



xpx LONG ISLAND
EXIT PLANNING EXCHANGE
2019-2020 Case Study
Background Information

To: Advisory Team
From: Barbara Jones, CEO
PeopleCo Manufacturing
RE: Planning for the Future

Thank you again for your time this morning to talk to us. I am glad that our mutual friend connected us.

Based on our conversation, I think we are prepared to move forward with you in helping us plan for a transition here at PeopleCo, and we are glad to have you on the team. As promised, here is some information and background that will help you understand our situation and our goals.

Business Overview:

The PeopleCo Manufacturing Company (“PeopleCo”) was founded in 1937 by Greg Smith Sr. My father, Robert, started in the company in 1946 as a machinist after high school. Greg was so impressed with my father’s skill, dedication and tenacity that he continued to promote him over the years. When Greg passed away in 1954, my father bought the company from the estate and continued to grow the company until 1982, when I took over for him as President and CEO. I too started on the factory floor and worked my way up through the ranks. My dad passed away a few years later in 1998. In 2003, during the low point of the last economic cycle, I bought out one of my brother’s (Mike’s) share of the business, so now I own 66.66% of the company, and my brother Charlie owned the remaining 33.34%. However, as part of the settlement, Mike kept the real estate where the main facility is located, and we now have a long-term lease with him. That may be a good thing, because we suspect there may have been some issues on the site many years ago—nothing serious, but as they say, “not our problem”.

Unfortunately, Charlie was in failing health in recent years and died, leaving his wife and five children as the heirs to his share of the business. None of his children have ever been involved in the business before, and his wife always took care of the kids and grandkids. While things are amicable, they are asking questions about the operations and clearly seem to be looking for an exit. They have discussed a buy out in broad terms, but have never put a number on it. Charlie had them well taken care of, but they have now turned their attention to winding down his estate and liquidating the business. They would rather sell to me than to a third party.

We also own a smaller facility on a large parcel of land about an hour away from the headquarters. We use it mostly as a warehouse. One of Charlie’s sons runs a small art studio out of some unoccupied space. He doesn’t pay any rent, and has been there for years. The smaller warehouse is in an LLC which is still owned 1/3 by me, 1/3 by Mike and 1/3 by Charlie’s estate. I think that parcel of land is worth quite a lot based on what could be built there. The county recently offered me \$300,000 for 1/4 of the parcel to expand a local road, and I’m thinking about that. It doesn’t sound like I have much of a choice, and it doesn’t affect the operations at the warehouse, so I’m not sure what to do. Mike and I have the right to buy Charlie’s estate out, but that option expires in 90 days and I’m not sure what I want to do there either.

PeopleCo is a machine shop that focuses on high-value-added manufacturing for highly technical aerospace components. We are a key supplier to the large aerospace manufacturers (Boeing, Airbus and Pratt & Whitney) who rely on us for our unwavering commitment to quality and a high-degree of personal service. I maintain strong personal relationships with each of our core clients, and see them all socially as well. Most of these relationships go back to when my father ran the business.

We engineer our machines in-house, and have a substantial portfolio of IP, some of which is protected, and some of which is not. We are considering branding our equipment and products for licensing to third parties, but don't want to undercut our own competitive advantage.

Attached are our summary financial statements that were prepared by our controller and blessed by my accountant (who happens to be my brother-in-law). My accountant suggested that we convert to an S Corp a couple of years ago to prevent "double taxation". Not sure if this changes anything.....

Operations Overview:

We are in a competitive industry where price and service matter. We try to be price competitive, but end up winning on our long-standing relationships and reputation for quality and service. We just do things better than our competitors.

We have a good management team, most of whom have been with me for 20+ years. They know their stuff cold. While I still make most of the big decisions, and step in when there is a problem, they manage most of operations and manufacturing where I tend to focus on the financials and customer relationships. I still get my hands dirty on the factory floor when I need to, as that is where I grew up.

My daughter Ruth is being groomed to take over the business and he is exceptionally smart and talented. She is a bit of risk taker, but has really driven our top-line growth over the last couple of years. In a few years, I will start to transition the business to her, but would like to stay involved – just not the same amount that I am today. My son Bobby spends most of his time taking care of his three kids, but he's involved in our marketing and has been very helpful. I'd like to see him take a more active role as his kids grow up.

We aren't perfect, but we are in good shape. We had a couple of glitches over the years: one of our employees lost two of his fingers on the floor last year through his own carelessness. He is out on disability, and he claims he may never be able to work again, but we know better. Also, in the normal course of business, we are being sued by one of our former employees who claims that we are infringing on one of his new patents, but he is just trying to be a nuisance. We are not worried about it.

