

WALKING BACKWARDS TO YOUR EXIT

STARTING WITH THE END IN MIND
TO SHAPE STRATEGY & DECISIONS

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M&A Brokers | Lower Middle Market M&A Advisory

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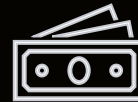
M&A Brokers | Lower Middle Market M&A Advisory

- Boutique Lower-Middle Market M&A Advisory Firm
- Delivering institutional-grade execution, market intelligence, and a human-centered approach to Lower-Middle Market transactions



Revenue

Up to \$250M



EBITDA

Up to \$25M

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The REAG ADVANTAGE

HUMAN CENTERED

Aligns founders with buyers who share core values and care for employees



NON-FINANCIAL ANALYSIS

Quantifies leadership, scalability, and systems — what spreadsheets miss



MARKET INTELLIGENCE

Real-time M&A and sector insights for early decision-making



INSTITUTIONAL-GRADE EXECUTION

Structured, competitive process aligned to long-term vision



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AGENDA

- **THE GAME**
- **HOW BUSINESSES ARE VALUED**
- **BUYER TYPES**
- **SELL-SIDE PROCESS**
- **THE TIPPING POINT**
- **DESIGNING YOUR OWN EXIT**

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THE GAME

- Only bet in \$1 increments
- Cannot have consecutive bids
- \$20 goes to the highest bidder
- Second highest bidder pays their bid but does not win the \$20



The Game vs M&A

- Created a market that didn't previously exist
- Everyone thought they understood the fair value of the asset
- The investment banker set the rules of engagement and ran the process
- Market gained efficiency as the game progressed
- Value was re-set based on market dynamics
- Risk of not doing the deal was introduced
- Strategic value was ultimately paid

HOW BUSINESSES ARE VALUED

- Opinion
- Relative worth, merit, or importance
- Value is determined based on a risk versus return analysis
- $EV = \text{Multiple} \times \text{Normalized EBITDA} \dots$



The Multiple Measures Risk

- Project-Based Revenue vs. Recurring (or Contractual) Revenue
- Customer Concentration vs. Diversification
- End Market Concentration vs. Diversification
- Owner Reliance vs. Management Team
- Commodity Products vs. Specialized Products

Normalized EBITDA Measures Performance

EBITDA = Return

- Net Income + Taxes = **Pretax Net Income**
- Pretax Net Income + Interest Expense = **Operating Income (EBIT)**
- Op Income + Depreciation & Amortization = **EBITDA**
- EBITDA + Normalizing Adjustments = **Normalized EBITDA**

Potential Normalizing Adjustments

- ✓ Owner & Family Salaries
- ✓ Rent
- ✓ Personal Expenses
- ✓ Non-recurring / One-Time Items

Value is in the Eye of the Beholder

- Buyers view risks differently
- Not all buyers have the same approach and capabilities
- Unlocking maximum strategic value requires the right buyers competing for the deal
- To unlock maximum value
 - Maximize the return
 - Minimize the risk

BUYER TYPES

- 1. Strategic Acquirers**
- 2. Private Equity Firms**
- 3. Family Offices**



Three Types of Buyers

Strategic Acquirers

- Existing company
- Strategic fit; horizontal or vertical integration
- Buying decision is based on the ability to unlock strategic or synergistic value
 - Value enhancement: Integration of systems, teams, and processes
 - New market penetration, product / service expansion
 - Enhancement of core business
- High potential for turnover

Three Types of Buyers

Private Equity Firms

- Maximizing returns in a 5-7 year hold period
- Acquisitions are treated as investments, based on in-depth financial analysis
- Maximize financial leverage
- Platform vs. Add-on
- Growth strategy
- Retention of existing management team

Three Types of Buyers

Family Offices

- Long-term hold
- Desire consist, predictable companies
- Less structured
- Unique

Consider These Risks & Buyer Reactions (Marketability & Valuation)

- Project-Based Revenue vs. Recurring (or Contractual) Revenue
- Customer Concentration vs. Diversification
- End-Market Concentration vs. Diversification
- Owner Reliance vs. Management Team
- Commodity Products vs. Specialized Products

