

HYPOTHETICAL ACQUISITIONS SCENARIO HIGHLIGHTS:

- Asset Purchase for \$16,500,000 funded with buyer cash, seller financing, other debt.
- Estimated transaction fees are \$340,000
- Non-Compete Agreement: \$1,000,000. No contingent earn-out.

Proposal for the Acquisition of Example Sports, Inc.

Prepared for:

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Prepared by:

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Executive Summary

This executive summary and the attached management report describe the proposed acquisition of the assets of Example Sports, Inc. (hereafter called the "Company"). The Company is a C-Corporation and is organized under the laws of California. It is primarily engaged in the business of Sporting Goods Manufacturing and operates under the trade name of Example Sporting Equipment.

For the year ended 2018, the Company reported a pretax profit (EBT) of \$1,898,672 on sales revenues of \$31,541,420. At the end of fiscal year 2018, the Company had total assets of \$15,522,587, total liabilities of \$7,839,480, and net equity of \$7,683,107. With certain adjustments made to reflect the fair market value of assets, the Company's normalized net equity is estimated to be \$7,610,107.

Purchase Price and Total Transaction Cost

The total cost of the transaction would be as follows:

| | | |
|--------------------------------------|------------|--------------------------|
| Purchase Price for Business Interest | 15,500,000 | |
| Covenant-Not-To-Compete | 1,000,000 | |
| Transaction Price | | 16,500,000 |
| Transaction Fees and Costs | 340,000 | |
| Increase in cash for working capital | 660,000 | |
| Total Transaction Cost | | <u>17,500,000</u> |

Transaction Funding

Under the proposed structure, the transaction would be funded as follows:

| | | |
|--|-----------|--------------------------|
| Buyer Invested Equity / Cash | | 8,500,000 |
| Seller Financing: | | |
| Long-Term Seller Debt | 5,500,000 | |
| Deferred Payments to Seller: Covenant-Not-To-Compete | 1,000,000 | |
| Total Seller Financing | | <u>6,500,000</u> |
| Total of Invested Equity and Seller Financing | | 15,000,000 |
| Other Debt Funding (excluding seller) | | <u>2,500,000</u> |
| Total Sources of Funding | | <u>17,500,000</u> |

The seller would receive \$10,000,000 in cash at closing.

Return on Investment Estimates

Returns on Invested Equity have been estimated as follows:

| | <u>Buy / Sell</u> | <u>Buy / Hold</u> |
|------------------------|-------------------|-------------------|
| IRR based on FCF-E | 50.30% | 33.73% |
| Less Hurdle Rate | 25.00% | 25.00% |
| Spread | 25.30% | 8.73% |
| Present Value | 15,307,334 | 12,688,634 |
| Net Present Value | 6,807,334 | 4,188,634 |
| Profitability Index | 1.80 | 33.73% |
| Investment Turns | 4.12 | N/A |
| Payback (years) | 4.03 | 33.73% |
| IRR based on Dividends | 19.40% | 33.73% |

The returns on Total Invested Capital (i.e., debt and equity) have been estimated as follows:

| | <u>Buy / Sell</u> | <u>Buy / Hold</u> |
|----------------------|-------------------|-------------------|
| IRR based on FCF-TIC | 33.19% | 31.06% |
| Less Hurdle Rate | 16.39% | 16.39% |
| Spread | 16.80% | 14.67% |
| Present Value | 25,343,179 | 46,792,217 |
| Net Present Value | 8,843,179 | 30,292,217 |
| Profitability Index | 1.54 | 2.84 |
| Payback (years) | 4.08 | 4.58 |

The Internal Rate of Return (IRR) on invested equity has been estimated for each equity participant and is summarized as follows.

| <u>Initial Common Equity Investors</u> | <u>Investment</u> | <u>Exit Year</u> | <u>Target IRR</u> | <u>Shares at Closing</u> | <u>% of Invested Equity at Closing</u> | <u>Calculated IRR</u> |
|--|-------------------|------------------|-------------------|--------------------------|--|-----------------------|
| Parent Co. | 6,000,000 | 5 | 25.00% | 705,882 | 70.59% | 39.28% |
| Smith Investor Group | 1,500,000 | 4 | 25.00% | 176,470 | 17.65% | 43.96% |
| Jones Investor Group | 1,000,000 | 3 | 25.00% | 117,648 | 11.76% | 53.03% |

A detailed management report is attached describing the Company, its operations, financial performance, and profit potential. The report also includes details on the proposed financing of the transaction. Finally, projections regarding the outlook for the company after the acquisition have been prepared along with an analysis of potential returns to investors.

For additional information contact:

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Chicago, Illinois 60600
United States

COMMENT: On the lines above, enter all appropriate contact information. Please note that this comment will not print.

Assumptions and Limiting Conditions

This analysis is subject to the following assumptions and limiting conditions:

1. Public, industry, statistical, and other information furnished by others, upon which all or portions of this analysis is based, is believed to be reliable. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.
2. The Company and its representatives warranted to us that the information they supplied was complete and accurate to the best of their knowledge and that the financial statement information reflects the Company's results of operations and financial and business condition in accordance with generally accepted accounting principles, unless otherwise noted. The financial statements and other related information supplied by management has been accepted as correct without further verification. We have not audited, reviewed, or compiled the financial information provided to us and, accordingly, we express no audit opinion or any other form of assurance on this information.
3. This report and conclusion of value is restricted to the internal use of the management of the Company for the sole and specific purpose as noted herein, and shall not be used to obtain credit or for any other purpose or by any other party for any purpose. Neither our work product nor any portions thereof, including any conclusions or the identity of our firm, any individuals signing or associated with this report, or the professional associations or organizations with which they are affiliated, shall be disseminated to third parties other than the Company, its financial accounting firm and attorneys, and governmental agencies by any means without our prior written consent and approval.
4. We or any individual associated with this assignment are not required to provide future services regarding the subject matter of this report, including but not limited to providing further consultation, providing testimony, or appearing in court or other legal proceedings unless specific arrangements have been made.
5. Full compliance by the Company with all applicable federal, state, and local zoning and use, occupancy, environmental, and similar laws and regulations is assumed, unless otherwise stated. Furthermore, no effort has been made to determine the possible effect, if any, on the Company due to future Federal, state, or local legislation including any environmental or ecological matters or interpretations thereof, unless otherwise stated.
6. This report and the conclusion of value arrived at herein are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever. The conclusion of value represents the considered opinion of Example M&A Intermediaries, LLP based on information furnished to them by the Company and other sources.
7. We do not provide assurance on the achievability of the results forecasted by the Company because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans, and assumptions of management.

8. For the prospective financial information approved by management that was used in our engagement, we have not examined or compiled the prospective financial information and therefore, do not express an audit opinion or any other form of assurance on the prospective financial information or the related assumptions. Events and circumstances frequently do not occur as expected and there will usually be differences between prospective financial information and actual results, and those differences may be material.
9. We are not environmental consultants or auditors, and we take no responsibility for any actual or potential environmental liabilities. Any person entitled to rely on this report, wishing to know whether such liabilities exist, or the scope and their effect on the value of the property, is encouraged to obtain a professional environmental assessment. We do not conduct or provide environmental assessments and have not performed one for the subject property.
10. We have not determined independently whether the Company is subject to any present or future liability relating to environmental matters, including but not limited to CERCLA/Superfund liability, nor the scope of any such liabilities. Our estimates and calculations take no such liabilities into account, except as they have been reported to us by the Company or by an environmental consultant working for the Company, and then only to the extent that the liability was reported to us in an actual or estimated dollar amount. Such matters, if any, are noted in the report. To the extent such information has been reported to us, we relied on it without verification and offer no warranty or representation as to its accuracy or completeness.
11. Except as noted, we have relied on the representations of the owners, management, and other third parties concerning the value and useful condition of all equipment, real estate, and any other assets or liabilities, except as specifically stated to the contrary in this report. We have not attempted to confirm whether all assets of the business are free and clear of liens and encumbrances or that the Company has good title to all assets.
12. Neither all nor any part of the contents of this report (including estimates, calculations, the identity of any specialist(s), the firm with which such specialists are connected, or any reference to any of their professional designations) should be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any other means of communication without our prior written consent and approval.
13. We have not made a specific compliance survey or analysis of the subject property to determine whether it is subject to, or in compliance with, the American Disabilities Act of 1990, and this report does not consider the effect, if any, of noncompliance.
14. No change of any item in this report shall be made by anyone other than Example M&A Intermediaries, LLP, and we shall have no responsibility for any such unauthorized change.
15. We have conducted interviews with the current management of the Company concerning the past, present, and future operating results of the Company.
16. This conclusion of value assumes that the Company will continue to operate as a going concern, and that the character and integrity of the Company through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed. It also

assumes that the current level of management expertise and effectiveness would continue to be maintained.

COMMENT: Modify the above list as necessary to reflect the actual assumptions and limiting conditions relevant to the specific engagement. Please note that these comments will not print.

Company Background

Company Identification

Example Sports, Inc. is a C-Corporation organized under the laws of California and located at 123 Main Street, San Diego, CA, 92126. The Company can be categorized under the Standard Industrial Classification (SIC) Code of 3949 and North American Industry Classification System (NAICS) Code of 339920.

COMMENT: In addition to the linked information above, enter any additional identification information that you feel is appropriate for purposes of this report. Please note that this comment will not print.

Nature and History of the Company

Established in 1989, the Company is primarily engaged in the business of Sporting Goods Manufacturing and operates under the trade name of Example Sporting Equipment.

COMMENT: In addition to the linked information above, explain the history of the company since its inception and describe the nature of the company's current activities. Please note that this comment will not print.

Stock Classes and Ownership

COMMENT: Describe all classes of stock including both common and preferred and discuss any special rights or restrictions associated with each class. Summarize the total number of shares authorized, issued and outstanding for each class. List each major shareholder, amount and class of stock they own, and their relationship to other major shareholders, if any. Please note that this comment will not print.

Management Team

COMMENT: Provide an overview of the background and qualifications of key personnel. Also include an overview of other staff, if applicable. Please note that this comment will not print.

Product and Service Information

COMMENT: Provide a description of the company's products and/or services. Please note that this comment will not print.

Market Data and Analysis/Competition

COMMENT: Provide an overview of the market(s) in which the company competes, including details of key competitors. Please note that this comment will not print.

Governmental or Regulatory Environment

COMMENT: Provide an overview of the governmental or regulatory environment in which the company operates. Please note that this comment will not print.

Key Customers and Suppliers

COMMENT: Provide an overview of the company's key customers and suppliers, if applicable. Please note that this comment will not print.

Marketing Strategy

COMMENT: Describe the company's current marketing plan and strategy. Please note that this comment will not print.

Business Risks

COMMENT: Provide an overview of the key business risks faced by the company. Please note that this comment will not print.

Current Operations

COMMENT: Describe the company's facilities, capabilities, and its methods of providing products and/or services. Please note that this comment will not print.

Company Expectations

COMMENT: Provide a description of the Company's future expectations with respect to growth, profitability and financial position. Please note that this comment will not print.

Other Observations

COMMENT: Describe any other observations not explained in the previous sections. Please note that this comment will not print.

Historical and Normalized Financial Statements

A summary of the historic Income Statements, Balance Sheet, and Cash Flows for Example Sports, Inc. is presented in the following section.

COMMENT: Make a note here if you are attaching detailed financial statements as part of this report.

Financial statement data is necessary in order to analyze the historic performance of the business and how that performance compares to its peers in the industry. In addition, prior revenues, expenses and earnings provide a baseline for estimating future earnings and cash flows.

Summary Historical Income Statements

The following tables provide a summary of Example Sports, Inc.'s Income Statements.

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Net Sales Revenue | 25,302,860 | 26,494,580 | 28,043,400 | 29,219,270 | 31,541,420 |
| Total Cost of Goods Sold | 20,165,679 | 21,681,757 | 22,263,336 | 22,943,789 | 23,870,297 |
| Gross Profit | 5,137,181 | 4,812,823 | 5,780,064 | 6,275,481 | 7,671,123 |
| Total Selling Expenses | 749,750 | 813,180 | 917,500 | 997,500 | 1,316,990 |
| Total General & Administrative Expenses | 3,037,730 | 2,486,432 | 3,319,075 | 3,616,368 | 4,129,399 |
| Total Other Revenues and Expenses | (623,774) | (613,150) | (563,153) | (533,769) | (486,062) |
| Income Before Taxes | 725,927 | 900,061 | 980,336 | 1,127,844 | 1,738,672 |
| Total Income Taxes | 283,111 | 351,024 | 382,331 | 439,859 | 678,082 |
| Net Income | 442,816 | 549,037 | 598,005 | 687,985 | 1,060,590 |

COMMENT: On the lines below, identify and describe any significant issues with respect to the historic income statements. Please note that this comment will not print.

Income Statement Adjustments

In order to estimate the value of Example Sports, Inc., it was necessary to make certain normalization adjustments to the Income Statements. Normalization adjustments are made to reflect the Company's true economic earnings by eliminating excessive, nonoperating, non-recurring and/or unusual items. The following table presents a summary of the adjustments that were made to Example Sports, Inc.'s earnings.

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-----------------|------------------|------------------|------------------|------------------|
| Add/(Deduct) Income Adjustments: | | | | | |
| Nonoperating Income | (20,000) | (30,000) | (40,000) | (50,000) | (60,000) |
| Total Income Adjustments | (20,000) | (30,000) | (40,000) | (50,000) | (60,000) |
| Add/(Deduct) Expense Adjustments: | | | | | |
| Officer/Owner's Compensation | (50,000) | (75,000) | (100,000) | (125,000) | (150,000) |
| Office Utilities | (5,000) | (5,000) | (10,000) | (15,000) | (20,000) |
| Less: Nonoperating Expense | (10,000) | (20,000) | (30,000) | (40,000) | (50,000) |
| Total Expense Adjustments | (65,000) | (100,000) | (140,000) | (180,000) | (220,000) |
| Total Income & Expense Adjustments Before Tax | 45,000 | 70,000 | 100,000 | 130,000 | 160,000 |
| Less: Tax Effect | 11,228 | 17,465 | 24,950 | 32,435 | 39,920 |
| Total Adjustments Net of Tax Effect | 33,773 | 52,535 | 75,050 | 97,565 | 120,080 |

Normalized Historical Income Statements

The normalization adjustments presented in the previous section were applied to the historic income statements in order to prepare the following pro-forma Normalized Income Statements.

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Net Sales Revenue | 25,302,860 | 26,494,580 | 28,043,400 | 29,219,270 | 31,541,420 |
| Total Cost of Goods Sold | 20,165,679 | 21,681,757 | 22,263,336 | 22,943,789 | 23,870,297 |
| Gross Profit | 5,137,181 | 4,812,823 | 5,780,064 | 6,275,481 | 7,671,123 |
| Total Selling Expenses | 749,750 | 813,180 | 917,500 | 997,500 | 1,316,990 |
| Total General & Administrative Expenses | 2,982,730 | 2,406,432 | 3,209,075 | 3,476,368 | 3,959,399 |
| Total Other Revenues and Expenses | (633,774) | (623,150) | (573,153) | (543,769) | (496,062) |
| Income Before Taxes | 770,927 | 970,061 | 1,080,336 | 1,257,844 | 1,898,672 |
| Total Income Taxes | 294,339 | 368,489 | 407,281 | 472,294 | 718,002 |
| Net Income | 476,589 | 601,572 | 673,055 | 785,550 | 1,180,670 |

Summary Historical Balance Sheets

The historical balance sheets report Example Sports, Inc.'s financial position as of the end of each year presented below.

