Business Transacted

100.00%

Small Capital invests equity alongside senior debt from a lending partner, as well as a \$500,000 line of credit for working capital needs. Our goal is to find the lowest cost, most flexible debt option to protect cash flow.

Sources of Capital



3. Meaningful Worker Impact

Our core mission is to increase worker wealth. We strive for a 10% increase to income for employees at a minimum.

10 Year Worker Dividends

\$9.07M

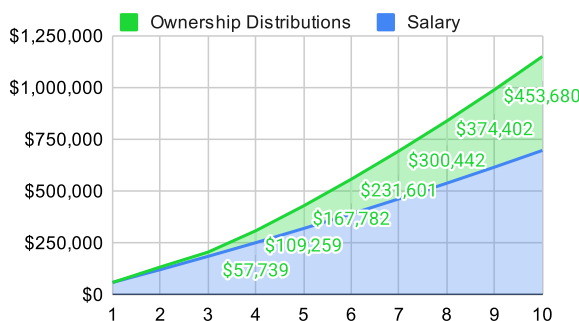
This represents the total distributions made to all employees from years 1 through 10 after Small Capital's investment.

Avg. Year 10 Distribution

\$79,278

This represents how much each employee will take home in distributions in Year 10 alone.

Cumulative Earnings per Employee



This shows much employee distributions will contribute to employee takehome pay over the next 10 years.

This is the power of employee ownership: more stable employees, better morale, and better retention. Small Capital assists in ownership culture implementation through trainings, education, and governance structuring.

In summary.

Small Capital's equity investment would be redeemed in:

3.1 years

After that, employees will own this much of the company:

100%

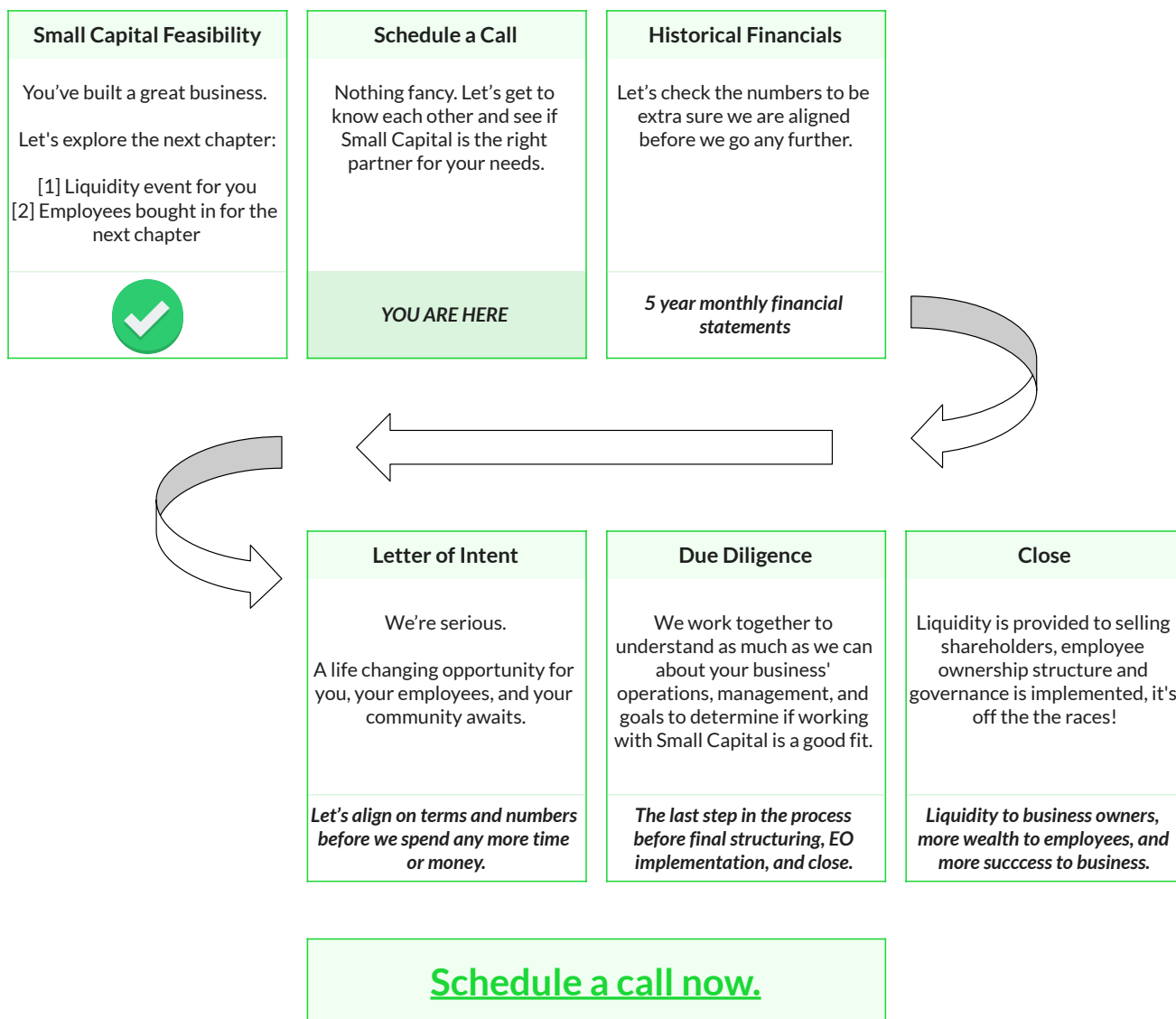
This would result in employee income increasing by:

