

THE PE+ESOP RECAPITALIZATION

*COMBINING THE BENEFITS OF
LBOs AND ESOPs*



LONG POINT CAPITAL

www.longpointcapital.com

INTRODUCTION

- ▶ A **PE+ESOP Recapitalization** is an investment structure which combines the benefits of an ESOP (Employee Stock Ownership Plan) and an LBO (Leveraged Buyout) to provide unique advantages to entrepreneurs seeking liquidity
- ▶ **Long Point Capital** has successfully pioneered the PE+ESOP Recapitalization structure in the U.S. middle market
- ▶ **The PE+ESOP Recapitalization structure** complements Long Point's 15+ years of successful history investing in middle market companies with entrepreneurs

BENEFITS OF THE PE+ESOP RECAPITALIZATION

- ▶ **Tax Savings for the Seller** – Allows the seller to defer or eliminate the capital gains tax, generating over 40% more after-tax proceeds than a traditional LBO
- ▶ **Cash Flow for the Company** – Reduces or eliminates corporate income taxes, providing more discretionary cash flow for growth, debt pay down, or current payments to investors
- ▶ **Employee Motivation** – Creates a valuable employee benefit plan through an ESOP which can be tailored to attract and retain employees
- ▶ **Seller Legacy** – Publicized as a sale to the employees, not as a sale to a private equity group

THE PE+ESOP RECAPITALIZATION COMBINES THE BEST FEATURES OF THE TRADITIONAL ESOP TRANSACTION AND THE TRADITIONAL LBO TRANSACTION

Benefit	Traditional ESOP	Traditional LBO	PE+ESOP Recapitalization
Capital Gain Deferral/ Elimination	✓		✓
Corporate Tax Reduction	✓		✓
Employee Benefit/Incentive	✓		✓
Seller Liquidity		✓	✓
Removal of Seller Personal Guarantee		✓	✓
Governance	✓	✓	✓

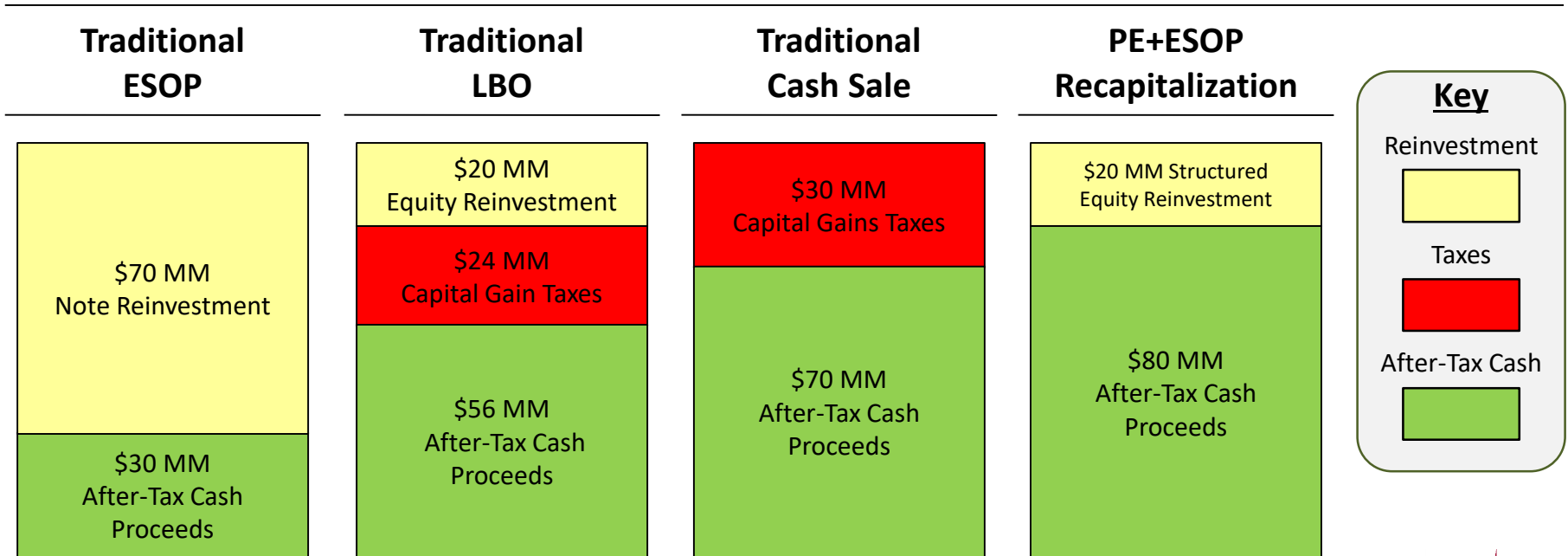
THE PE+ESOP RECAPITALIZATION IS A STRAIGHTFORWARD, PROVEN STRUCTURE

- ▶ The PE+ESOP Recapitalization is a standard LBO that uses a proven ESOP structure to generate tax savings
- ▶ ESOP transactions have been successfully used for more than 40 years
- ▶ Over 10 thousand ESOPs covering over 13 million employees are operating in the U.S.
- ▶ The PE+ESOP Recapitalization was developed to combine the tax and liquidity benefits of ESOPs and LBOs
- ▶ Long Point Capital is the innovator of the PE+ESOP Recapitalization and is highly regarded in the ESOP community