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| ASSETS | | | | | |
| Total Current Assets | 4,956,423 | 5,427,189 | 6,388,104 | 7,147,785 | 7,509,604 |
| Net Fixed Assets | 5,142,852 | 4,962,042 | 4,634,661 | 5,534,900 | 5,363,423 |
| Total Long-Term Investments | 3,904,180 | 3,583,210 | 3,672,670 | 2,204,390 | 1,651,210 |
| Net Intangible Assets | 245,670 | 236,340 | 227,010 | 217,680 | 208,350 |
| Total Other Noncurrent Assets | 550,000 | 710,000 | 770,000 | 780,000 | 790,000 |
| Total Assets | 14,799,125 | 14,918,781 | 15,692,445 | 15,884,755 | 15,522,587 |
| LIABILITIES & STOCKHOLDERS' EQUITY | | | | | |
| Total Current Liabilities | 2,663,694 | 2,817,600 | 3,464,091 | 3,797,653 | 3,555,398 |
| Total Long-Term Debt | 5,990,265 | 5,734,045 | 5,317,415 | 4,896,531 | 4,257,082 |
| Total Other Long-Term Liabilities | 27,000 | 27,000 | 27,000 | 27,000 | 27,000 |
| Total Liabilities | 8,680,959 | 8,578,645 | 8,808,506 | 8,721,184 | 7,839,480 |
| Stockholders' Equity: | | | | | |
| Preferred Stock | 800,000 | 800,000 | 850,000 | 850,000 | 850,000 |
| Common Stock | 2,780,000 | 2,780,000 | 3,000,000 | 3,000,000 | 3,000,000 |
| Retained Earnings | 2,538,166 | 2,760,136 | 3,033,939 | 3,313,571 | 3,833,107 |
| Total Stockholders' Equity | 6,118,166 | 6,340,136 | 6,883,939 | 7,163,571 | 7,683,107 |
| Total Liabilities & Stockholders' Equity | 14,799,125 | 14,918,781 | 15,692,445 | 15,884,755 | 15,522,587 |

COMMENT: On the lines below, identify and describe any significant issues with respect to the historic balance sheets. Please note that this comment will not print.

Balance Sheet Adjustments

In order to estimate the value of Example Sports, Inc., it was necessary to make certain normalization adjustments to the Balance Sheets. Normalization adjustments are made to reflect the Company's true economic position by eliminating or reclassifying items that are excessive or not related to the operations of the business. The following table presents a summary of the adjustments that were made to Example Sports, Inc.'s balance sheets.

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Nonoperating Assets | 60,000 | 70,000 | 80,000 | 90,000 | 100,000 |
| Normalization Adjustment | (60,000) | (70,000) | (80,000) | (90,000) | (100,000) |
| Adjusted Balance | 0 | 0 | 0 | 0 | 0 |
| Nonoperating Liabilities | 27,000 | 27,000 | 27,000 | 27,000 | 27,000 |
| Normalization Adjustment | (27,000) | (27,000) | (27,000) | (27,000) | (27,000) |
| Adjusted Balance | 0 | 0 | 0 | 0 | 0 |
| Net Adjustments: | | | | | |
| Asset Adjustments | (60,000) | (70,000) | (80,000) | (90,000) | (100,000) |
| Less: Liability Adjustments | (27,000) | (27,000) | (27,000) | (27,000) | (27,000) |
| Retained Earnings Adjustment | (33,000) | (43,000) | (53,000) | (63,000) | (73,000) |

Normalized Historical Balance Sheets

The normalization adjustments presented in the previous section were applied to the historic balance sheets in order to present the following pro-forma Normalized Balance Sheets.

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| ASSETS | | | | | |
| Total Current Assets | 4,956,423 | 5,427,189 | 6,388,104 | 7,147,785 | 7,509,604 |
| Net Fixed Assets | 5,142,852 | 4,962,042 | 4,634,661 | 5,534,900 | 5,363,423 |
| Total Long-Term Investments | 3,904,180 | 3,583,210 | 3,672,670 | 2,204,390 | 1,651,210 |
| Net Intangible Assets | 245,670 | 236,340 | 227,010 | 217,680 | 208,350 |
| Total Other Noncurrent Assets | 490,000 | 640,000 | 690,000 | 690,000 | 690,000 |
| Total Assets | 14,739,125 | 14,848,781 | 15,612,445 | 15,794,755 | 15,422,587 |
| LIABILITIES & STOCKHOLDERS' EQUITY | | | | | |
| Total Current Liabilities | 2,663,694 | 2,817,600 | 3,464,091 | 3,797,653 | 3,555,398 |
| Total Long-Term Debt | 5,990,265 | 5,734,045 | 5,317,415 | 4,896,531 | 4,257,082 |
| Total Other Long-Term Liabilities | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | 8,653,959 | 8,551,645 | 8,781,506 | 8,694,184 | 7,812,480 |
| Stockholders' Equity: | | | | | |
| Preferred Stock | 800,000 | 800,000 | 850,000 | 850,000 | 850,000 |
| Common Stock | 2,780,000 | 2,780,000 | 3,000,000 | 3,000,000 | 3,000,000 |
| Retained Earnings | 2,505,166 | 2,717,136 | 2,980,939 | 3,250,571 | 3,760,107 |
| Total Stockholders' Equity | 6,085,166 | 6,297,136 | 6,830,939 | 7,100,571 | 7,610,107 |
| Total Liabilities & Stockholders' Equity | 14,739,125 | 14,848,781 | 15,612,445 | 15,794,755 | 15,422,587 |

Summary Historical Statements of Cash Flows

The following table presents a summary of the historical Statements of Cash Flows for Example Sports, Inc..

| | 2015 | 2016 | 2017 | 2018 |
|--------------------------------|-----------------|----------------|----------------|----------------|
| Net Cash Flow From Operations | 981,516 | 862,646 | 1,430,146 | 1,600,486 |
| Net Cash Flow From Investments | (633,999) | (1,046,000) | (740,000) | (406,999) |
| Net Cash Flow From Financing | (438,081) | 189,579 | (686,075) | (1,184,348) |
| Net Cash Flow | (90,564) | 6,225 | 4,071 | 9,139 |
| Cash at Beginning of Year | 313,943 | 223,379 | 229,604 | 233,675 |
| Cash at End of Year | 223,379 | 229,604 | 233,675 | 242,814 |

COMMENT: On the lines below, identify and describe any significant issues with respect to the historic statements of cash flows. Please note that this comment will not print.

Normalized Earnings and Net Cash Flow Summary

The following tables present various measures of earnings and cash flows on a normalized basis.

Normalized Earnings

The table below summarizes the income and expense normalization adjustments and constructs the indicated measures of earnings on an adjusted basis.

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|------------------|------------------|------------------|------------------|------------------|
| Total Income & Expense Adjustments Before Tax | 45,000 | 70,000 | 100,000 | 130,000 | 160,000 |
| Less: Tax Effect | 11,228 | 17,465 | 24,950 | 32,435 | 39,920 |
| Less: Adjustment to Historic Tax | 0 | 0 | 0 | 0 | 0 |
| Plus: Adjustments to Net-of-Tax Items | 0 | 0 | 0 | 0 | 0 |
| Net Adjustments | 33,773 | 52,535 | 75,050 | 97,565 | 120,080 |
| Plus: Historic Net Income | 442,816 | 549,037 | 598,005 | 687,985 | 1,060,590 |
| Net Income | 476,589 | 601,572 | 673,055 | 785,550 | 1,180,670 |
| Plus: Normalized Income Taxes | 294,339 | 368,489 | 407,281 | 472,294 | 718,002 |
| EBT | 770,927 | 970,061 | 1,080,336 | 1,257,844 | 1,898,672 |
| Plus: Normalized Interest Expense | 678,434 | 674,560 | 656,923 | 648,429 | 603,982 |
| EBIT | 1,449,361 | 1,644,621 | 1,737,259 | 1,906,273 | 2,502,654 |
| Plus: Normalized Depreciation & Amortization | 973,569 | 1,120,139 | 1,266,711 | 1,289,091 | 1,110,806 |
| EBITDA | 2,422,930 | 2,764,760 | 3,003,970 | 3,195,364 | 3,613,460 |

Normalized Equity Net Cash Flows (FCF-Equity)

The following table presents the elements that comprise Equity Net Cash Flows, also known as Free Cash Flow Available to Equity (FCF-E). Equity Net Cash Flows represent the amount of cash flow that is available for disbursement to equity investors and/or to reinvest in the company.

| | 2015 | 2016 | 2017 | 2018 |
|--|----------------|----------------|------------------|----------------|
| Net Income | 601,572 | 673,055 | 785,550 | 1,180,670 |
| Plus: Depreciation & Amortization | 1,120,139 | 1,266,711 | 1,289,091 | 1,110,806 |
| Less: Fixed Asset Purchases | 929,999 | 930,000 | 2,180,000 | 929,999 |
| Less: Non-Cash Changes in Net Working Capital | 378,300 | 278,050 | 99,570 | 338,500 |
| Plus: Changes in Short-Term Notes Payable | (13,550) | 485,030 | (97,680) | (107,890) |
| Plus: Changes in Current Long-Term Notes Payable | 145,206 | 160,411 | 224,292 | 85,785 |
| Plus: Changes in Long-Term Notes Payable | (256,220) | (416,630) | (420,884) | (639,449) |
| Less: Preferred Dividends | 80,000 | 85,000 | 85,000 | 85,000 |
| Equity Net Cash Flows | 208,848 | 875,527 | (584,201) | 276,423 |

Normalized Invested Capital Net Cash Flows (FCF-TIC)

The following tables present two alternate calculations of Invested Capital Net Cash Flows, also known as Free Cash Flow Available to Total Invested Capital (FCF-TIC). Invested Capital Net Cash Flows represent the amount of cash flow that is available to service debt, distribute to equity investors and/or to reinvest in the company.

Invested Capital Net Cash Flows, Operating Income Method:

| | 2015 | 2016 | 2017 | 2018 |
|---|----------------|------------------|----------------|------------------|
| Normalized Operating Income | 1,593,211 | 1,653,489 | 1,801,613 | 2,394,734 |
| Less: Tax on Operating Income | 541,692 | 562,186 | 612,548 | 814,210 |
| Plus: Depreciation and Amortization From Operations | 1,120,139 | 1,266,711 | 1,289,091 | 1,110,806 |
| Less: Fixed Asset Purchases | 929,999 | 930,000 | 2,180,000 | 929,999 |
| Less: Non-Cash Changes in Net Working Capital | 378,300 | 278,050 | 99,570 | 338,500 |
| Invested Capital Net Cash Flows | 863,359 | 1,149,964 | 198,586 | 1,422,831 |

Invested Capital Net Cash Flows, Net Income Method:

| | 2015 | 2016 | 2017 | 2018 |
|---|----------------|------------------|----------------|------------------|
| Normalized Net Income | 601,572 | 673,055 | 785,550 | 1,180,670 |
| Plus: Interest Expense (Net of Tax) | 445,210 | 433,569 | 427,963 | 398,628 |
| Plus: Depreciation and Amortization | 1,120,139 | 1,266,711 | 1,289,091 | 1,110,806 |
| Less: Fixed Asset Purchases | 929,999 | 930,000 | 2,180,000 | 929,999 |
| Less: Non-Cash Changes in Net Working Capital | 378,300 | 278,050 | 99,570 | 338,500 |
| Invested Capital Net Cash Flows | 858,622 | 1,165,285 | 223,034 | 1,421,605 |

Normalized Interim Financial Statements

Interim Financial Statements for 6 months ending Jun 2019 were available and included in this analysis. These interim financial statements along with any adjustments are summarized below:

| Interim Income Statement & Adjustments | Normalization | | |
|---|---------------------|-------------|------------------------|
| | Interim Jun 2019 | Adjustments | Normalized Jun 2019 |
| Net Sales Revenue | 18,924,689 | 0 | 18,924,689 |
| Total Cost of Goods Sold | 13,731,824 | 0 | 13,731,824 |
| Total Selling Expenses | 867,197 | 0 | 867,197 |
| Total General & Administrative Expenses | 2,446,093 | 0 | 2,446,093 |
| Income From Operations | 1,879,575 | 0 | 1,879,575 |
| Total Other Revenues and Expenses | (184,800) | 0 | (184,800) |
| Income Before Taxes | 1,694,775 | 0 | 1,694,775 |
| Total Income Taxes | 275,592 | 0 | 275,592 |
| Net Income | 1,419,183 | 0 | 1,419,183 |

COMMENT: On the lines below, identify and describe any significant issues with respect to the interim income statements and any related normalization adjustments. Please note that this comment will not print.

| Interim Balance Sheet & Adjustments | Interim Jun 2019 | Normalization Adjustments | Normalized Jun 2019 |
|---|---------------------|------------------------------|------------------------|
| ASSETS | | | |
| Total Current Assets | 9,122,730 | 0 | 9,122,730 |
| Net Fixed Assets | 4,554,828 | 0 | 4,554,828 |
| Total Long-Term Investments | 1,640,341 | 0 | 1,640,341 |
| Net Intangible Assets | 203,666 | 0 | 203,666 |
| Total Other Noncurrent Assets | 790,000 | 0 | 790,000 |
| Total Assets | 16,311,565 | 0 | 16,311,565 |
| LIABILITIES & STOCKHOLDERS' EQUITY | | | |
| Total Current Liabilities | 3,303,998 | 0 | 3,303,998 |
| Total Long-Term Debt | 3,855,277 | 0 | 3,855,277 |
| Total Other Long-Term Liabilities | 50,000 | 0 | 50,000 |
| Total Liabilities | 7,209,275 | 0 | 7,209,275 |
| Stockholders' Equity: | | | |
| Preferred Stock | 850,000 | 0 | 850,000 |
| Common Stock | 3,000,000 | 0 | 3,000,000 |
| Retained Earnings | 5,252,290 | 0 | 5,252,290 |
| Total Stockholders' Equity | 9,102,290 | 0 | 9,102,290 |
| Total Liabilities & Stockholders' Equity | 16,311,565 | 0 | 16,311,565 |

COMMENT: On the lines below, identify and describe any significant issues with respect to the interim balance sheets and any related normalization adjustments. Please note that this comment will not print.

Analysis of Historic Financial Statements

We have performed an analysis of the Company's historic financial statements by calculating common-size financial statements on a percentage basis and traditional financial ratios. The common-size income statement items are presented as percentages of Total Sales and the balance sheet items as percentages of Total Assets in order to compare the relative composition of line items from year to year. The calculated financial ratios measure areas such as liquidity, leverage, profitability, etc. for each historic year.

In addition, the Company's common-size financial statements and financial ratios have been compared to aggregate industry data in order to provide a benchmark against other peer companies in the selected industry. The industry data used in this analysis is described below.

Although industry statistics are a useful source of general analytical data, there can be significant variation in the reporting practices and operational methods of companies within a given industry. Therefore, industry statistics as used throughout this report should not be regarded as absolute norms or standards.

Comparative Industry Data:

| | |
|---------------------------------|---|
| Source: | RMA Annual Statement Studies |
| Industry Description: | Sporting and Athletic Goods Manufacturing |
| Industry NAICS code: | 339920 |
| Sample categorized by: | Sales |
| Category size: | \$10MM to \$25MM |
| Industry Quartile (for ratios): | Median Quartile |
| Number of companies in sample: | 47 |
| Date of industry information: | 2018 |

| | |
|--------------------------------|---|
| Source: | Integra - Financial Statement Analysis |
| Industry Description: | Sporting and Athletic Goods Manufacturing |
| Industry NAICS code: | 339920 |
| Sales Range: | \$10,000,000 - \$24,999,999 |
| Number of companies in sample: | 94 |

Detailed industry description: This industry comprises establishments primarily engaged in manufacturing sporting and athletic goods (except apparel and footwear).

Common-Size (Percentage) Financial Statements

This analysis includes a review of the Company's common-size income statement and balance sheet percentages on an unadjusted and a normalized basis. In order to portray the relative size of financial statement items for comparison over time, each line item in the common-size income statements is expressed as a percentage of total revenue and each line item in the common-size balance sheets is expressed as a percentage of total assets. The common-size income statements and balance sheets are presented below in summary format.