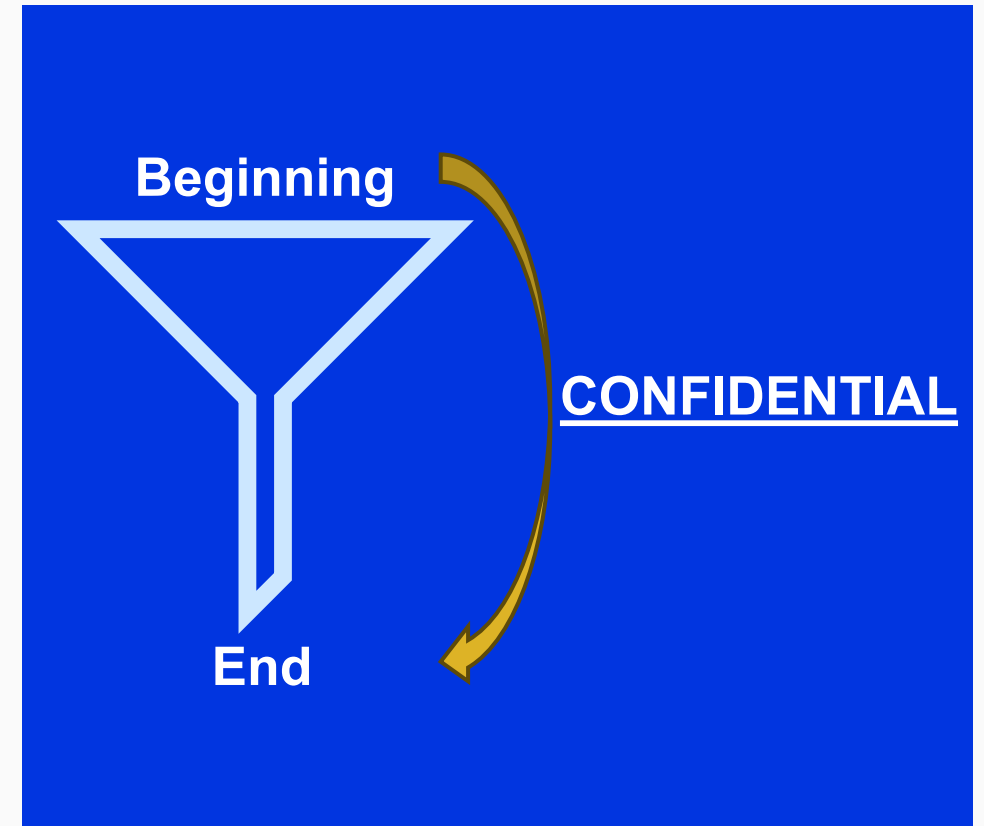
SELL-SIDE PROCESS

- Customized process designed to create competition
- Competition unlocks value
- Maximum value = BEST buyer



Customized Sell-Side Process

- The process is a funnel and is *highly* CONFIDENTIAL
M&A Advisor is the key to maintaining confidentiality and driving competition
- It's a PROCESS, *NOT* an EVENT
9-12 months start to finish, plus employment agreements, consulting agreements, 3-year lookback, and clean-up



The Sell-Side Process

Kickoff

- Gather financial, operational and marketing information about the company
- Develop buyer lists
- Quality of Earnings Analysis

Research & Outreach

- Prepare teaser and CIM
- Present the teaser to potential acquirers
- Establish timeline for review, indications of interest, management meetings, and letters of intent

Suitability

- Execute Non-Disclosure Agreements and provide preliminary data room access
- Provide CIM to interested buyers
- Facilitate Q&A
- Collect indications of interest

Site Visit & Management Meetings

- Facilitate management meetings, to understand the facility, operations, culture, growth potential and suitability
- Fulfill additional Q&A and information requests

Negotiations

- Call for Letters of Intent (LOIs)
- Gather, review, analyze and negotiate LOIs
- Select winner

Due Diligence

- Facilitate due diligence and manage virtual data room
- Introduce appropriate debt/equity sources to determine capitalization

CLOSING

THE TIPPING POINT

What happens when the LOI is signed?