FOR THE SELLER: THE PE+ESOP RECAPITALIZATION GENERATES SIGNIFICANTLY HIGHER AFTER-TAX PROCEEDS

- ▶ The PE+ESOP Recapitalization generates 40% to 160% more after-tax proceeds than an LBO or an ESOP
- ▶ The PE+ESOP Recapitalization generates 14% more after-tax cash proceeds than a traditional cash sale plus a reinvestment in an attractive security

\$100 million Transaction Value – Examples of Distribution of Proceeds to Seller



FOR THE COMPANY: THE PE+ESOP RECAPITALIZATION GENERATES SIGNIFICANTLY HIGHER FREE CASH FLOW (FCF)

- ▶ Tax savings provide a lower risk profile (based on multiples of effective EBITDA)
- ▶ Tax savings provide flexibility with higher free cash flow
 - More capital for growth, or:
 - Current cash yield averaging over 12% per year

\$100 million Transaction Value – Examples of Free Cash Flow

Free Cash Flow			Leverage			
LBO	PE+ESOP	Effective LBO	LBO	PE+ESOP		
		EBITDA \$24.5 MM*	Capital Structure	EBITDA Leverage	Capital Structure	Effective EBITDA Leverage
EBITDA \$16.7 MM \$7.7 MM Interest, D&A, and Taxes \$9 MM Free Cash Flow	EBITDA \$16.7 MM \$3.0 MM Interest, D&A, and Taxes \$13.7 MM Free Cash Flow	\$10.8 MM Interest, D&A, and Taxes \$13.7 MM Free Cash Flow	\$60 MM Senior + Mezzanine Debt \$20 MM LPC Equity \$20 MM Seller Equity	3.6 x 6.0 x	\$60 MM Senior + Mezzanine Debt \$20 MM LPC Structured Equity \$20 MM Seller Structured Equity	2.5 x 4.1 x

* An LBO would need to generate 47% more EBITDA to generate the same discretionary cash flow which improves effective leverage by 32%

EMPLOYEE OWNERSHIP IMPROVES COMPANY PERFORMANCE

Companies perform better after establishing an ESOP

Difference in Post-ESOP to Pre-ESOP Performance¹

– Annual Sales Growth	+2.4%
– Annual Employment Growth	+2.3%
– Annual Growth in Sales per Employee	+2.3%

After ten years an ESOP company would be a third larger than a non-ESOP company

(1) Data from 2000 Study by Douglas Kruse and Joseph Blasi of Rutgers University at 343 ESOP companies compared to 343 non-ESOP companies

THE PE+ESOP RECAPITALIZATION PROVIDES A STRONG LEGACY FOR THE OWNER AND MEANINGFUL RETIREMENT VALUE FOR THE EMPLOYEES

- ▶ The PE+ESOP Recapitalization is publicized as a sale of the Company to the employees

 Mestel & Company
ATTORNEY PLACEMENT CONSULTANTS

 Hire Counsel
LEGAL & REVIEW MANAGEMENT

Long Point Capital Announces New Partnership with Management and Employees of Mestel & Company and Hire Counsel

Mestel & Company and Hire Counsel, national companies exclusively dedicated to legal placement and temporary attorney staffing and review management, announced today that they have sold their stock to the HCMC Legal, Inc. Employee Stock Ownership Plan (ESOP). The ESOP will be extended to all qualified employees of the two companies as well as to the thousands of attorneys who work on a contract basis for Hire Counsel. Mestel & Company and Hire Counsel, both founded by attorney Lynn Mestel, become the first legal recruiting and staffing agencies to be employee owned.

“This program enables us to recognize the outstanding work and dedication of our full time recruiters and administrative staff as well as the thousands of professional temporary attorneys who work in corporations and law firms across America on our behalf,” said Mestel. “It also sends a strong signal to our clients that we are deeply committed to our core values of teamwork, integrity and professionalism and ensures a sustainable strategy to maintain our commitment for years to come.”....