Common-Size Statements Based on Unadjusted Data

| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Income Data: | | | | | |
| Net Sales | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Gross Profit | 20.30% | 18.17% | 20.61% | 21.48% | 24.32% |
| Operating Expenses | 14.97% | 12.45% | 15.11% | 15.79% | 17.27% |
| Operating Profit | 5.33% | 5.71% | 5.50% | 5.69% | 7.05% |
| All Other Expenses (Net) | 2.47% | 2.31% | 2.01% | 1.83% | 1.54% |
| Profit Before Tax | 2.87% | 3.40% | 3.50% | 3.86% | 5.51% |
| Assets: | | | | | |
| Cash & Equivalents | 5.53% | 5.95% | 10.01% | 12.74% | 14.60% |
| Trade Receivables (Net) | 13.54% | 13.59% | 12.66% | 13.98% | 14.72% |
| Inventory | 13.51% | 15.89% | 17.11% | 17.41% | 18.13% |
| All Other Current Assets | 0.91% | 0.95% | 0.93% | 0.87% | 0.92% |
| Total Current Assets | 33.49% | 36.38% | 40.71% | 45.00% | 48.38% |
| Fixed Assets (Net) | 34.75% | 33.26% | 29.53% | 34.84% | 34.55% |
| Intangibles (Net) | 1.66% | 1.58% | 1.45% | 1.37% | 1.34% |
| All Other NonCurrent Assets | 30.10% | 28.78% | 28.31% | 18.79% | 15.73% |
| Total Noncurrent Assets | 66.51% | 63.62% | 59.29% | 55.00% | 51.62% |
| Total Assets | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Liabilities & Net Worth: | | | | | |
| Notes Payable Short-Term | 1.27% | 1.17% | 4.20% | 3.54% | 2.92% |
| Current Maturity of Long-Term Debt | 3.58% | 4.53% | 5.33% | 6.67% | 7.38% |
| Trade Payables | 8.33% | 8.32% | 7.83% | 8.37% | 8.34% |
| Income Taxes Payable | 2.19% | 2.25% | 2.13% | 2.45% | 1.73% |
| All Other Current Liabilities | 2.62% | 2.62% | 2.59% | 2.88% | 2.53% |
| Total Current Liabilities | 18.00% | 18.89% | 22.07% | 23.91% | 22.90% |
| Long-Term Debt | 40.48% | 38.44% | 33.89% | 30.83% | 27.43% |
| Deferred Taxes | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| All Other NonCurrent Liabilities | 0.18% | 0.18% | 0.17% | 0.17% | 0.17% |
| Net worth | 41.34% | 42.50% | 43.87% | 45.10% | 49.50% |
| Total Liabilities & Net Worth | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

Common-Size Statements Based on Normalized Data

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------------------|---------|---------|---------|---------|---------|
| Income Data: | | | | | |
| Net Sales | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Gross Profit | 20.30% | 18.17% | 20.61% | 21.48% | 24.32% |
| Operating Expenses | 14.75% | 12.15% | 14.71% | 15.31% | 16.73% |
| Operating Profit | 5.55% | 6.01% | 5.90% | 6.17% | 7.59% |
| All Other Expenses (Net) | 2.50% | 2.35% | 2.04% | 1.86% | 1.57% |
| Profit Before Tax | 3.05% | 3.66% | 3.85% | 4.30% | 6.02% |
| Assets: | | | | | |
| Cash & Equivalents | 5.55% | 5.98% | 10.06% | 12.81% | 14.70% |
| Trade Receivables (Net) | 13.60% | 13.65% | 12.73% | 14.06% | 14.82% |
| Inventory | 13.57% | 15.96% | 17.20% | 17.51% | 18.25% |
| All Other Current Assets | 0.91% | 0.95% | 0.93% | 0.88% | 0.92% |
| Total Current Assets | 33.63% | 36.55% | 40.92% | 45.25% | 48.69% |
| Fixed Assets (Net) | 34.89% | 33.42% | 29.69% | 35.04% | 34.78% |
| Intangibles (Net) | 1.67% | 1.59% | 1.45% | 1.38% | 1.35% |
| All Other NonCurrent Assets | 29.81% | 28.44% | 27.94% | 18.33% | 15.18% |
| Total Noncurrent Assets | 66.37% | 63.45% | 59.08% | 54.75% | 51.31% |
| Total Assets | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Liabilities & Net Worth: | | | | | |
| Notes Payable Short-Term | 1.27% | 1.17% | 4.22% | 3.56% | 2.94% |
| Current Maturity of Long-Term Debt | 3.60% | 4.55% | 5.35% | 6.71% | 7.43% |
| Trade Payables | 8.37% | 8.36% | 7.87% | 8.42% | 8.39% |
| Income Taxes Payable | 2.20% | 2.26% | 2.14% | 2.47% | 1.74% |
| All Other Current Liabilities | 2.63% | 2.64% | 2.60% | 2.89% | 2.55% |
| Total Current Liabilities | 18.07% | 18.98% | 22.19% | 24.04% | 23.05% |
| Long-Term Debt | 40.64% | 38.62% | 34.06% | 31.00% | 27.60% |
| Deferred Taxes | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| All Other NonCurrent Liabilities | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Net worth | 41.29% | 42.41% | 43.75% | 44.96% | 49.34% |
| Total Liabilities & Net Worth | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

COMMENT: On the lines below, identify and describe any significant trends or issues related to the Company's common-size financial statements. Please note that this comment will not print.

Integra Industry Data, Common-Size Statement Comparison

The Company's common-size financial statements are calculated from both the unadjusted and normalized financial statements and compared here to the selected Integra industry data. For each line item, the business vs. industry difference, variance and average variance are calculated and presented in the table below. A multi-year comparison is available as an attachment to this report.

Integra Common-Size Comparison to Unadjusted Company Financials

Integra - Business vs. Industry

Common-Size Statements, Current Year

| | Business 2018 | Industry 2018 | Difference | Variance | 5 Yr Average Variance |
|-----------------------------------|------------------|------------------|------------|----------|--------------------------|
| Income Statement | | | | | |
| Revenue | 100.0% | 100.0% | 0.0% | 0.0% | 0.0% |
| Cost of Sales | 73.1% | 66.3% | 6.8% | 10.2% | 14.6% |
| Gross Margin | 26.9% | 33.7% | -6.8% | -20.1% | -37.8% |
| Selling, General & Administrative | 12.0% | 18.6% | -6.6% | -35.5% | -49.3% |
| Officer Compensation | 1.7% | 2.1% | -0.4% | -17.0% | -24.3% |
| Pension & Benefits | 0.0% | 2.1% | -2.1% | -100.0% | -100.0% |
| Advertising & Sales | 0.0% | 1.9% | -1.9% | -100.0% | -100.0% |
| Bad Debts | 0.0% | 0.2% | -0.2% | -100.0% | -100.0% |
| Rents Paid | 0.0% | 2.1% | -2.1% | -100.0% | -100.0% |
| Depreciation & Amortization | 3.5% | 3.2% | 0.3% | 10.1% | 28.3% |
| Operating expenses | 17.3% | 30.3% | -13.0% | -43.0% | -50.1% |
| Operating Income | 7.1% | 3.5% | 3.6% | 101.5% | 67.4% |
| Interest Income | 0.3% | 0.1% | 0.2% | 242.2% | 173.9% |
| Interest Expense | -1.9% | -1.0% | -0.9% | 91.5% | 134.1% |
| Total Other Income (Expense) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Pre-Tax Income | 5.5% | 2.5% | 3.0% | 120.5% | 53.1% |
| Income Taxes | 2.1% | -0.9% | 3.0% | -338.9% | -265.8% |
| Net Income | 3.4% | 1.5% | 1.9% | 124.2% | 55.6% |

Balance Sheet**Assets:**

| | | | | | |
|-----------------------------------|--------|--------|--------|--------|--------|
| Cash | 1.6% | 7.9% | -6.3% | -80.2% | -79.5% |
| Marketable Securities | 13.0% | 1.4% | 11.6% | 831.4% | 481.6% |
| Accounts Receivable | 15.9% | 21.3% | -5.4% | -25.2% | -30.6% |
| (Allowance for doubtful accounts) | -1.2% | -0.5% | -0.7% | 141.3% | 117.6% |
| Accounts Receivable, net | 14.7% | 20.8% | -6.1% | -29.2% | -34.1% |
| Raw Material | 3.9% | 8.7% | -4.8% | -55.6% | -58.1% |
| Work in Process | 3.2% | 1.8% | 1.4% | 79.0% | 65.4% |
| Finished Good | 9.3% | 12.7% | -3.4% | -26.4% | -35.1% |
| Other Inventory | 1.7% | | | | |
| Total Inventory | 18.1% | 23.2% | -5.1% | -21.8% | -29.3% |
| Other Current Assets | 0.9% | 6.0% | -5.1% | -84.7% | -84.8% |
| Total Current Assets | 48.4% | 59.2% | -10.8% | -18.3% | -31.1% |
| Property, Plant & Equipment | 87.8% | 50.6% | 37.2% | 73.5% | 41.3% |
| (Accumulated Depreciation) | -53.2% | -40.2% | -13.0% | 32.4% | -5.2% |
| Property, Plant & Equipment, net | 34.6% | 10.4% | 24.2% | 232.2% | 221.0% |
| Intangible Assets, net | 1.3% | 15.3% | -14.0% | -91.2% | -90.3% |
| Depletable Assets, net | | 0.0% | | | |
| Investments | 10.6% | 10.0% | 0.6% | 6.4% | 96.6% |
| Other Noncurrent Assets | 5.1% | 5.1% | 0.0% | -0.2% | -8.3% |
| Total Noncurrent Assets | 51.6% | 40.8% | 10.8% | 26.5% | 45.1% |
| Total Assets | 100.0% | 100.0% | | | |

Liabilities & Net Worth:

| | | | | | |
|-------------------------------|--------|--------|-------|---------|---------|
| Short-Term Debt | 10.3% | 10.0% | 0.3% | 3.0% | -18.8% |
| Accounts Payable | 8.3% | 5.7% | 2.6% | 46.3% | 44.5% |
| Other Current Liabilities | 4.3% | 10.1% | -5.8% | -57.8% | -52.5% |
| Total Current Liabilities | 22.9% | 25.8% | -2.9% | -11.2% | -18.0% |
| Long-Term Debt | 27.4% | 23.8% | 3.6% | 15.2% | 43.7% |
| Loans from Shareholders | 0.0% | 2.5% | -2.5% | -100.0% | -100.0% |
| Other Liabilities | 0.2% | 6.1% | -5.9% | -97.1% | -97.1% |
| Total Long-Term Liabilities | 50.5% | 32.4% | 18.1% | 55.9% | 60.3% |
| Total Liabilities | 50.5% | 58.2% | -7.7% | -13.2% | -4.6% |
| Total Net Worth | 49.5% | 41.8% | 7.7% | 18.4% | 6.4% |
| Total Liabilities & Net Worth | 100.0% | 100.0% | | | |

Integra Common-Size Comparison to Normalized Company Financials

Integra - Business vs. Industry

Common-Size Statements, Current Year

| | Business 2018 | Industry 2018 | Difference | Variance | 5 Yr Average Variance |
|-----------------------------------|------------------|------------------|------------|----------|--------------------------|
| Income Statement | | | | | |
| Revenue | 100.0% | 100.0% | 0.0% | 0.0% | 0.0% |
| Cost of Sales | 73.1% | 66.3% | 6.8% | 10.2% | 14.6% |
| Gross Margin | 26.9% | 33.7% | -6.8% | -20.1% | -37.8% |
| Selling, General & Administrative | 11.9% | 18.6% | -6.7% | -35.8% | -49.5% |
| Officer Compensation | 1.3% | 2.1% | -0.8% | -39.6% | -40.8% |
| Pension & Benefits | 0.0% | 2.1% | -2.1% | -100.0% | -100.0% |
| Advertising & Sales | 0.0% | 1.9% | -1.9% | -100.0% | -100.0% |
| Bad Debts | 0.0% | 0.2% | -0.2% | -100.0% | -100.0% |
| Rents Paid | 0.0% | 2.1% | -2.1% | -100.0% | -100.0% |
| Depreciation & Amortization | 3.5% | 3.2% | 0.3% | 10.1% | 28.3% |
| Operating expenses | 16.7% | 30.3% | -13.6% | -44.8% | -51.4% |
| Operating Income | 7.6% | 3.5% | 4.1% | 116.9% | 78.4% |
| Interest Income | 0.3% | 0.1% | 0.2% | 242.2% | 173.9% |
| Interest Expense | -1.9% | -1.0% | -0.9% | 91.5% | 134.1% |
| Total Other Income (Expense) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Pre-Tax Income | 6.0% | 2.5% | 3.5% | 140.8% | 67.1% |
| Income Taxes | 2.3% | -0.9% | 3.2% | -352.9% | -275.5% |
| Net Income | 3.7% | 1.5% | 2.2% | 149.5% | 73.1% |

Balance Sheet**Assets:**

| | | | | | |
|-----------------------------------|--------|--------|--------|--------|--------|
| Cash | 1.6% | 7.9% | -6.3% | -80.1% | -79.3% |
| Marketable Securities | 13.1% | 1.4% | 11.7% | 837.4% | 484.9% |
| Accounts Receivable | 16.0% | 21.3% | -5.3% | -24.7% | -30.2% |
| (Allowance for doubtful accounts) | -1.2% | -0.5% | -0.7% | 142.9% | 118.7% |
| Accounts Receivable, net | 14.8% | 20.8% | -6.0% | -28.8% | -33.8% |
| Raw Material | 3.9% | 8.7% | -4.8% | -55.3% | -57.9% |
| Work in Process | 3.2% | 1.8% | 1.4% | 80.1% | 66.2% |
| Finished Good | 9.4% | 12.7% | -3.3% | -26.0% | -34.8% |
| Other Inventory | 1.7% | | | | |
| Total Inventory | 18.3% | 23.2% | -4.9% | -21.3% | -28.9% |
| Other Current Assets | 0.9% | 6.0% | -5.1% | -84.6% | -84.7% |
| Total Current Assets | 48.7% | 59.2% | -10.5% | -17.7% | -30.7% |
| Property, Plant & Equipment | 88.4% | 50.6% | 37.8% | 74.6% | 42.1% |
| (Accumulated Depreciation) | -53.6% | -40.2% | -13.4% | 33.3% | -4.7% |
| Property, Plant & Equipment, net | 34.8% | 10.4% | 24.4% | 234.4% | 222.7% |
| Intangible Assets, net | 1.4% | 15.3% | -13.9% | -91.2% | -90.3% |
| Depletable Assets, net | | 0.0% | | | |
| Investments | 10.7% | 10.0% | 0.7% | 7.1% | 97.6% |
| Other Noncurrent Assets | 4.5% | 5.1% | -0.6% | -12.3% | -18.1% |
| Total Noncurrent Assets | 51.3% | 40.8% | 10.5% | 25.8% | 44.6% |
| Total Assets | 100.0% | 100.0% | | | |

Liabilities & Net Worth:

| | | | | | |
|-------------------------------|--------|--------|-------|---------|---------|
| Short-Term Debt | 10.4% | 10.0% | 0.4% | 3.7% | -18.4% |
| Accounts Payable | 8.4% | 5.7% | 2.7% | 47.3% | 45.3% |
| Other Current Liabilities | 4.3% | 10.1% | -5.8% | -57.5% | -52.2% |
| Total Current Liabilities | 23.1% | 25.8% | -2.7% | -10.6% | -17.6% |
| Long-Term Debt | 27.6% | 23.8% | 3.8% | 16.0% | 44.5% |
| Loans from Shareholders | 0.0% | 2.5% | -2.5% | -100.0% | -100.0% |
| Other Liabilities | 0.0% | 6.1% | -6.1% | -100.0% | -100.0% |
| Total Long-Term Liabilities | 50.7% | 32.4% | 18.3% | 56.3% | 60.6% |
| Total Liabilities | 50.7% | 58.2% | -7.5% | -13.0% | -4.4% |
| Total Net Worth | 49.3% | 41.8% | 7.5% | 18.0% | 6.1% |
| Total Liabilities & Net Worth | 100.0% | 100.0% | | | |

COMMENT: On the lines below, identify and describe any significant variance of the business as compared to the industry common-size financial statements. Please note that this comment will not print.