Strategic Objectives:

As we discussed, we have been approached by a large strategic player who wants to acquire us. We have not discussed valuation yet, but they seem really interested and there are some potential cost savings that could be realized if we put our companies together. They have approached us before, but they seem more serious this time. They told me that they would be willing to pay an above market multiple, and can close quickly because they would be buying only the assets of the business, but I don't really understand what that all means. I am also a little worried that they might fire many of my long-

term employees, who helped me build the company's value. Ideally, I would like to see them get a bit of a bonus when the deal closes for helping us get here.

I was not contemplating selling, as I wanted to hand this down to my kids (two of whom are working their way through the management ranks, whereas one is more of an artist than a business person), as my father did for me. However, all my friends at the Club tell me now is a good time to sell and that valuations are sky-high. My husband and I think we should at least explore this in more detail. I also attached some of the information that a friend of mine gave me for valuation guidance (public companies in my space).

I was also asked to consider a private equity investor, but I honestly don't trust them. They don't know the business like I do and I don't need some kid with an MBA telling me how to run my business.

Neither prospective partner or buyer has an interest in the smaller warehouse, which they think is more of a headache to operate and maintain than it is worth.

Family Dynamics:

Your questions this morning were definitely thought provoking, so I thought I would try to summarize some of our family dynamics:

- Barbara Jones, President and CEO (me).
 - o Age: 67
 - o Married nearly 40 years to my wonderful husband Mark
 - o Four Children – see Below
- Ruth Jones
 - o Age: 45
 - o Currently my EVP of Manufacturing at PeopleCo
 - o Married to Lawrence who is a marketing executive at a large CPG company
 - o One child – Robert Jones Jr. (16) – Captain of his hockey team
- Robert Jones
 - o Age: 44
 - o Divorced – Works part time in the business in our marketing department
 - o Ex-Wife is paying child support and a small alimony, but not enough for him to live
 - o Three kids – Reece (15), Grace (13), Tommy Lee (11)
- Frederick (Rick) Jones
 - o Age: 41
 - o Fred is in construction working for a local contractor; he is an avid musician
 - o Married to Janet who is a stay at home mom taking care of Sarah who has special needs
 - o Two kids – Freddy (12) and Sarah (11)
- James Jones
 - o Age: 35
 - o Estranged
 - o Unmarried, no children

Wealth Management:

We have done well over the last few years since the recession. I have a couple million in the bank, but the business is the real asset of our family. We have our house here in town, and a modest vacation house in West Hampton (we love having the kids every summer!). Clearly, Mark and I have to support the kids a bit more than we expected, but we are happy to do it.

I have been using my college roommate as my stockbroker forever. He is a good guy and knows all of the family well. While performance could be better, I think he does a good job.

A few years ago, about the same time as I bought out my brother, I did some estate planning with a lawyer / friend from the Club to make sure the kids are taken care of should something happen to me or Mark, but we should probably update it now that the business has been doing so much better. I don't remember what we set up, but it seemed pretty straight forward.

Our lawyer and accountant have both been with us for years. They each have small local practices, where they do a little bit of everything. While they are not M&A specialists, they are good friends and have never steered me wrong.

If we were going to sell the business, we would need enough for us to live on for the rest of our lives, and make sure the kids (and grandkids) are taken care of. Ideally, we would like to retire to the beach (for the summers) and buy a place in Florida (Mark does not love these New York winters as much as I do), and be able to travel a bit more. We have most of the toys we need, but I would love to have a bigger boat too. I am not sure how much we need, but more is always better.

I would like to make sure Charlie's kids are taken care of and properly advised. They are going to come into some money here and none of them have experience managing money. Their mom already lost more than \$250,000 of the estate money on a bad real estate deal. Charlie's kids all have small children and half of them don't even have life insurance. They all have different needs and someone (not me) needs to talk some sense into them.

Lastly, my father passed away from cancer many years ago and our family is very dedicated to the American Cancer Society. We give have a fundraiser every year in his memory and all donate to organization each year. I would love to be able to give a sizable donation there as well.

Is this something where you can help? Where do we go from here? What are the next steps?

I look forward to working with you and your team in helping us think about our strategic options.



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Syllabus

- September 6, 2019: Strategic Options Overview / Case Setup
- October 4, 2019: Managing Family Dynamics – How can the family prepare for success?
- November 1, 2019: Estate and Tax Planning Options – Focus on after tax proceeds
- December 6, 2019: Wealth Management Planning – How much do I really need?
- January 3, 2020: Business valuations – What is the business really worth?
- February 7, 2020: Successful Exit Stories
- March 6, 2020: Investment Banking Process - The journey to a Closing
- April 3, 2020: Negotiating Strategies – How can I get what I need and want?
- May 1, 2020: Due Diligence Preparation and Pitfalls – War stories
- June 5, 2020: Legal Documents: What are they and what do they mean?

TBD- Summer, 2020: Closing Cocktail party! A classic celebration for a successful exit