75%

in the year after redemption

So, what's next?

After analysis of your historical stability, fair market valuation, and employee impact potential, we think Sample Company Inc. is a great fit for employee ownership. In our follow up call, we will share more results from our analysis.



Reference Data

Small Capital researched your industry's financial benchmarks and used these to inform our analysis. Here are the results of that research.

	Median	Mean	Company	
EV Multiple	2.20	4.40	3.00	
CEO Salary	\$72,000	\$82,500	\$200,000	(Projected post-transaction salary)
	Low	High	Company	
Gross Margin	40%	40%	60.00%	
Operating Margin	15%	20%	20.00%	
Net Profit Margin	10%	12%	12.50%	
Current Ratio	1.5	1.5	1.5	
Quick Ratio	1.1	1.1	1.1	
Debt-to-Equity Ratio	1.2	1.5	1.5	
Debt-to-Total Asset Ratio	0.40	0.50	0.50	
Inventory Turnover Ratio	5	7	7	
AR Turnover Ratio	6	8	8	
Industry Historical CAGR	6.2%	6.6%	6.6%	
Industry Projected CAGR	6.3%	7.0%	7.0%	

And here are the specific records we found of comparable companies in your industry.

	Revenue	EBITDA	EBITDA Margin	EV	Employees
Manufactures Vehicle Wraps, Vehicle Graphics, Signs, and Banners	\$91,579	\$34,176	37%	2.0	1
Manufactures Signs, Vehicle Wraps, Posters, and Silk Screens Cl	\$219,500	\$107,003	49%	1.5	4
Manufactures and Installs Signs	\$319,056	\$49,966	16%	4.6	3
Manufactures Signs, Banners, and Graphics	\$191,263	\$36,357	19%	2.2	1
Engraving and Signs	\$397,724	\$34,757	9%	4.9	4
Makes Signs and Banners	\$310,997	\$63,296	20%	5.2	2
Aluminum Products - Custom Stamping for Screen Rooms, Patio	\$777,026	\$123,841	16%	2.7	5
Manufactures and Sells Sun Shades, Privacy Shades, Solar Shade	\$494,904	\$198,146	40%	1.9	3
Manufacturer and Installer of Custom Awnings and Related Pro	\$149,000	\$69,000	2%	1.8	1
Importer and Re-seller of Home Awnings	\$14,468,900	\$292,292	2%	7.7	25
Manufactures, Sells, and Installs Metal and Canvas Awnings, Car	\$915,055	\$523,865	57%	1.8	11
Signage and Graphics Company	\$80,685	\$80,685	15%	4.0	6
Sign Manufacturer Company	\$950,000	\$190,000	15%	2.2	4
Sign Manufacturer Company	\$1,210,709	\$25,560	2%	21.5	8
Signage and Graphics Company	\$1,762,563	\$312,214	18%	2.2	6