RMA Industry Data, Common-Size Statement Comparison

The Company's common-size financial statements are calculated from both the unadjusted and normalized financial statements and compared here to the selected RMA industry data. For each line item, the business vs. industry difference, variance and average variance are calculated and presented in the table below. A multi-year comparison is available as an attachment to this report.

RMA Common-Size Comparison to Unadjusted Company Financials

RMA - Unadjusted Business vs.

Industry Common-Size Statements

| Current Year | Business 2018 | Industry 2018 | Variance | 5 Yr Average Variance |
|------------------------------------|------------------|------------------|----------|--------------------------|
| Income Data: | | | | |
| Net Sales | 100.0% | 100.0% | | |
| Gross Profit | 24.3% | 34.0% | -28.47% | -38.31% |
| Operating Expenses | 17.3% | 29.7% | -41.86% | -49.10% |
| Operating Profit | 7.1% | 4.3% | 64.03% | 36.23% |
| All Other Expenses (Net) | 1.5% | 2.0% | -22.95% | 1.55% |
| Profit Before Tax | 5.5% | 2.3% | | |
| Assets: | | | | |
| Cash & Equivalents | 14.6% | 6.3% | 131.80% | 55.02% |
| Trade Receivables (Net) | 14.7% | 23.5% | -37.35% | -41.70% |
| Inventory | 18.1% | 38.5% | -52.90% | -57.38% |
| All Other Current | 0.9% | 3.4% | -73.02% | -73.11% |
| Total Current Assets | 48.4% | 71.7% | | |
| Fixed Assets (Net) | 34.6% | 14.9% | 131.90% | 124.08% |
| Intangibles (Net) | 1.3% | 7.5% | -82.10% | -80.26% |
| All Other Noncurrent | 15.7% | 6.0% | 162.11% | 305.67% |
| Total Noncurrent Assets | 51.6% | 28.4% | | |
| Total Assets | 100.0% | 100.1% | | |
| Liabilities: | | | | |
| Notes Payable Short-Term | 2.9% | 13.2% | -77.86% | -80.16% |
| Current Maturity Of Long-Term Debt | 7.4% | 1.9% | 288.52% | 189.38% |
| Trade Payables | 8.3% | 15.0% | -44.40% | -45.08% |
| Income Taxes Payable | 1.7% | 0.3% | 475.29% | 616.91% |
| All Other Current Liabilities | 2.5% | 12.0% | -78.88% | -77.92% |
| Total Current Liabilities | 22.9% | 42.4% | | |
| Long-Term Debt | 27.4% | 10.2% | 168.87% | 235.39% |
| Deferred Taxes | 0.0% | 0.4% | -100.00% | -100.00% |
| All Other NonCurrent Liabilities | 0.2% | 6.6% | -97.36% | -97.34% |
| Net Worth | 49.5% | 40.5% | 22.21% | 9.78% |
| Total Liabilities & Net Worth | 100.0% | 100.1% | | |

RMA Common-Size Comparison to Normalized Company Financials

RMA - Normalized Business vs.

Industry Common-Size Statements

| Current Year | Business 2018 | Industry 2018 | Variance | 5 Yr Average Variance |
|------------------------------------|------------------|------------------|----------|--------------------------|
| Income Data: | | | | |
| Net Sales | 100.0% | 100.0% | | |
| Gross Profit | 24.3% | 34.0% | -28.47% | -38.31% |
| Operating Expenses | 16.7% | 29.7% | -43.68% | -50.40% |
| Operating Profit | 7.6% | 4.3% | 76.57% | 45.21% |
| All Other Expenses (Net) | 1.6% | 2.0% | -21.36% | 3.34% |
| Profit Before Tax | 6.0% | 2.3% | | |
| Assets: | | | | |
| Cash & Equivalents | 14.7% | 6.3% | 133.30% | 55.87% |
| Trade Receivables (Net) | 14.8% | 23.5% | -36.94% | -41.40% |
| Inventory | 18.3% | 38.5% | -52.59% | -57.15% |
| All Other Current | 0.9% | 3.4% | -72.85% | -72.97% |
| Total Current Assets | 48.7% | 71.7% | | |
| Fixed Assets (Net) | 34.8% | 14.9% | 133.40% | 125.25% |
| Intangibles (Net) | 1.4% | 7.5% | -81.99% | -80.16% |
| All Other Noncurrent | 15.2% | 6.0% | 153.01% | 299.01% |
| Total Noncurrent Assets | 51.3% | 28.4% | | |
| Total Assets | 100.0% | 100.1% | | |
| Liabilities: | | | | |
| Notes Payable Short-Term | 2.9% | 13.2% | -77.72% | -80.05% |
| Current Maturity Of Long-Term Debt | 7.4% | 1.9% | 291.04% | 190.95% |
| Trade Payables | 8.4% | 15.0% | -44.04% | -44.80% |
| Income Taxes Payable | 1.7% | 0.3% | 479.02% | 620.62% |
| All Other Current Liabilities | 2.6% | 12.0% | -78.74% | -77.81% |
| Total Current Liabilities | 23.1% | 42.4% | | |
| Long-Term Debt | 27.6% | 10.2% | 170.62% | 237.10% |
| Deferred Taxes | 0.0% | 0.4% | -100.00% | -100.00% |
| All Other NonCurrent Liabilities | 0.0% | 6.6% | -100.00% | -100.00% |
| Net Worth | 49.3% | 40.5% | 21.84% | 9.50% |
| Total Liabilities & Net Worth | 100.0% | 100.1% | | |

COMMENT: On the lines below, identify and describe any significant variance of the business as compared to the industry common-size financial statements. Please note that this comment will not print.

Financial Ratio Analysis

Various financial ratios have been calculated from each year's unadjusted and normalized financial statements as presented in this report. These ratios measure Example Sports, Inc.'s liquidity positions, coverage capacity, leverage/capitalization, operating efficiency and equity performance.

1. Liquidity ratios measure the short-term ability of a company to meet its maturing obligations.
2. Coverage ratios measure the degree of protection for long-term creditors and investors and the margin by which certain obligations of a company can be met.
3. Leverage/capitalization ratios measure the amount of a company's operations that are financed from debt versus financed from equity.
4. Operating ratios measure the efficiency and productivity of a company using the resources that are available and the returns on sales and investments.
5. Equity ratios measure the performance of assets and earnings in relation to common and preferred equity.

Ratios Based on Unadjusted Data

| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Liquidity Ratios: | | | | | |
| Current | 1.86 | 1.93 | 1.84 | 1.88 | 2.11 |
| Quick | 1.06 | 1.03 | 1.03 | 1.12 | 1.28 |
| Accounts Receivable Turnover | 12.62 | 13.07 | 14.11 | 13.16 | 13.80 |
| Days' Receivable | 28.52 | 27.55 | 25.51 | 27.36 | 26.08 |
| Inventory Turnover | 10.08 | 9.15 | 8.29 | 8.30 | 8.48 |
| Days' Inventory | 35.70 | 39.35 | 43.42 | 43.38 | 42.45 |
| Accounts Payable Turnover | 16.35 | 17.47 | 18.12 | 17.26 | 18.44 |
| Days' payable | 22.01 | 20.60 | 19.86 | 20.86 | 19.52 |
| Working Capital Turnover | 11.04 | 10.15 | 9.59 | 8.72 | 7.98 |
| Inventory as a % of Total Current Assets | 40.35% | 43.67% | 42.03% | 38.68% | 37.49% |
| Total Current Assets as a % of Total Assets | 33.49% | 36.38% | 40.71% | 45.00% | 48.38% |
| Coverage Ratios: | | | | | |
| Times Interest Earned | 2.07 | 2.33 | 2.49 | 2.74 | 3.88 |
| Current Portion of Long-Term Debt Coverage | 2.67 | 2.47 | 2.23 | 1.87 | 1.89 |
| Principal & Interest Coverage | 2.07 | 1.87 | 4.65 | 1.71 | 1.58 |
| Preferred Dividend Coverage | 5.54 | 6.86 | 7.04 | 8.09 | 12.48 |
| Leverage/Capitalization Ratios: | | | | | |
| Fixed Assets to Tangible Net Worth | 0.88 | 0.81 | 0.70 | 0.80 | 0.72 |
| Total Debt to Tangible Net Worth | 1.48 | 1.41 | 1.32 | 1.26 | 1.05 |
| Short-Term Debt to Total Debt | 30.68% | 32.84% | 39.33% | 43.55% | 45.35% |
| Short-Term Debt to Net Worth | 43.54% | 44.44% | 50.32% | 53.01% | 46.28% |
| Total Debt to Total Assets | 58.66% | 57.50% | 56.13% | 54.90% | 50.50% |

Operating Ratios:

| | | | | | |
|--|--------|--------|--------|--------|--------|
| Percent Return on Tangible Net Worth | 12.36% | 14.75% | 14.73% | 16.24% | 23.26% |
| Percent Return on Total Assets | 4.91% | 6.03% | 6.25% | 7.10% | 11.20% |
| Net Sales to Net Fixed Assets | 4.92 | 5.34 | 6.05 | 5.28 | 5.88 |
| Net Sales to Total Assets | 1.71 | 1.78 | 1.79 | 1.84 | 2.03 |
| Percent Depreciation & Amortization to Net Sales | 3.85% | 4.23% | 4.52% | 4.41% | 3.52% |
| Percent Officer Salaries to Net Sales | 1.38% | 1.51% | 1.60% | 1.71% | 1.74% |
| Total Sales to Net Worth | 4.21 | 4.26 | 4.13 | 4.14 | 4.21 |
| Revenue Growth Percentage | | 5.01% | 5.26% | 4.40% | 8.89% |

Equity Ratios:

| | | | | | |
|---|--------|--------|--------|--------|--------|
| Net Book Value Per Share of Preferred Stock | 5.87 | 6.10 | 6.66 | 6.95 | 7.47 |
| Net Book Value Per Share of Common Stock | 0.63 | 0.66 | 0.73 | 0.76 | 0.83 |
| Percent Earnings Payout | 62.69% | 52.68% | 46.63% | 53.63% | 46.75% |
| Percent Earnings Retention | 37.31% | 47.32% | 53.37% | 46.37% | 53.25% |
| Dividends Per Common Share | 0.03 | 0.03 | 0.03 | 0.04 | 0.06 |
| Simple Earnings Per Share | 0.05 | 0.06 | 0.06 | 0.08 | 0.12 |

Ratios Based on Normalized Data

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|--------|--------|--------|--------|--------|
| Liquidity Ratios: | | | | | |
| Current | 1.86 | 1.93 | 1.84 | 1.88 | 2.11 |
| Quick | 1.06 | 1.03 | 1.03 | 1.12 | 1.28 |
| Accounts Receivable Turnover | 12.62 | 13.07 | 14.11 | 13.16 | 13.80 |
| Days' Receivable | 28.52 | 27.55 | 25.51 | 27.36 | 26.08 |
| Inventory Turnover | 10.08 | 9.15 | 8.29 | 8.30 | 8.48 |
| Days' Inventory | 35.70 | 39.35 | 43.42 | 43.38 | 42.45 |
| Accounts Payable Turnover | 16.35 | 17.47 | 18.12 | 17.26 | 18.44 |
| Days' Payable | 22.01 | 20.60 | 19.86 | 20.86 | 19.52 |
| Working Capital Turnover | 11.04 | 10.15 | 9.59 | 8.72 | 7.98 |
| Inventory as a % of Total Current Assets | 40.35% | 43.67% | 42.03% | 38.68% | 37.49% |
| Total Current Assets as a % of Total Assets | 33.63% | 36.55% | 40.92% | 45.25% | 48.69% |
| Coverage Ratios: | | | | | |
| Times Interest Earned | 2.14 | 2.44 | 2.64 | 2.94 | 4.14 |
| Current Portion of Long-Term Debt Coverage | 2.74 | 2.55 | 2.32 | 1.96 | 2.00 |
| Principal & Interest Coverage | 2.14 | 1.96 | 4.93 | 1.83 | 1.68 |
| Preferred Dividend Coverage | 5.96 | 7.52 | 7.92 | 9.24 | 13.89 |
| Leverage/Capitalization Ratios: | | | | | |
| Fixed Assets to Tangible Net Worth | 0.88 | 0.82 | 0.70 | 0.80 | 0.72 |
| Total Debt to Tangible Net Worth | 1.48 | 1.41 | 1.33 | 1.26 | 1.06 |
| Short-Term Debt to Total Debt | 30.78% | 32.95% | 39.45% | 43.68% | 45.51% |
| Short-Term Debt to Net Worth | 43.77% | 44.74% | 50.71% | 53.48% | 46.72% |
| Total Debt to Total Assets | 58.71% | 57.59% | 56.25% | 55.04% | 50.66% |
| Operating Ratios: | | | | | |
| Percent Return on Tangible Net Worth | 13.20% | 16.01% | 16.36% | 18.27% | 25.65% |
| Percent Return on Total Assets | 5.23% | 6.53% | 6.92% | 7.96% | 12.31% |
| Net Sales to Net Fixed Assets | 4.92 | 5.34 | 6.05 | 5.28 | 5.88 |
| Net Sales to Total Assets | 1.72 | 1.78 | 1.80 | 1.85 | 2.05 |
| Percent Depreciation & Amortization to Net Sales | 3.85% | 4.23% | 4.52% | 4.41% | 3.52% |
| Percent Officer Salaries to Net Sales | 1.19% | 1.23% | 1.25% | 1.28% | 1.27% |
| Total Sales to Net Worth | 4.23 | 4.29 | 4.16 | 4.18 | 4.25 |
| Revenue Growth Percentage | | 5.01% | 5.26% | 4.40% | 8.89% |
| Equity Ratios: | | | | | |
| Net Book Value Per Share of Preferred Stock | 5.84 | 6.06 | 6.60 | 6.88 | 7.40 |
| Net Book Value Per Share of Common Stock | 0.63 | 0.66 | 0.72 | 0.75 | 0.82 |
| Percent Earnings Payout | 57.35% | 47.37% | 40.68% | 46.16% | 41.62% |
| Percent Earnings Retention | 42.65% | 52.63% | 59.32% | 53.84% | 58.38% |
| Dividends Per Common Share | 0.03 | 0.03 | 0.03 | 0.04 | 0.06 |
| Simple Earnings Per Share | 0.05 | 0.07 | 0.07 | 0.09 | 0.14 |

COMMENT: For each group of ratios listed above, identify the importance of any individual ratios and discuss any significant trends over time. Please note that this comment will not print.

Integra Industry Data, Ratio Comparison

The Company's ratios are calculated from both the unadjusted and normalized financial statements and compared here to the selected Integra industry data. For each ratio, the business vs. industry difference, variance and average variance are calculated and presented in the table below. A multi-year comparison is available as an attachment to this report.