 THE SAXTON GROUP
 McALISTER'S
DELI

Long Point Capital Announces New Partnership with Management and Employees of Multi-Unit Restaurant Franchisee The Saxton Group

The Saxton Group, one of the largest national restaurant franchisees, is pleased to announce that it has sold its stock to an Employee Stock Ownership Plan (“ESOP”), becoming one of the largest 100% employee-owned companies in the restaurant industry. An ESOP is a federally regulated retirement plan that invests in the stock of an employer on behalf of its employees. Under the plan, eligible employees will earn shares of The Saxton Group stock over time.

“I’ve always believed that the difference between our restaurants and others is our people. We have always been committed to the growth and development of our employees,” said company founder and Chairman Kelly Saxton. “The ESOP allows us to acknowledge their contribution to our success and to invest more deeply in them.”....

HOW DOES THE PE+ESOP RECAPITALIZATION DEFER OR ELIMINATE CAPITAL GAINS TAXES?

Tax savings to the seller are generated through an IRS Section 1042 Rollover

- ▶ Seller can **DEFER** capital gains taxes if:
 - Stock is sold to an ESOP
 - Proceeds are reinvested into qualified replacement property (stocks or bonds of domestic companies) – typically a portfolio of high quality corporate bonds
 - Cash is borrowed against the replacement property portfolio
- ▶ Seller can **ELIMINATE** taxation completely by retaining the replacement property until death, at which time the property transitions to heirs with a stepped-up basis

HOW DOES THE PE+ESOP RECAPITALIZATION REDUCE OR ELIMINATE CORPORATE INCOME TAXES AND INCREASE FREE CASH FLOW?

- ▶ The ESOP structure generates more free cash flow through the reduction of taxes in one of two ways:
 - Elimination of corporate taxes by allocating the taxable income to the ESOP Trust, a tax-exempt entity (the “100% S-Corp ESOP”), or
 - Significant reduction of corporate taxes by increasing the Company’s level of ESOP-related deductions (the “100% C-Corp ESOP”)

LONG POINT CAPITAL IS THE LEADING PRIVATE EQUITY FUND INVESTING IN PE+ESOP RECAPITALIZATIONS

- ▶ Long Point Capital has completed six PE+ESOP Recapitalizations

	Sunbury Textile Mills	Atlantic Plywood	Hire Counsel / Mestel & Company	The Saxton Group	Torrent Resources	UMA Enterprises
Industry	Upholstery Fabric	Building Products	Legal Services	Restaurants	Stormwater Solutions	Home Accents
LPC Legal Counsel	Proskauer Rose K&L Gates	Nutter McClennen & Fish K&L Gates	K&L Gates	K&L Gates Ropes & Gray	K&L Gates Ropes & Gray	K&L Gates Ropes & Gray
Senior Lender	Comerica Bank	Citizens Bank	Fifth Third Bank	Fifth Third Bank GE Capital Corp	Fifth Third Bank	Fifth Third Bank Union Bank Huntington Bank
ESOP Trustee	LaSalle Bank	GreatBanc Trust	Wilmington Trust	GreatBanc Trust	Wilmington Trust	GreatBanc Trust
Trustee Counsel	Morgan Lewis & Bockius	Morgan Lewis & Bockius	Morgan Lewis & Bockius	Greenberg Traurig	ESOP Law Group	Greenberg Traurig



LONG POINT CAPITAL

has exited its investment in




LONG POINT CAPITAL

has exited its investment in




LONG POINT CAPITAL

has made an investment in





LONG POINT CAPITAL

has made an investment in





LONG POINT CAPITAL

has recapitalized its investment in




LONG POINT CAPITAL

has recapitalized its investment in



UMA Enterprises Inc.

SUMMARY OF LONG POINT CAPITAL & THE PE+ESOP RECAPITALIZATION

- ▶ Long Point Capital has an outstanding reputation as an investor in entrepreneur owned companies. Our owner references from years of successfully working with entrepreneurs make us a preferred investor
- ▶ The PE+ESOP Recapitalization provides significant advantages to the entrepreneur and his company, making Long Point Capital a unique and valued investor in the middle market

LONG POINT CAPITAL TEAM

For more information, please contact any of the professionals below.



Ira Starr
Managing Director
istarr@lpcfund.com



Eric Von Stroh
Managing Director
evonstroh@lpcfund.com



Daniel Ron
Vice President
dron@lpcfund.com



Norm Scherr
Vice President
nscherr@lpcfund.com



Meahgan O'Grady
Associate
mogrady@lpcfund.com



Niall Garrahan
Associate
ngarrahan@lpcfund.com

New York Office

747 Third Ave., 22nd Floor New York, NY 10017

Tel: (212) 593-1800

Confidential – For Discussion Purposes ONLY

Michigan Office

26700 Woodward Ave. Royal Oak, MI 48067

Tel: (248) 591-6000

