

Analysis of Consolidated Financial Data

Based upon the Proposed Acquisition of Example Sports, Inc.
by Example Parent Company, Inc.

Example Parent Company, Inc. (hereafter called the "Parent") is contemplating the acquisition of Example Sports, Inc. (hereafter called the "Target"). The Target is a C-Corporation and is organized under the laws of California. The Target's primarily business activity is "Sporting Goods Manufacturing" and the Target operates under the trade name of Sample's Sporting Equipment.

The proposed transaction will be structured as an asset purchase and the purchased assets will be placed in a new company.

This report provides an overview of the transaction purchase price and payments, a summary of the proposed acquisition funding, a description of the consolidation, an overview of the consolidation methodology and key balances before and after the consolidation. Further, this report includes an analysis of accretion/dilution in projected earnings per share, a comparison of growth in earnings both with and without the acquisition, and an estimate of enterprise value created.

Purchase Price and Other Payments (Uses of Funds)

The purchase price for the business interest in the Target, the purchase price package, the total cost of the transaction and the total uses of funds are summarized below:

Purchase Price for Assets	15,500,000
Other Payments to Seller:	
Covenant-not-to-compete	1,000,000
Total Purchase Price Package	16,500,000
Transaction fees	340,000
Total Cost of Transaction (excluding funding of working capital)	<u>16,840,000</u>
Other Financing Activities:	
Funding of Additional Working Capital for Target	<u>660,000</u>
Total Uses of Transaction Funds	<u><u>\$17,500,000</u></u>

The aggregate funding amount above includes \$660,000 over and above the amount necessary at closing for the acquisition and related transaction fees and will be used as working capital.

Acquisition Funding Summary (Sources of Funds)

The amount of the aggregate funding required at closing to complete the transaction and pay the associated transaction fees is \$17,500,000. The funding at closing will be comprised of the following items:

Equity Investment:

Parent Cash Invested		8,500,000
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Seller Financing:

Long-Term Seller Debt	5,500,000	
Deferred Payments to Seller for Covenant-Not-To-Compete	1,000,000	
Total Seller Financing & Deferred Payments		6,500,000

Non-Seller Financing:

Outside Long-Term Debt	2,500,000	
Total of Debt Funding (excluding seller financing)		2,500,000

Total Sources of Funding		<u>\$17,500,000</u>
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Other Financing Activities:

Funding of Additional Working Capital for Target	660,000	
Less: Total Other Financing Activities		<u>660,000</u>

Total Funding Required to Purchase Business Interest, for Executory Agreements and for Transaction Fees		<u>16,840,000</u>
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Parent's Invested Capital

The cash portion of the Parent's investment will be \$8,500,000.

Post-Acquisition Consolidation

The Target's 5-year post-acquisition projected financial statements have been consolidated into the Parent's projected financial statements.

This consolidation is most appropriately described as an "economic consolidation" since it is intended to estimate such economic metrics as the post-acquisition Return on Investment and the accretive or dilutive effect of the acquisition transaction.

The consolidation is not intended to be an accounting consolidation governed by Generally Accepted Accounting Principles (GAAP).

Key Balances Before and After Consolidation

The following table presents key balance sheet balances for the Parent both before and after the acquisition. The key balance sheet balances are shown here to demonstrate the effects of the acquisition immediately before after the close of the acquisition transaction.

	Parent Base Before <u>Consolidation</u>	<u>Change</u>	Combined Base <u>After Consolidation</u>
Cash	9,688,617	(9,840,000)	(151,383)
Total Current Assets	16,040,162	(4,840,000)	11,200,162
Total Assets	25,806,107	7,000,000	32,806,107
Current Liabilities	3,238,919	0	3,238,919
Total Liabilities	3,343,119	9,000,000	12,343,119
Total Equity (Controlling interest)	22,462,988	(2,000,000)	20,462,988
Common stock	20,962,988	8,500,000	29,462,988
% of TIC	93.32%	-19.60%	73.73%
Preferred stock	1,500,000	0	1,500,000
% of TIC	6.68%	-2.92%	3.75%
Interest-bearing debt	0	9,000,000	9,000,000
% of TIC	0.00%	22.52%	22.52%
Total invested capital (TIC)	22,462,988	17,500,000	39,962,988