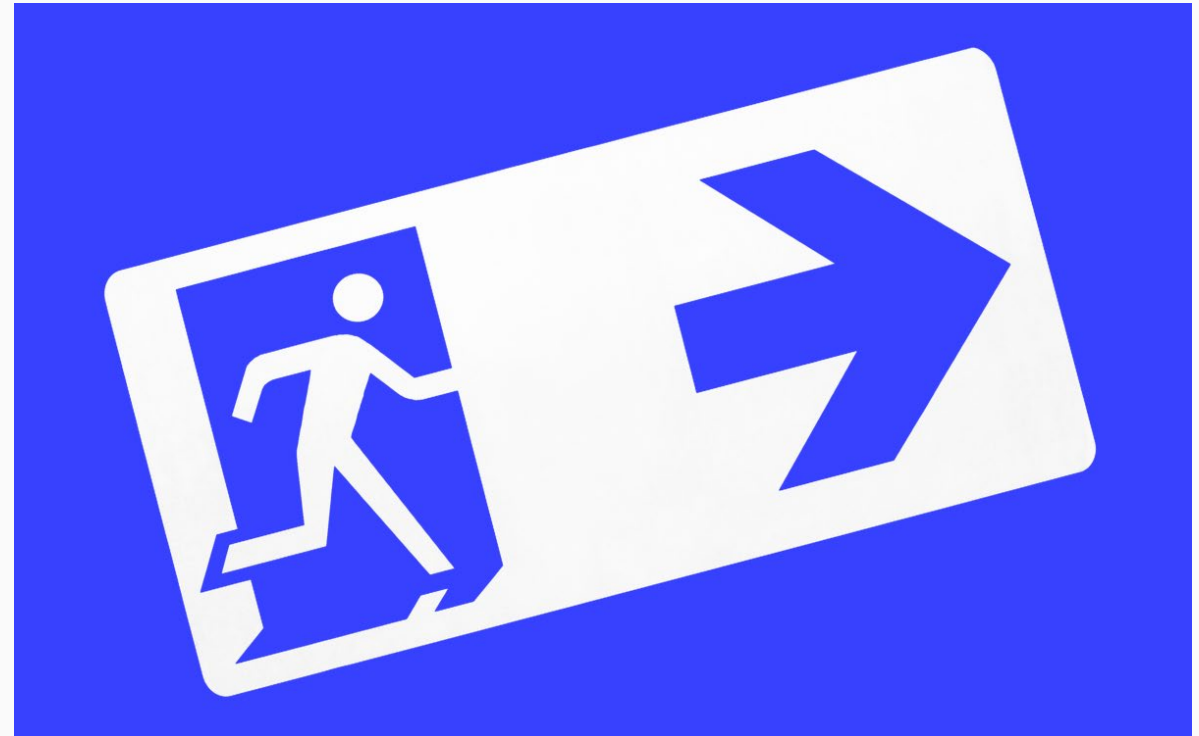
The Tipping Point

The Tipping Point in a Sell-Side Process is when the LOI is signed

- Leverage shifts from seller to buyer
- Playing defense instead of offense
- Nothing can adequately prepare you for due diligence
- Lean on your M&A Advisor and your Quality of Earnings study

DESIGNING YOUR OWN EXIT

The key to personal fulfillment post-close!



What Does a Successful Exit Look Like for You?

- Price & Structure
 - Cash at Close
 - Earn-Out
 - Seller Note
 - Equity Rollover
 - Timeline
 - Real Estate Inclusion / Exclusion
 - Involvement Post-Close
- Goals for:
 - Management Team
 - Employee Retention & Growth
 - Product Expansion
 - Additional Distribution
 - Potential consolidation
 - Your Legacy

KEY TAKEAWAYS

- Identify what you value in a transaction
- Build a business attractive to buyers who value those same things and will provide the exit you want
- The right M&A Advisor will help you:
 - Analyze what you have
 - Determine your suitability to different buyer types
 - Identify what a current exit looks like
 - Outline necessary changes to attract the buyers and exit you want

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KEY TAKEAWAYS

Hire the right M&A team to execute and deliver
your desired outcome

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