Integra Ratio Comparison Based on Unadjusted Data

Integra - Business vs. Industry Ratios, Current Year

| | Business 2018 | Industry 2018 | Difference | Variance | 5 Yr Average Variance |
|-----------------------------------|------------------|------------------|------------|----------|--------------------------|
| Liquidity/Solvency Ratios: | | | | | |
| Quick ratio | 1.28 | 1.17 | 0.11 | 9.40% | -5.65% |
| Current ratio | 2.11 | 2.30 | -0.19 | -8.26% | -16.30% |
| Days receivable outstanding | 25 | 47 | -22 | -45.88% | -44.52% |
| Days payable | 20 | 19 | 1 | 5.60% | 7.20% |
| Days working capital | 41 | 74 | -33 | -44.28% | -49.86% |
| Days inventory | 43 | 78 | -35 | -45.31% | -47.36% |
| Accounts receivable to sales | 7.54% | 13.10% | -5.56% | -42.44% | -41.15% |
| Accounts payable to sales | 4.00% | 3.50% | 0.50% | 14.29% | 26.78% |
| Current liabilities to net worth | 46.28% | 61.60% | -15.32% | -24.87% | -22.86% |
| Current liabilities to inventory | 1.26 | 1.11 | 0.15 | 13.51% | 16.17% |
| Cost of sales to payables | 18.44 | 17.17 | 1.27 | 7.40% | 2.09% |
| Turnover Ratios: | | | | | |
| Accounts receivable turnover | 14.35 | 7.84 | 6.51 | 83.04% | 78.68% |
| Cash turnover | 135.70 | 20.76 | 114.94 | 553.66% | 490.09% |
| Inventory turnover | 8.56 | 4.66 | 3.90 | 83.69% | 91.56% |
| Current asset turnover | 4.41 | 2.76 | 1.65 | 59.78% | 70.44% |
| Working capital turnover | 8.85 | 4.91 | 3.94 | 80.24% | 101.73% |
| Fixed asset turnover | 2.46 | 15.65 | -13.19 | -84.28% | -82.74% |
| Total asset turnover | 2.06 | 1.63 | 0.43 | 26.38% | 16.81% |
| Debt Ratios: | | | | | |
| Debt service coverage EBITDA | 1.50 | 1.02 | 0.48 | 47.06% | 62.55% |
| Debt service coverage Pre-tax | 1.50 | 1.03 | 0.47 | 45.63% | 60.97% |
| Debt service coverage After-tax | 1.19 | 0.89 | 0.30 | 33.71% | 57.76% |
| Interest coverage | 3.68 | 3.30 | 0.38 | 11.52% | -22.25% |
| Current assets to short term debt | 4.69 | 5.91 | -1.22 | -20.64% | -9.75% |
| Accounts payable to total debt | 16.51% | 9.70% | 6.81% | 70.21% | 53.35% |
| Short term debt to total debt | 20.40% | 17.20% | 3.20% | 18.60% | -13.79% |
| Long term debt to total assets | 27.60% | 23.80% | 3.80% | 15.97% | 44.48% |
| ST debt plus LT debt to net worth | 76.58% | 80.90% | -4.32% | -5.34% | 19.07% |
| Total debt to assets | 50.50% | 58.20% | -7.70% | -13.23% | -4.57% |
| Total debt to inventory | 2.78 | 2.51 | 0.27 | 10.76% | 36.89% |
| Total debt to net worth | 1.02 | 1.39 | -0.37 | -26.62% | -9.51% |

Risk Ratios:

| | | | | | |
|---------------------------|-------|------|-------|----------|----------|
| Z-Score Manufacturing | 2.93 | 2.52 | 0.41 | 16.27% | 0.94% |
| Z-Score Non-manufacturing | 5.28 | 2.52 | 2.76 | 109.52% | 70.93% |
| Fixed assets to Net worth | -0.38 | 0.25 | -0.63 | -252.00% | -137.32% |

Profitability Ratios:

| | | | | | |
|-------------------------------|--------|--------|--------|---------|---------|
| Gross Margin % | 26.17% | 33.70% | -7.53% | -22.34% | -33.54% |
| EBITDA to Sales | 10.68% | 6.70% | 3.98% | 59.40% | 50.54% |
| Operating Margin | 6.88% | 3.50% | 3.38% | 96.57% | 64.29% |
| Operating Cash Flow to Sales | 4.95% | 0.00% | 4.95% | 0.00% | 0.00% |
| Pre-Tax Return on Assets | 11.20% | 3.70% | 7.50% | 202.70% | 91.82% |
| After-Tax Return on Assets | 6.83% | 2.30% | 4.53% | 196.96% | 88.23% |
| Pre-Tax Return on Net Worth | 22.63% | 8.80% | 13.83% | 157.16% | 78.81% |
| After-Tax Return on Net Worth | 13.80% | 5.40% | 8.40% | 155.56% | 77.75% |
| Pre-Tax Return on Sales | 5.51% | 2.50% | 3.01% | 120.40% | 53.07% |
| After-Tax Return on Sales | 3.36% | 1.50% | 1.86% | 124.00% | 55.62% |

Working Capital Ratios:

| | | | | | |
|------------------------------------|-----------|-----------|----------|---------|---------|
| Working Capital | 3,954,206 | 5,370,000 | -1415794 | -26.36% | -43.65% |
| Working Capital to Sales | 12.23% | 22.80% | -10.57% | -46.36% | -54.07% |
| Net Income to Working Capital | 26.82% | 6.80% | 20.02% | 294.41% | 218.13% |
| Inventory to Working Capital | 71.19% | 69.30% | 1.89% | 2.73% | 22.25% |
| Short Term Debt to Working Capital | 40.45% | 30.00% | 10.45% | 34.83% | 35.90% |
| Long Term Debt to Working Capital | 108.34% | 71.20% | 37.14% | 52.16% | 158.79% |

Operating Efficiency Ratios:

| | | | | | |
|--------------------------------------|---------|----------|----------|---------|----------|
| Operating Expenses to Gross Margin | 64.38% | 89.70% | -25.32% | -28.23% | -26.14% |
| Operating Expenses to Sales | 16.85% | 30.30% | -13.45% | -44.39% | -51.01% |
| Depreciation & Amortization to Sales | 3.44% | 3.20% | 0.24% | 7.50% | 26.01% |
| Total Assets to Sales | 48.01% | 68.10% | -20.09% | -29.50% | -20.87% |
| Sales to Net Worth | 4.21 | 3.51 | 0.70 | 19.94% | 19.38% |
| Sales to Fixed Assets | 602.79% | 1410.40% | -807.61% | -57.26% | -60.33% |
| Inventory to Cost of Sales | 11.79% | 23.80% | -12.01% | -50.46% | -52.31% |
| Intangible Assets to Sales | 0.79% | 10.40% | -9.61% | -92.40% | -91.39% |
| Capital Expenditures to Sales | 16.59% | 6.80% | 9.79% | 143.97% | -103.72% |

Integra Ratio Comparison Based on Normalized Data

Integra - Business vs. Industry

Ratios, Current Year

| | Business 2018 | Industry 2018 | Difference | Variance | 5 Yr Average Variance |
|-----------------------------------|------------------|------------------|------------|----------|--------------------------|
| Liquidity/Solvency Ratios: | | | | | |
| Quick ratio | 1.28 | 1.17 | 0.11 | 9.40% | -5.65% |
| Current ratio | 2.11 | 2.30 | -0.19 | -8.26% | -16.30% |
| Days receivable outstanding | 25 | 47 | -22 | -45.88% | -44.52% |
| Days payable | 20 | 19 | 1 | 5.60% | 7.20% |
| Days working capital | 41 | 74 | -33 | -44.28% | -49.86% |
| Days inventory | 43 | 78 | -35 | -45.31% | -47.36% |
| Accounts receivable to sales | 7.54% | 13.10% | -5.56% | -42.44% | -41.15% |
| Accounts payable to sales | 4.00% | 3.50% | 0.50% | 14.29% | 26.78% |
| Current liabilities to net worth | 46.72% | 61.60% | -14.88% | -24.16% | -22.86% |
| Current liabilities to inventory | 1.26 | 1.11 | 0.15 | 13.51% | 16.17% |
| Cost of sales to payables | 18.44 | 17.17 | 1.27 | 7.40% | 2.09% |
| Turnover Ratios: | | | | | |
| Accounts receivable turnover | 14.35 | 7.84 | 6.51 | 83.04% | 78.68% |
| Cash turnover | 135.70 | 20.76 | 114.94 | 553.66% | 490.09% |
| Inventory turnover | 8.56 | 4.66 | 3.90 | 83.69% | 91.56% |
| Current asset turnover | 4.41 | 2.76 | 1.65 | 59.78% | 70.44% |
| Working capital turnover | 8.85 | 4.91 | 3.94 | 80.24% | 101.73% |
| Fixed asset turnover | 2.46 | 15.65 | -13.19 | -84.28% | -82.74% |
| Total asset turnover | 2.07 | 1.63 | 0.44 | 26.99% | 16.81% |
| Debt Ratios: | | | | | |
| Debt service coverage EBITDA | 1.58 | 1.02 | 0.56 | 54.90% | 62.55% |
| Debt service coverage Pre-tax | 1.58 | 1.03 | 0.55 | 53.40% | 60.97% |
| Debt service coverage After-tax | 1.25 | 0.89 | 0.36 | 40.45% | 57.76% |
| Interest coverage | 3.96 | 3.30 | 0.66 | 20.00% | -22.25% |
| Current assets to short term debt | 4.69 | 5.91 | -1.22 | -20.64% | -9.75% |
| Accounts payable to total debt | 16.57% | 9.70% | 6.87% | 70.82% | 53.35% |
| Short term debt to total debt | 20.47% | 17.20% | 3.27% | 19.01% | -13.79% |
| Long term debt to total assets | 27.60% | 23.80% | 3.80% | 15.97% | 44.48% |
| ST debt plus LT debt to net worth | 76.96% | 80.90% | -3.94% | -4.87% | 19.07% |
| Total debt to assets | 50.66% | 58.20% | -7.54% | -12.96% | -4.57% |
| Total debt to inventory | 2.78 | 2.51 | 0.27 | 10.76% | 36.89% |
| Total debt to net worth | 1.03 | 1.39 | -0.36 | -25.90% | -9.51% |
| Risk Ratios: | | | | | |
| Z-Score Manufacturing | 2.94 | 2.52 | 0.42 | 16.67% | 0.94% |
| Z-Score Non-manufacturing | 5.36 | 2.52 | 2.84 | 112.70% | 70.93% |
| Fixed assets to Net worth | -0.38 | 0.25 | -0.63 | -252.00% | -137.32% |

Profitability Ratios:

| | | | | | |
|-------------------------------|--------|--------|--------|---------|---------|
| Gross Margin % | 26.17% | 33.70% | -7.53% | -22.34% | -33.54% |
| EBITDA to Sales | 11.18% | 6.70% | 4.48% | 66.87% | 50.54% |
| Operating Margin | 7.41% | 3.50% | 3.91% | 111.71% | 64.29% |
| Operating Cash Flow to Sales | 5.32% | 0.00% | 5.32% | 0.00% | 0.00% |
| Pre-Tax Return on Assets | 12.31% | 3.70% | 8.61% | 232.70% | 91.82% |
| After-Tax Return on Assets | 7.66% | 2.30% | 5.36% | 233.04% | 88.23% |
| Pre-Tax Return on Net Worth | 24.95% | 8.80% | 16.15% | 183.52% | 78.81% |
| After-Tax Return on Net Worth | 15.51% | 5.40% | 10.11% | 187.22% | 77.75% |
| Pre-Tax Return on Sales | 6.02% | 2.50% | 3.52% | 140.80% | 53.07% |
| After-Tax Return on Sales | 3.74% | 1.50% | 2.24% | 149.33% | 55.62% |

Working Capital Ratios:

| | | | | | |
|------------------------------------|-----------|-----------|----------|---------|---------|
| Working Capital | 3,954,206 | 5,370,000 | -1415794 | -26.36% | -43.65% |
| Working Capital to Sales | 12.23% | 22.80% | -10.57% | -46.36% | -54.07% |
| Net Income to Working Capital | 29.86% | 6.80% | 23.06% | 339.12% | 218.13% |
| Inventory to Working Capital | 71.19% | 69.30% | 1.89% | 2.73% | 22.25% |
| Short Term Debt to Working Capital | 40.45% | 30.00% | 10.45% | 34.83% | 35.90% |
| Long Term Debt to Working Capital | 107.66% | 71.20% | 36.46% | 51.21% | 158.79% |

Operating Efficiency Ratios:

| | | | | | |
|--------------------------------------|---------|----------|----------|----------|----------|
| Operating Expenses to Gross Margin | 62.37% | 89.70% | -27.33% | -30.47% | -26.14% |
| Operating Expenses to Sales | 16.32% | 30.30% | -13.98% | -46.14% | -51.01% |
| Depreciation & Amortization to Sales | 3.44% | 3.20% | 0.24% | 7.50% | 26.01% |
| Total Assets to Sales | 47.70% | 68.10% | -20.40% | -29.96% | -20.87% |
| Sales to Net Worth | 4.25 | 3.51 | 0.74 | 21.08% | 19.38% |
| Sales to Fixed Assets | 602.79% | 1410.40% | -807.61% | -57.26% | -60.33% |
| Inventory to Cost of Sales | 11.79% | 23.80% | -12.01% | -50.46% | -52.31% |
| Intangible Assets to Sales | 0.79% | 10.40% | -9.61% | -92.40% | -91.39% |
| Capital Expenditures to Sales | -16.59% | 6.80% | -23.39% | -343.97% | -103.72% |

COMMENT: On the lines below, identify and describe any significant variance of the business as compared to industry ratios. Please note that this comment will not print.

RMA Industry Data, Ratio Comparison

The Company's ratios are calculated from both the unadjusted and normalized financial statements and compared here to the selected RMA industry data. For each ratio, the business vs. industry difference, variance and average variance are calculated and presented in the table below. A multi-year comparison is available as an attachment to this report.

RMA Ratio Comparison Based on Unadjusted Data

RMA - Unadjusted Business vs.
Industry Ratios, Current Year

| | Business 2018 | Industry 2018 | Variance | 5 Yr Average Variance |
|--|------------------|------------------|----------|--------------------------|
| Liquidity Ratios: | | | | |
| Current Ratio | 2.1 | 1.9 | 11.17% | 1.32% |
| Quick Ratio | 1.3 | 0.7 | 82.91% | 57.69% |
| Accounts Receivable Turnover | 13.8 | 11.6 | 18.98% | 15.11% |
| Inventory Turnover | 8.5 | 3.5 | 142.28% | 153.15% |
| Accounts Payable Turnover | 18.4 | 11.4 | 61.74% | 53.77% |
| Working Capital Turnover | 8.0 | 6.8 | 17.30% | 39.64% |
| Coverage Ratios: | | | | |
| Times Interest Earned | 3.9 | 4.1 | -5.40% | -34.07% |
| Current Portion of Long-Term Debt Coverage Ratio | 1.9 | 1.7 | 11.47% | 30.99% |
| Leverage/Capitalization Ratios: | | | | |
| Fixed Assets to Tangible Net Worth | 0.7 | 0.3 | 139.18% | 159.95% |
| Total Debt to Tangible Net Worth | 1.0 | 1.7 | -38.31% | -23.40% |
| Operating Ratios: | | | | |
| Percent Return On Tangible Net Worth | 23.3% | 22.1% | 5.25% | -26.40% |
| Percent Return On Total Assets | 11.2% | 5.8% | 93.12% | 22.37% |
| Net Sales to Net Fixed Assets | 5.9 | 24.1 | -75.60% | -77.20% |
| Net Sales to Total Assets | 2.0 | 1.9 | 6.95% | -3.75% |
| Percent Depreciation & Amortization to Net Sales | 3.5% | 1.3% | 170.90% | 215.78% |
| Percent Officer Salaries to Net Sales | 1.7% | 0.0% | 0.00% | 0.00% |

RMA Ratio Comparison Based on Normalized Data

RMA - Normalized Business vs.