Analysis of Consolidated Data

The consolidated projected financial statement data has been analyzed to measure the effects of the acquisition transaction on the Parent. The Accretion/Dilution analysis measures the amount of accretion or dilution to Earnings Per Share due to the transaction. The Compound Annual Growth Rate analysis compares the estimated growth in earnings for the Parent with and without the acquisition. The Enterprise Value Created analysis measures the present value return on Total Invested Capital using Free Cash Flow.

Modified Accretive / Dilutive Analysis

The Accretion / Dilution Analysis compares estimated Earnings Per Share (EPS) on a Consolidated basis for each year after to the acquisition transaction to the estimated EPS of the Parent without the acquisition transaction. If the Consolidated EPS are higher than the Parent-only EPS, the transaction is considered accretive. Conversely, if the Consolidated EPS are lower than the Parent-only EPS, the transaction is considered dilutive.

Traditionally, a fully diluted calculation is performed for EPS where it is assumed that dilution occurs as if all existing dilutive securities are exercised and converted in each period. However, the EPS calculations performed in this Accretive / Dilutive Analysis are a modified version of the fully diluted EPS. Rather than assuming that dilution happens as if all dilutive securities are exercised and converted in each year, as is done with fully diluted EPS, any dilutives in this Accretive / Dilutive Analysis are built into the projection assumptions. Any future dilutives in this analysis are assumed to occur in specific projected periods, not as if all dilutive are exercised and converted in each projected year. Therefore the EPS calculations performed here are best described as modified-dilutive EPS and not fully dilutive EPS.

The following table presents the estimates of EPS for 5 projected years for the Consolidated and Parent scenarios. The accretive or dilutive EPS amount for each projected year is presented in dollars and as a percentage.

Projected Year	2019	2020	2021	2022	2023
Consolidated EPS (a)	0.79	1.21	1.24	1.35	1.48
Parent EPS (b)	0.78	0.87	0.95	1.03	1.13
Accretive/(Dilutive) EPS (a-b)	0.01	0.34	0.29	0.31	0.35
Accretive/(Dilutive) EPS % (a-b)/b	1.39%	39.20%	30.94%	30.49%	30.82%

Please see the Accretive/Dilutive Analysis schedule for the detailed EPS calculations.

Compound Annual Growth Rate

The Compound Annual Growth Rate analysis compares the 5-year compound annual growth rate for EBITDA, EBIT and Net Income for the Consolidated entity and for the unconsolidated Parent. A positive spread between the Consolidated and Parent growth rates indicates that the acquisition will improve the estimated growth in earnings and vice versa for a negative spread.

	Consolidated	Parent	Spread
EBITDA	16.55%	9.69%	6.86%
EBT	16.90%	9.69%	7.21%
Net Income (Controlling Interest)	16.90%	9.69%	7.21%

Enterprise Value Created

One of the goals of the acquisition transaction is to create value by improving return on investment (ROI). ROI is measured here using Free Cash Flow (cash inflow) for 5 projected years which is then compared to Total Invested Capital (cash outflow). The following table presents the measures of ROI after the transaction in the Consolidated column and presents the same measurements without the transaction in the Parent column.

	<u>Consolidated</u>	<u>Parent</u>
Total Present Value of Free Cash Flow Available to TIC	40,365,382	50,870,303
Less: Total Invested Capital	39,962,988	22,462,988
Net Present Value	402,394	28,407,315
Internal Rate of Return (IRR)	15.20%	40.33%
Total Invested Capital Hurdle Rate	15.11%	19.13%
Spread (Difference)	0.08%	21.20%

Please note that the Consolidated and Parent Total Invested Capital Hurdle Rates shown above are used as the Discount Rates in the respective Net Present Value calculations.

See the Consolidated Net Cash Flow schedule and the Return on Total Invested Capital schedule for detailed calculations.