Industry Ratios, Current Year

| | Business 2018 | Industry 2018 | Variance | 5 Yr Average Variance |
|--|------------------|------------------|----------|--------------------------|
| Liquidity Ratios: | | | | |
| Current Ratio | 2.1 | 1.9 | 11.17% | 1.32% |
| Quick Ratio | 1.3 | 0.7 | 82.91% | 57.69% |
| Accounts Receivable Turnover | 13.8 | 11.6 | 18.98% | 15.11% |
| Inventory Turnover | 8.5 | 3.5 | 142.28% | 153.15% |
| Accounts Payable Turnover | 18.4 | 11.4 | 61.74% | 53.77% |
| Working Capital Turnover | 8.0 | 6.8 | 17.30% | 39.64% |
| Coverage Ratios: | | | | |
| Times Interest Earned | 4.1 | 4.1 | 1.06% | -30.23% |
| Current Portion of Long-Term Debt Coverage Ratio | 2.0 | 1.7 | 17.63% | 36.03% |
| Leverage/Capitalization Ratios: | | | | |
| Fixed Assets to Tangible Net Worth | 0.7 | 0.3 | 141.54% | 162.00% |
| Total Debt to Tangible Net Worth | 1.1 | 1.7 | -37.91% | -23.04% |
| Operating Ratios: | | | | |
| Percent Return On Tangible Net Worth | 25.7% | 22.1% | 16.07% | -19.01% |
| Percent Return On Total Assets | 12.3% | 5.8% | 112.26% | 34.34% |
| Net Sales to Net Fixed Assets | 5.9 | 24.1 | -75.60% | -77.20% |
| Net Sales to Total Assets | 2.0 | 1.9 | 7.64% | -3.24% |
| Percent Depreciation & Amortization to Net Sales | 3.5% | 1.3% | 170.90% | 215.78% |
| Percent Officer Salaries to Net Sales | 1.3% | 0.0% | 0.00% | 0.00% |

COMMENT: On the lines below, identify and describe any significant variance of the business as compared to industry ratios. Please note that this comment will not print.

Integra Industry Data, Growth Comparison

Key year-to-year growth and compound annual growth metrics are calculated from both the unadjusted and normalized financial statements and compared here to the selected Integra industry data. For each key financial statement item in the following table, the calculated business growth and the Integra industry growth data are presented along with the business versus industry difference.

Integra Growth Comparison Based on Unadjusted Data

Integra - Business vs. Industry

Growth, Multi Year

| | 2015 | 2016 | 2017 | 2018 |
|---|-----------------|-----------------|-------------------|-----------------|
| Annual Growth | | | | |
| Revenue - Business | 4.71% | 5.85% | 4.19% | 7.95% |
| Industry | -1.60% | -18.20% | 2.40% | 25.00% |
| Difference from industry | 6.31% | 24.05% | 1.79% | -17.05% |
| EBITDA - Business | | | | |
| EBITDA - Business | 13.35% | 6.72% | 5.00% | 13.04% |
| Industry | -1.50% | -17.80% | 2.10% | 25.80% |
| Difference from industry | 14.85% | 24.52% | 2.90% | -12.76% |
| Pre-Tax Income - Business | | | | |
| Pre-Tax Income - Business | 23.99% | 8.92% | 15.05% | 54.16% |
| Industry | -1.60% | -17.90% | 1.70% | 26.00% |
| Difference from industry | 25.59% | 26.82% | 13.35% | 28.16% |
| | Business | Industry | Difference | Variance |
| Five Year Compound Annual Growth | | | | |
| | 2018 | 2018 | | |
| Revenue | 5.66% | 0.80% | 4.86% | 607.50% |
| Operating Income | 13.31% | 0.20% | 13.11% | 6555.00% |
| Pre-Tax Income | 24.40% | 0.60% | 23.80% | 3966.67% |
| Net Income | 24.40% | 0.60% | 23.80% | 3966.67% |
| EBITDA | 13.04% | 1.00% | 12.04% | 1204.00% |
| Assets | 1.20% | 0.90% | 0.30% | 33.33% |
| Liabilities | -2.52% | -0.90% | -1.62% | 180.00% |
| Net Worth | 5.86% | 3.70% | 2.16% | 58.38% |

Integra Growth Comparison Based on Normalized Data

Integra - Business vs. Industry

Growth, Multi Year

| | 2015 | 2016 | 2017 | 2018 |
|---------------------------|--------|---------|--------|---------|
| Annual Growth | | | | |
| Revenue - Business | 4.71% | 5.85% | 4.19% | 7.95% |
| Industry | -1.60% | -18.20% | 2.40% | 25.00% |
| Difference from industry | 6.31% | 24.05% | 1.79% | -17.05% |
| | | | | |
| EBITDA - Business | 14.09% | 7.62% | 5.84% | 13.42% |
| Industry | -1.50% | -17.80% | 2.10% | 25.80% |
| Difference from industry | 15.59% | 25.42% | 3.74% | -12.38% |
| | | | | |
| Pre-Tax Income - Business | 25.83% | 11.37% | 16.43% | 50.95% |
| Industry | -1.60% | -17.90% | 1.70% | 26.00% |
| Difference from industry | 27.43% | 29.27% | 14.73% | 24.95% |

| | Business 2018 | Industry 2018 | Difference | Variance |
|---|------------------|------------------|------------|----------|
| Five Year Compound Annual Growth | | | | |
| Revenue | 5.66% | 0.80% | 4.86% | 607.50% |
| Operating Income | 14.27% | 0.20% | 14.07% | 7035.00% |
| Pre-Tax Income | 25.27% | 0.60% | 24.67% | 4111.67% |
| Net Income | 25.46% | 0.60% | 24.86% | 4143.33% |
| EBITDA | 13.42% | 1.00% | 12.42% | 1242.00% |
| Assets | 1.14% | 0.90% | 0.24% | 26.67% |
| Liabilities | -2.52% | -0.90% | -1.62% | 180.00% |
| Net Worth | 5.75% | 3.70% | 2.05% | 55.41% |

COMMENT: On the lines below, identify and describe any significant variance of the business as compared to industry growth rates. Please note that this comment will not print.

Proposed Transaction Price, Structure & Allocation

The proposed transaction price is \$16,500,000. IRS regulations require that the Buyer and Seller agree in advance regarding specific allocation of the purchase price among the various items being purchased. The allocation of the components of the proposed transaction price is presented here:

| | |
|---|-------------------|
| Tangible Assets | 14,500,000 |
| Specific Identifiable Intangible Assets | 950,000 |
| Goodwill | 50,000 |
| Purchase Price for Assets | 15,500,000 |
| Other Payments: | |
| Covenant-Not-To-Compete | 1,000,000 |
| Total Transaction Price | 16,500,000 |

In order to purchase Example Sports, Inc.'s assets, 15,500,000 would be paid to the seller with 10,000,000 cash due at closing, 0 in assumed liabilities, 0 in buyer stock, and the remaining portion, \$0, financed by the seller.

The total amount of Goodwill created as result of the proposed transaction is estimated as the portion of the transaction price that has not been allocated to tangible assets, specific identifiable intangible assets or . Please see the Intangible Allocation Worksheet for the allocation details.

For purposes of this analysis, it is assumed that the assets will be owned and the business operated as a separate, standalone entity. It is further assumed that purchased assets will have new base values derived by allocating the proposed purchase price to the purchased assets.

Transaction Costs

In order to complete the acquisition, various transaction costs would be incurred. The total of these transaction costs is estimated to be \$340,000 and would be due at closing. The amount of the transaction costs has been estimated and presented in the following table.

Fixed Transaction Costs:

| | | |
|--------------------------------------|---------|------------------|
| Legal | 100,000 | |
| Accounting | 50,000 | |
| Risk Management | 25,000 | |
| Total Fixed Transaction Costs | | \$175,000 |

| Variable Transaction Costs | Percent of Price | Amount | |
|---|------------------|---------|------------------|
| Brokerage | 1.00% | 165,000 | |
| Total Variable Transaction Costs | | | \$165,000 |
| Total Transaction Costs | | | \$340,000 |

Total transaction cost will be amortized in the post-acquisition projections over a period of 15 years.

Term Sheet

The following Term Sheet describes the business interest to be purchased and the price and terms for the component items of the transaction.

Subject Company:

Example Sports, Inc.
123 Main Street
San Diego, CA 92126

Business Interest to be Acquired:

All or substantially all of the assets of Example Sports, Inc.

Purchase Price for Business Interest:

The Proposed Purchase Price for the Business Interest as defined above shall be 16,500,000 to be paid as follows:

| | | |
|--|------------|-------------------|
| Cash or Immediately Available Funds at Closing | 10,000,000 | |
| Assumed Liabilities Totaling | 0 | |
| Seller Provided Funding, payable over 60 Months, with Interest at 6.5% | 5,500,000 | |
| Total Price for Business Interest | | 15,500,000 |

Covenant-Not-To-Compete:

In the amount of \$1,000,000 to be paid as follows:

| | | |
|--|-----------|------------------|
| Cash or Immediately Available Funds at Closing | 0 | |
| Balance Payable in 60, Monthly Payments of: \$16,667 | 1,000,000 | |
| Total Covenant-No-To-Compete | | 1,000,000 |

Summary:

| | | |
|--------------------------------------|------------|-------------------|
| Purchase Price for Business Interest | 15,500,000 | |
| Covenant-Not-To-Compete | 1,000,000 | |
| Total of Payments to Seller | | 16,500,000 |

Form of Payment to Seller:

| | | |
|---|------------|-------------------|
| Payable in Cash at Closing | 10,000,000 | |
| Notes Payable to Seller | 5,500,000 | |
| Deferred Portion of Covenant-Not-To-Compete | 1,000,000 | |
| Total of All Payments to Seller | | 16,500,000 |

Transaction Funding

Sources and Uses of Transaction Funding

The sources and uses of funding for the proposed transaction are as follows:

Uses of Funding:

| | |
|---|--------------------------|
| Purchase Price for Business Interest | 15,500,000 |
| Covenant-Not-To-Compete | 1,000,000 |
| Transaction Price | 16,500,000 |
| Transaction Fees and Costs | 340,000 |
| Increase (Decrease) in cash / Working Capital | 660,000 |
| Total Uses of Transaction Funds | <u>17,500,000</u> |

Sources of Funding:

| | |
|--|--------------------------|
| Total Equity Invested | 8,500,000 |
| Seller Financing: | |
| Long-Term Seller Debt | 5,500,000 |
| Deferred Payments to Seller: Covenant-Not-To-Compete | <u>1,000,000</u> |
| Total Seller Financing | 6,500,000 |
| Total of Invested Equity and Seller Financing | 15,000,000 |
| Non-Seller Financing: | |
| Outside Long-Term Debt | 2,500,000 |
| Total of Debt Funding (excluding seller) | <u>2,500,000</u> |
| Total Sources of Funding | <u>17,500,000</u> |

Proposed Equity Funding

Buyer Invested Equity

The details of the buyer's proposed equity investment are presented in the following table:

| | |
|--|-----------|
| Buyer's Cash Invested to Close Transaction | 7,840,000 |
| Buyer's Total Capital Invested to Fund Transaction | 7,840,000 |
| Buyer's Cash Invested for Additional Funding | 660,000 |
| Buyer's Total Cash and Equity Invested | 8,500,000 |

The buyer's total cash/equity investment of \$8,500,000 will be allocated to equity in the Target company as follows:

| <u>Allocation of Buyer's Cash/Equity invested:</u> | <u>Common Stock</u> |
|--|---------------------|
| Transaction Value | 8,500,000 |
| Number of Shares | 1,000,000 |
| Price Per Share | 8.50 |
| Par Value per Share | 8.50 |
| Par Value | 8,500,000 |
| Paid-in-Capital | 0 |

Proposed Debt Funding

A summary of the proposed debt funding is presented in the table below.

| | |
|--|------------------|
| Seller Financing: | |
| Long-Term Seller Debt | 5,500,000 |
| Deferred Payments to Seller: Covenant-Not-To-Compete | 1,000,000 |
| Total Seller Financing | 6,500,000 |
| | |
| Non-Seller Financing: | |
| Outside Long-Term Debt | 2,500,000 |
| Total of Debt Funding (excluding seller) | 2,500,000 |

Terms of Amortized Debt

Seller Provided Funding in the original amount of \$5,500,000 with an interest rate of 6.5% would be repaid in 60 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

ECI Funding of PHX in the original amount of \$2,500,000 with an interest rate of 8.0% would be repaid in 60 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Post-Acquisition Projections

In order to estimate Example Sports, Inc.'s future performance under the direction of new ownership and management and to estimate the returns to investors subsequent to the proposed acquisition, a comprehensive 5 year projection of the financial statements has been prepared. The projections incorporate all assumptions related to the proposed transaction including the assumed financial performance under new ownership and management, estimated transaction costs, purchase price funding and any contingency and/or contract payments to the seller.

These projections were prepared primarily to:

1. Determine earnings capacity subsequent to acquisition,
2. Estimate future capital and fixed asset requirements,
3. Analyze the ability to service acquisition-related obligations, and
4. Estimate the anticipated returns to investors.

The post-acquisition income statement projection is based upon the buyer's outlook for revenues and expenses. The economic impact of changes to be implemented by the buyer is included. In addition, depreciation, interest and amortization are based upon the purchase price and funding structure of the proposed transaction. Transaction costs (both fixed and variable) and terms of acquisition contracts (covenant-not-to-compete, employment, management, and lease, if any) are considered in the post-acquisition income statement projection.

The post-acquisition balance sheet projection is based upon the allocated purchase price, the amount of any assumed liabilities and the funding structure for the proposed transaction. The asset values and liability balances in the Balance Sheet at Closing schedule will differ from the Company's most recent historic balance sheet.

The post-acquisition projected financial statements consist of income statements, balance sheets, statements of retained earnings, statements of cash flows and sources and uses of funds statements. An overall summary of the projections is presented below followed by the individual statements in condensed format. Please note that these projected financial statements and related attachments are for planning and internal discussion purposes only. See the Post-Acquisition Assumptions and Projection schedules for complete details.

Summary Post-Acquisition Income Statement Projections

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|----------------|------------------|------------------|------------------|------------------|
| Net Sales Revenue | 15,085,556 | 36,734,637 | 38,909,472 | 41,234,814 | 43,721,942 |
| Total Cost of Goods Sold | 12,022,164 | 24,928,615 | 27,619,581 | 29,365,991 | 31,120,729 |
| Gross Profit | 3,063,392 | 11,806,022 | 11,289,891 | 11,868,823 | 12,601,213 |
| Total Selling Expenses | 678,850 | 1,653,059 | 1,750,926 | 1,855,567 | 1,967,487 |
| Total General & Administrative Expenses | 2,078,875 | 4,375,081 | 4,589,339 | 4,793,097 | 5,007,608 |
| Income From Operations | 305,667 | 5,777,882 | 4,949,626 | 5,220,160 | 5,626,118 |
| Total Other Revenues and Expenses | (131,663) | (332,901) | (279,486) | (197,510) | (59,682) |
| Income Before Taxes | 174,004 | 5,444,981 | 4,670,140 | 5,022,650 | 5,566,436 |
| Total Income Taxes | 64,904 | 2,030,978 | 1,741,962 | 1,873,448 | 2,076,281 |
| Net Income | 109,101 | 3,414,003 | 2,928,178 | 3,149,202 | 3,490,155 |

Summary Post-Acquisition Balance Sheet Projections

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| ASSETS | | | | | |
| Total Current Assets | 6,365,167 | 8,048,869 | 8,581,580 | 9,479,190 | 10,537,234 |
| Net Fixed Assets | 9,281,868 | 9,018,498 | 8,813,736 | 7,908,974 | 7,004,212 |
| Net Intangible Assets | 2,228,667 | 2,072,667 | 1,916,667 | 1,760,667 | 1,604,667 |
| Total Assets | 17,875,702 | 19,140,034 | 19,311,983 | 19,148,831 | 19,146,113 |
| LIABILITIES & STOCKHOLDERS' EQUITY | | | | | |
| Long-Term Debt: | | | | | |
| Total Long-Term Debt | 6,500,000 | 4,700,000 | 3,028,458 | 1,100,000 | 100,000 |
| Total Liabilities | 9,321,151 | 8,878,482 | 7,586,342 | 5,848,590 | 4,100,794 |
| Stockholders' Equity: | | | | | |
| Common Stock | 8,500,000 | 8,500,000 | 8,500,000 | 8,500,000 | 8,500,000 |
| Retained Earnings | 54,550 | 1,761,552 | 3,225,641 | 4,800,242 | 6,545,319 |
| Total Stockholders' Equity | 8,554,550 | 10,261,552 | 11,725,641 | 13,300,242 | 15,045,319 |
| Total Liabilities & Stockholders' Equity | 17,875,702 | 19,140,034 | 19,311,983 | 19,148,831 | 19,146,113 |

Summary Post-Acquisition Retained Earnings Projections

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|--|---------------|------------------|------------------|------------------|------------------|
| Retained Earnings Beginning of Period | 0 | 54,550 | 1,761,552 | 3,225,641 | 4,800,242 |
| Additions: | | | | | |
| Net Income for the Year | 109,101 | 3,414,003 | 2,928,178 | 3,149,202 | 3,490,155 |
| Deductions: | | | | | |
| Common Dividends | 54,550 | 1,707,002 | 1,464,089 | 1,574,601 | 1,745,078 |
| Retained Earnings End of Period | 54,550 | 1,761,552 | 3,225,641 | 4,800,242 | 6,545,319 |

Summary Post-Acquisition Statements of Cash Flows Projections

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|--------------------------------|------------------|----------------|------------------|------------------|------------------|
| Net Cash Flow From Operations | 1,795,975 | 3,249,592 | 4,362,676 | 4,848,374 | 4,085,660 |
| Net Cash Flow From Investments | (200,000) | (600,000) | (700,000) | 0 | (0) |
| Net Cash Flow From Financing | (954,550) | (3,507,002) | (3,019,349) | (3,490,883) | (3,673,536) |
| Net Cash Flow | 641,424 | (857,410) | 643,328 | 1,357,491 | 412,124 |
| Cash at Beginning of Year | 660,000 | 1,301,424 | 444,014 | 1,087,342 | 2,444,833 |
| Cash at End of Year | 1,301,424 | 444,014 | 1,087,342 | 2,444,833 | 2,856,958 |

Summary Post-Acquisition Sources & Uses of Funds Projections

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------------------------------|----------------|------------------|----------------|------------------|----------------|
| Total Internally Generated Cash | 448,500 | (230,723) | 1,953,954 | 3,115,009 | 2,181,061 |
| Total Cash from External Financing | 192,924 | (626,686) | (1,310,627) | (1,757,517) | (1,768,937) |
| Net Cash Flow | 641,424 | (857,410) | 643,328 | 1,357,491 | 412,124 |

Overview of Post-Acquisition Projection Assumptions

In preparing the preceding financial statement projections, various assumptions have been made with respect to expected future revenues, expenses, assets, liabilities and equity after the proposed acquisition and under the direction of Example Sports, Inc.'s new ownership and management. The projection assumptions have been made after gathering and analyzing data that affects the future economic outlook of the Company. This data was derived from sources such as the normalized financial statements, publicly available information and other economic materials.

This section of the report provides a broad overview of the Post-Acquisition Projection Assumptions and has been prepared to emphasize items considered significant to the overall understanding of the projections.

Revenue & Expense Assumptions

Net Sales Revenues over the past 5 historic years have grown at a compound average annual rate of 5.66%. Future Net Sales Revenues under new ownership are projected to grow at an estimated, compound average annual rate of 6.75%, starting from a base amount of \$31,541,420 and growing to \$15,085,556 in the first projected year and \$43,721,942 in projected year 5.

Total Cost of Goods Sold over the past 5 historic years has averaged 79.02% of Net Sales Revenues for each respective year and was 75.68% of Net Sales Revenues in the most recent historic fiscal year, 2018. Total Cost of Goods Sold has been projected to be \$12,022,164, or 79.69% of Net Sales Revenues in the first projected year and \$31,120,729, or 0.00% of Net Sales Revenues in projected year 5. On average, Total Cost of Goods Sold has been projected to be 72.19% of each year's respective Net Sales Revenues.

Total Selling Expenses over the past 5 historic years have averaged 3.38% of Net Sales Revenues for each respective year and were 4.18% of Net Sales Revenues in the most recent historic fiscal year, 2018. Total Selling Expenses have been projected to be \$678,850, or 4.50% of Net Sales Revenues in the first projected year and \$1,967,487, or 4.50% of Net Sales Revenues in projected year 5. On average, Total Selling Expenses have been projected to be 4.50% of each year's respective Net Sales Revenues.

Total General & Administrative Expenses over the past 5 historic years have grown at a compound average annual rate of 7.34%. Total General & Administrative Expenses under new ownership are projected to grow at an estimated, compound average annual rate of -0.78%, starting from a base amount of \$5,206,492 and growing to \$2,078,875 in the first projected year and \$5,007,608 in projected year 5.

Cash Equivalents have been projected using the Manual Input method. Annual interest income is projected to be earned at the rate of 5.0% of the projected account balance in each projected year.

Fixed Asset Depreciation Assumptions

Depreciation Expense and **Accumulated Depreciation** on fixed assets have been estimated over the term of the projected financial statements.

Projected depreciation on existing fixed assets and any fixed asset purchases is based on the terms presented in the following table.

| Fixed Asset Accounts | Allocation at Market | Original Life (years) | Salvage (% of Cost) | Depreciation Method |
|----------------------|-------------------------|--------------------------|-------------------------|------------------------|
| Plant | 4,000,000 | 39 | 0.0% | Straight Line |
| Equipment | 2,500,000 | 7 | 0.0% | Straight Line |
| Vehicle | 1,500,000 | 5 | 0.0% | Straight Line |
| Furniture & Fixtures | 500,000 | 7 | 0.0% | Straight Line |
| Land | 1,000,000 | 0 | 0.0% | N/A |

Fixed Asset Purchases

After estimating projected depreciation on existing fixed assets and estimating disposals of existing fixed assets, it has been assumed that the Company would be required to purchase new fixed assets in order to provide the capacity to support projected sales revenues. Therefore, in an attempt to maintain a minimum Fixed Asset Turnover Ratio of approximately 0.00 in each projected year, the following fixed asset purchases are assumed to be made.

Please note that all Fixed Asset Purchases are assumed to be depreciated based on the terms specified in the Fixed Asset Depreciation Assumptions table.

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|-----------------------------|---------|---------|---------|------|------|
| Plant | 200,000 | 500,000 | 500,000 | 0 | 0 |
| Equipment | 0 | 100,000 | 100,000 | 0 | 0 |
| Furniture & Fixtures | 0 | 0 | 100,000 | 0 | 0 |
| Total Fixed Asset Purchases | 200,000 | 600,000 | 700,000 | 0 | 0 |

Amortization of Intangible Assets

Goodwill is assumed to be amortized to **Amortization Expense** over a period of 15 projected years.

All other **Intangibles** are assumed to be amortized to **Amortization Expense** over a period of 15 projected years.

Terms of New Funding Notes Payable

Seller Provided Funding in the original amount of \$5,500,000 with an interest rate of 6.5% would be repaid in 60 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

ECI Funding of PHX in the original amount of \$2,500,000 with an interest rate of 8.0% would be repaid in 60 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Fixed Asset Purchase Financing Assumptions

In projected year 3, 50.0% of total fixed asset purchases of \$700,000 would be financed. A new loan in the amount of \$350,000 would be added in that year. This loan would have an interest rate of 10.0% and would be repaid in 36 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Equity Funding

As a portion of the acquisition funding, 1,000,000 new common shares with a transaction value of 8,500,000 will be issued and delivered to the buyer. The price per share will be 8.50 and the par value per share will be 8.50. The Par Value and Paid-In Capital on the Balance Sheet at Closing related to these new shares will increase by 8,500,000 and 0, respectively.

Dividends Assumptions

Common Stock Dividends are assumed to be paid at the rate of 50.0% of net income in each projected year.

Review of Post-Acquisition Financial Performance

The results of the Post-Acquisition Projections have been analyzed and reviewed. The objective of this review is to analyze the financial performance and position of the Company during the term of the projections.

Loan Compliance

In the Loan Compliance analysis, selected ratios that are indicators of the Company's ability to meet its obligations have been calculated for each year subsequent to the acquisition. A minimum performance level (frequently imposed as an affirmative covenant by a lender) for each ratio has been established and any anticipated defaults have been noted. See the Loan Compliance schedule for complete details.

Post-Acquisition Business Ratios

The Post-Acquisition Business Ratios contain a review of the Company's key business ratios. Ratios were calculated for each projected year of the Company's Post-Acquisition projected financial statements. These ratios measure Example Sports, Inc.'s liquidity positions, coverage capacity, leverage/capitalization, operating efficiency and equity performance. The listed ratios fall into the following five categories:

1. Liquidity ratios measure the short-term ability of a company to meet its maturing obligations.
2. Coverage ratios measure the degree of protection for long-term creditors and investors and the margin by which certain obligations of a company can be met.
3. Leverage/capitalization ratios measure the amount of a company's operations that are financed from debt versus financed from equity.
4. Operating ratios measure the efficiency and productivity of a company using the resources that are available and the returns on sales and investments.
5. Equity ratios measure the performance of assets and earnings in relation to common and preferred equity.

Post-Acquisition Business Ratios

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|--------|---------|--------|--------|--------|
| Liquidity Ratios: | | | | | |
| Current Ratio | 2.26 | 1.93 | 1.88 | 2.00 | 2.63 |
| Quick Ratio | 1.78 | 1.26 | 1.21 | 1.31 | 1.77 |
| Accounts Receivable Turnover | 15.22 | 15.22 | 15.22 | 15.22 | 15.22 |
| Days' Receivable | 23.66 | 23.66 | 23.66 | 23.66 | 23.66 |
| Inventory Turnover | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 |
| Days' Inventory | 40.00 | 40.00 | 40.00 | 40.00 | 40.00 |
| Accounts Payable Turnover | 11.00 | 11.00 | 11.00 | 11.00 | 11.00 |
| Days' Payable | 32.73 | 32.73 | 32.73 | 32.73 | 32.73 |
| Working Capital Turnover | 4.26 | 9.49 | 9.67 | 8.72 | 6.69 |
| Inventory as a % of Total Current Assets | 20.99% | 34.41% | 35.76% | 34.42% | 32.82% |
| Total Current Assets as a % of Total Assets | 35.61% | 42.05% | 44.44% | 49.50% | 55.04% |
| Coverage Ratios: | | | | | |
| Times Interest Earned | 1.65 | 13.08 | 13.64 | 21.34 | 46.18 |
| Current Portion of Long-Term Debt Coverage | 0.40 | 2.77 | 2.32 | 2.44 | 5.69 |
| EBIT to Principal | 0.49 | 3.28 | 3.24 | 2.75 | 2.95 |
| EBIT to (Principal + Interest) | 0.38 | 2.62 | 2.62 | 2.44 | 2.77 |
| Leverage/Capitalization Ratios: | | | | | |
| Fixed Assets to Tangible Net Worth | 1.47 | 1.10 | 0.90 | 0.69 | 0.52 |
| Total Debt to Tangible Net Worth | 1.47 | 1.08 | 0.77 | 0.51 | 0.31 |
| Short-Term Debt to Total Debt | 30.27% | 47.06% | 60.08% | 81.19% | 97.56% |
| Short-Term Debt to Net Worth | 32.98% | 40.72% | 38.87% | 35.70% | 26.59% |
| Total Debt to Total Assets | 52.14% | 46.39% | 39.28% | 30.54% | 21.42% |
| Operating Ratios: | | | | | |
| Percent Return on Tangible Net Worth | 2.75% | 66.49% | 47.61% | 43.53% | 41.41% |
| Percent Return on Total Assets | 0.97% | 28.45% | 24.18% | 26.23% | 29.07% |
| Net Sales to Net Fixed Assets | 1.63 | 4.07 | 4.41 | 5.21 | 6.24 |
| Net Sales to Total Assets | 0.84 | 1.92 | 2.01 | 2.15 | 2.28 |
| Percent Depr., Amort. to Net Sales | 3.51% | 2.77% | 2.73% | 2.57% | 2.43% |
| Percent Officer Salaries to Net Sales | 0.52% | 0.53% | 0.52% | 0.52% | 0.51% |
| Total Sales to Net Worth | 1.81 | 3.67 | 3.40 | 3.18 | 2.98 |
| Revenue Growth Percentage | | 143.51% | 5.92% | 5.98% | 6.03% |
| Sustainable Growth Rate | 0.64% | 16.63% | 12.49% | 11.84% | 11.60% |
| Z-Score | 1.72 | 4.00 | 4.29 | 5.07 | 6.35 |

Post-Acquisition Common-Size Statements

This analysis includes a review of the Company's common-size income statement and balance sheet percentages subsequent to the acquisition. In order to portray the relative size of financial statement items for comparison over time, each line item in the common-size income statements is expressed as a percentage of total revenue and each line item in the common-size balance sheets is expressed as a percentage of total assets as presented below.

Post-Acquisition Common-Size Statements

| | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Income Data: | | | | | |
| Net Sales | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Gross Profit | 20.31% | 32.14% | 29.02% | 28.78% | 28.82% |
| Operating Expenses | 18.28% | 16.41% | 16.29% | 16.12% | 15.95% |
| Operating Profit | 2.03% | 15.73% | 12.72% | 12.66% | 12.87% |
| All Other Expenses (Net) | -0.87% | -0.91% | -0.72% | -0.48% | -0.14% |
| Profit Before Tax | 1.15% | 14.82% | 12.00% | 12.18% | 12.73% |
| Assets: | | | | | |
| Cash & Equivalents | 22.44% | 14.62% | 14.94% | 17.92% | 21.56% |
| Trade Receivables (Net) | 5.55% | 12.61% | 13.24% | 14.15% | 15.01% |
| Inventory | 7.47% | 14.47% | 15.89% | 17.04% | 18.06% |
| All Other Current Assets | 0.15% | 0.35% | 0.36% | 0.39% | 0.41% |
| Total Current Assets | 35.61% | 42.05% | 44.44% | 49.50% | 55.04% |
| Fixed Assets (Net) | 51.92% | 47.12% | 45.64% | 41.30% | 36.58% |
| Intangibles (Net) | 12.47% | 10.83% | 9.92% | 9.19% | 8.38% |
| All Other Noncurrent Assets | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Total Noncurrent Assets | 64.39% | 57.95% | 55.56% | 50.50% | 44.96% |
| Total Assets | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Liabilities: | | | | | |
| Notes Payable Short-Term | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Current Maturity of Long-Term Debt | 8.95% | 8.36% | 8.89% | 9.03% | 4.18% |
| Trade Payables | 6.11% | 11.84% | 13.00% | 13.94% | 14.78% |
| Income Taxes Payable | 0.72% | 1.63% | 1.71% | 1.83% | 1.94% |
| All Other Current Liabilities | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Total Current Liabilities | 15.78% | 21.83% | 23.60% | 24.80% | 20.90% |
| Long-Term Debt | 36.36% | 24.56% | 15.68% | 5.74% | 0.52% |
| Deferred Taxes | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| All Other Noncurrent Liabilities | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Net Worth | 47.86% | 53.61% | 60.72% | 69.46% | 78.58% |
| Total Liabilities & Net Worth | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

Z-Score Risk Assessment (Post-Acquisition)

The Z-Score is calculated for each year of the post-acquisition projections and is included as an aid to assess the future viability of the company. The Z-Score is a predictive model developed by Edward I Altman, Ph.D., that indicates the likelihood that a company will become insolvent within the next twelve months. Altman's book, Corporate Financial Distress and Bankruptcy, Second Edition, states that the Z-Score predicted the bankruptcy filings of sample companies within 12 months with 95% accuracy, and that in later studies based on more extensive samples, over different time periods and under different economic conditions, the Z-Score still sustained 82%-85% accuracy.

| | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
| Z-Score Ratio Components | | | | | |
| Total Revenue | 15,085,556 | 36,734,637 | 38,909,472 | 41,234,814 | 43,721,942 |
| EBIT | 441,140 | 5,895,627 | 5,039,548 | 5,269,536 | 5,689,646 |
| Working Capital | 3,544,016 | 3,870,387 | 4,023,696 | 4,730,601 | 6,536,440 |
| Total Assets | 17,875,702 | 19,140,034 | 19,311,983 | 19,148,831 | 19,146,113 |
| Total Liabilities | 9,321,151 | 8,878,482 | 7,586,342 | 5,848,590 | 4,100,794 |
| Retained Earnings | 54,550 | 1,761,552 | 3,225,641 | 4,800,242 | 6,545,319 |
| Net Worth | 8,554,550 | 10,261,552 | 11,725,641 | 13,300,242 | 15,045,319 |

Private Non-Manufacturing Company Ratios & Weighting

| | | | | | |
|---|------|------|------|------|------|
| Working Capital / Total Assets x (6.56) | 1.30 | 1.33 | 1.37 | 1.62 | 2.24 |
| Retained Earnings / Total Assets x (3.26) | 0.01 | 0.30 | 0.54 | 0.82 | 1.11 |
| EBIT / Total Assets x (6.72) | 0.17 | 2.07 | 1.75 | 1.85 | 2.00 |
| Net Worth / Total Liabilities x (1.05) | 0.96 | 1.21 | 1.62 | 2.39 | 3.85 |
| Total Z-Score | 2.44 | 4.91 | 5.29 | 6.67 | 9.20 |

Private Non-Manufacturing Z-Score Scale

2.60 and Up = Bankruptcy Unlikely

1.11 to 2.59 = Monitoring and Corrective Action Required

1.10 and Less = Bankruptcy Likely

Private Manufacturing Ratios & Weighting

| | | | | | |
|---|------|------|------|------|------|
| Working Capital / Total Assets x (.717) | 0.14 | 0.14 | 0.15 | 0.18 | 0.24 |
| Retained Earnings / Total Assets x (.847) | 0.00 | 0.08 | 0.14 | 0.21 | 0.29 |
| EBIT / Total Assets x (3.1) | 0.08 | 0.95 | 0.81 | 0.85 | 0.92 |
| Net Worth / Total Liabilities x (.42) | 0.39 | 0.49 | 0.65 | 0.96 | 1.54 |
| Sales / Total Assets x (.998) | 0.84 | 1.92 | 2.01 | 2.15 | 2.28 |
| Total Z-Score | 1.45 | 3.58 | 3.76 | 4.35 | 5.28 |

Private Manufacturing Z-Score Scale

2.90 and Up = Bankruptcy Unlikely

1.24 to 2.89 = Monitoring and Corrective Action Required

1.23 and Less = Bankruptcy Likely

Sustainable Growth Analysis (Post-Acquisition)

The maximum sustainable growth in total revenue is calculated for each projected year and then is compared to the calculated growth rate in total revenue from the prior year to the current year. The Sustainable Growth model is a combination of four ratios and measures the maximum rate of growth in sales that can be sustained without depleting financial resources.

| | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> | |
|---|-------------|-------------|-------------|-------------|-------------|--------|
| Sustainable Growth Components | | | | | | |
| Total Revenue | 15,085,556 | 36,734,637 | 38,909,472 | 41,234,814 | 43,721,942 | |
| Net Income | 109,101 | 3,414,003 | 2,928,178 | 3,149,202 | 3,490,155 | |
| Total Assets | 17,875,702 | 19,140,034 | 19,311,983 | 19,148,831 | 19,146,113 | |
| Total Equity | 8,554,550 | 10,261,552 | 11,725,641 | 13,300,242 | 15,045,319 | |
| Preferred Dividends | 0 | 0 | 0 | 0 | 0 | |
| (Common Dividends) | 54,550 | 1,707,002 | 1,464,089 | 1,574,601 | 1,745,078 | |
| Sustainable Growth Ratios | | | | | | |
| Profit Margin (Net Income / Total Revenue) a | 0.72% | 9.29% | 7.53% | 7.64% | 7.98% | |
| Earnings Retention (1-[Common Div. + Pref. Div.] / Net Income) b | | 50.00% | 50.00% | 50.00% | 50.00% | 50.00% |
| Asset Turnover (Total Revenue / Total Assets) c | 84.39% | 191.93% | 201.48% | 215.34% | 228.36% | |
| Financial Leverage (Total Assets / Total Equity) d | 208.96% | 186.52% | 164.70% | 143.97% | 127.26% | |
| Maximum Sustainable Growth in Total Revenue (a*b*c*d) | 0.64% | 16.63% | 12.49% | 11.84% | 11.60% | |
| Historic (or Projected) Growth in Total Revenue | | 143.51% | 5.92% | 5.98% | 6.03% | |
| Difference | | -126.87% | 6.57% | 5.86% | 5.57% | |

Return on Investment

In this final section of the evaluation, the firm-level Return on Invested Equity, Return on Total Invested Capital and the returns to the individual equity participants have been estimated.

Free Cash Flows available to Equity (FCF-E)

Free Cash Flows available to Equity (FCF-E) measure the projected cash flows that are available to pay equity holders, after paying principal and interest on debt, and are used to calculate returns on the Equity Investment.

| Cash Flows to Equity | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|------------------|------------------|------------------|------------------|------------------|
| Net Income | 109,101 | 3,414,003 | 2,928,178 | 3,149,202 | 3,490,155 |
| Plus: Depreciation & Amortization | 529,465 | 1,019,370 | 1,060,762 | 1,060,762 | 1,060,762 |
| Less: Fixed Asset Purchases | 200,000 | 600,000 | 700,000 | 0 | 0 |
| Less: Changes in Net Working Capital * | (3,866,865) | 1,538,341 | 182,709 | 172,509 | 182,225 |
| Plus: Changes in Long-Term Funding Notes Payable | (2,400,000) | (1,600,000) | (1,600,000) | (1,600,000) | (800,000) |
| Less: Non-Compete Payments | 100,000 | 200,000 | 200,000 | 200,000 | 200,000 |
| Projected Free Cash Flow Available to Equity | 3,405,431 | 495,032 | 1,550,971 | 2,121,172 | 2,440,234 |

Free Cash Flows available to Total Invested Capital (FCF-TIC)

Free Cash Flows available to Total Invested Capital measure the projected cash flows that are available to pay both debt and equity holders and are used to calculate returns on Total Invested Capital, i.e., debt and equity.

| Free Cash Flows to Total Invested Capital | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|------------------|------------------|------------------|------------------|------------------|
| Net Income | 109,101 | 3,414,003 | 2,928,178 | 3,149,202 | 3,490,155 |
| Plus: Interest Expense Net-of-Tax | 267,135 | 306,439 | 251,198 | 167,883 | 83,783 |
| Plus: Depreciation & Amortization from Operations | 529,465 | 1,019,370 | 1,060,762 | 1,060,762 | 1,060,762 |
| Less: Fixed Asset Purchases | 200,000 | 600,000 | 700,000 | 0 | 0 |
| Less: Changes in Net Working Capital * | (3,866,865) | 1,538,341 | 182,709 | 172,509 | 182,225 |
| Less: Non-Compete Payments | 100,000 | 200,000 | 200,000 | 200,000 | 200,000 |
| Free Cash Flow Available to Total Invested Capital | 4,472,566 | 2,401,471 | 3,157,428 | 4,005,337 | 4,252,475 |

Changes in Net Working Capital

Changes in Net Working Capital is a component in the calculation of both Free Cash Flows available to Equity and Free Cash Flows Available to Total Invested Capital. It is a composite calculation and is presented here.

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|--|------------------|--------------------|------------------|------------------|------------------|------------------|
| Current Assets: | | | | | | |
| Cash & Equivalents | 660,000 | 4,010,880 | 2,798,910 | 2,885,792 | 3,432,363 | 4,127,520 |
| Less: Adjustment to Cash & Equivalents | 660,000 | 4,010,880 | 2,798,910 | 2,885,792 | 3,432,363 | 4,127,520 |
| Accounts Receivable (Net) | 2,500,000 | 991,337 | 2,413,990 | 2,556,908 | 2,709,716 | 2,873,156 |
| Inventory | 2,500,000 | 1,335,796 | 2,769,846 | 3,068,842 | 3,262,888 | 3,457,859 |
| Total Current Assets (Adjusted) | 5,000,000 | 2,354,287 | 5,249,959 | 5,695,788 | 6,046,827 | 6,409,714 |
| Current Liabilities (Except Notes Payable): | | | | | | |
| Accounts Payable | 0 | 1,092,924 | 2,266,238 | 2,510,871 | 2,669,636 | 2,829,157 |
| Taxes Payable | 0 | 128,227 | 312,244 | 330,731 | 350,496 | 371,637 |
| Total Current Liabilities (Adjusted) | 0 | 1,221,151 | 2,578,482 | 2,841,602 | 3,020,131 | 3,200,794 |
| Net Working Capital (Adjusted) | 5,000,000 | 1,133,135 | 2,671,477 | 2,854,186 | 3,026,695 | 3,208,921 |
| Changes in Net Working Capital | | (3,866,865) | 1,538,341 | 182,709 | 172,509 | 182,225 |

Returns on Invested Equity

We estimated the Returns on Invested Equity using projected Free Cash Flows available to Equity (FCF-E) and also using projected dividend distributions. The returns on equity were calculated using both a Buy/Sell and a Buy/Hold scenario. Under the Buy/Sell scenario, it is assumed that the investment is sold in projected year 5 for a multiple of 5 times EBITDA in the exit year plus other exit year cash flows. In the Buy/Hold scenario, it is assumed that the cash flows beyond the projection term continue into perpetuity at terminal growth rate of 10.00%.

| | <u>Buy / Sell</u> | <u>Buy / Hold</u> |
|------------------------|-------------------|-------------------|
| IRR based on FCF-E | 50.30% | 33.73% |
| Less Hurdle Rate | 25.00% | 25.00% |
| Spread | 25.30% | 8.73% |
| Present Value | 15,307,334 | 12,688,634 |
| Net Present Value | 6,807,334 | 4,188,634 |
| Profitability Index | 1.80 | 33.73% |
| Investment Turns | 4.12 | N/A |
| Payback (years) | 4.03 | 33.73% |
| IRR based on Dividends | 19.40% | 33.73% |

See the Discounted FCF-E schedule for the present values calculations. See the Hurdle Rate & Return on Investment schedule for the calculation of the Hurdle Rate and Invested Equity.

Returns on Total Invested Capital

We estimated the Returns on Total Invested Capital, i.e., debt and equity, using projected Free Cash Flows available to Total Invested Capital (FCF-TIC). The returns on equity were calculated using both a Buy/Sell and a Buy/Hold scenario. Under the Buy/Sell scenario, it is assumed that the investment is sold in projected year 5 for a multiple of 5 times EBITDA in the exit year plus other exit year cash flows. In the Buy/Hold scenario, it is assumed that the cash flows beyond the projection term continue into perpetuity at terminal growth rate of 10.00%.

| | <u>Buy / Sell</u> | <u>Buy / Hold</u> |
|----------------------|-------------------|-------------------|
| IRR based on FCF-TIC | 33.19% | 31.06% |
| Less Hurdle Rate | 16.39% | 16.39% |
| Spread | 16.80% | 14.67% |
| Present Value | 25,343,179 | 46,792,217 |
| Net Present Value | 8,843,179 | 30,292,217 |
| Profitability Index | 1.54 | 2.84 |
| Payback (years) | 4.08 | 4.58 |

See the Discounted FCF-TIC schedule for the present values calculations. See the Hurdle Rate & Return on Investment schedule for the calculation of the Hurdle Rate and Total Invested Capital.

Exit Value Assumptions

The Exit Value has been estimated for each year of the post-acquisition projections. The resultant values are used in the estimates of cash flows to investors (and therefore returns to investors) and represent the amount of cash an investor would receive when exiting the investment based on the proportional ownership interest in the exit year. In this analysis, a multiple is applied to projected Net Income in order to arrive at an estimate of value for that year. The projected values are summarized in the following table.

| <u>Year</u> | <u>Projected Earnings</u> | <u>Multiple</u> | <u>Interest-Bearing Debt</u> | <u>Excess Cash</u> | <u>Business Value</u> |
|-------------|---------------------------|-----------------|------------------------------|--------------------|-----------------------|
| FY 2019 | 970,605 | 4.5 | 7,200,000 | 4,010,880 | (2,832,277) |
| FY 2020 | 6,914,997 | 4.5 | 5,600,000 | 2,798,910 | 25,517,487 |
| FY 2021 | 6,100,310 | 5.0 | 4,244,740 | 2,885,792 | 26,256,811 |
| FY 2022 | 6,330,298 | 5.0 | 2,528,458 | 3,432,363 | 29,123,032 |
| FY 2023 | 6,750,408 | 5.0 | 800,000 | 4,127,520 | 32,952,039 |

Because a debt-free benefit stream has been used, Total Interest-Bearing Debt at the end of a given year is deducted in each respective year's projected value calculation.

Please note that Excess Cash displayed in the table above is shown for reference purposes only and has not been added in the projected value calculations.

Internal Rate of Return for Individual Equity Participants

The Internal Rate of Return (IRR) Analysis attempts to estimate the returns to equity participants on a net present value basis using the initial investment amount and the cash inflows to each equity participant over the term of the investment. IRR is defined as the discount rate that makes the net present value of cash outflows and cash inflows equal to zero. It is assumed that each equity participant will receive dividends over the term of the investment and that each equity participant's ownership interest will be liquidated at the projected value in the stated "exit year."

| <u>Initial Common Equity Investors</u> | <u>Investment</u> | <u>Exit Year</u> | <u>Target IRR</u> | <u>Shares at Closing</u> | <u>% of Invested Equity at Closing</u> | <u>Calculated IRR</u> |
|--|-------------------|------------------|-------------------|--------------------------|--|-----------------------|
| Parent Co. | 6,000,000 | 5 | 25.00% | 705,882 | 70.59% | 39.28% |
| Smith Investor Group | 1,500,000 | 4 | 25.00% | 176,470 | 17.65% | 43.96% |
| Jones Investor Group | 1,000,000 | 3 | 25.00% | 117,648 | 11.76% | 53.03% |

Please see the Cash Flows to Equity Participants and Equity Participant Summary schedules for complete details on the timing of the cash flows to each equity participant.

Per Share Analysis

In the Per Share Analysis, various measures of projected, per-share performance on common stock have been estimated as summarized in the following table. Please note the differences in calculations for Base period versus the calculation for the projected periods. The calculations are described in the notes directly after this table.

| Year | Exit Value | Common Shares | Price Per Share | Book Value Per Share | Common Dividends Per Share | Simple Earnings Per Share |
|--------------|-------------------|----------------------|------------------------|-----------------------------|-----------------------------------|----------------------------------|
| Base FY 2018 | 16,500,000 | 1,000,000 | 16.50 | 8.50 | 0.46 | 1.52 |
| FY 2019 | (2,832,277) | 1,000,000 | (2.83) | 8.55 | 0.05 | 0.11 |
| FY 2020 | 25,517,487 | 1,000,000 | 25.52 | 10.26 | 1.71 | 3.41 |
| FY 2021 | 26,256,811 | 1,000,000 | 26.26 | 11.73 | 1.46 | 2.93 |
| FY 2022 | 29,123,032 | 1,000,000 | 29.12 | 13.30 | 1.57 | 3.15 |
| FY 2023 | 32,952,039 | 1,000,000 | 32.95 | 15.05 | 1.75 | 3.49 |

Price per Share for each period is calculated as Projected Value divided by Common Shares.

Book Value per Share for the Base period is calculated as Total Equity from the Balance Sheet at Closing divided by Common Shares. For subsequent projected periods, it is calculated as projected Total Equity from the post-acquisition balance sheets divided by Common Shares.

Common Dividends per Share for the Base period is calculated as common dividends from the most recent historic statement of retained earnings divided by common shares. For subsequent projected periods, it is calculated as projected common dividends from the post-acquisition statements of retained earnings divided by Common Shares.

Simple Earnings per Share for the Base period is calculated as after-tax net income less any preferred dividends from the most recent historic income statement and statement of retained earnings, respectively, divided by Common Shares. For subsequent projected periods, it is calculated as projected after-tax net income less any preferred dividends from the post-acquisition projected income statements and statements of retained earnings, respectively, divided by Common Shares.