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## Confidential Information Memorandum

Company ID: EMA 457635-01

Sporting Goods Manufacturing

Sporting Goods Wholesale

Southern California

{INSERT LOGO HERE}

Example M&A Intermediaries, LLP

6789 Main St.

Los Angeles, CA 90211

jane.doe@exampleintermediaries.com

(310) 555-1212

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**Additional Information:**

All communication regarding this Memorandum and requests for additional information should be directed to the Business Intermediary:

Jane Doe  
Example M&A Intermediaries, LLP  
6789 Main St.  
Los Angeles, CA 90211  
(310) 555-1212  
jane.doe@exampleintermediaries.com

# Confidential Information Memorandum

## Introduction

The information contained herein is confidential and provided subject to the Disclaimer and Notice on the previous page.

This Confidential Information Memorandum has been prepared by Jane Doe of Example M&A Intermediaries, LLP in order to acquaint and familiarize prospective buyers with the business and operations of Company ID No. EMA 457635-01 (the "Company"). The company's name is not disclosed in this memorandum.

The Company is located in Southern California.

The Company is primarily engaged in the business of Sporting Goods Manufacturing and its secondary business activity is Sporting Goods Wholesale. The applicable SIC / NAICS codes for the Company's business activity are 3949 / 339920.

## Financial Snapshot

The following tables provide a snapshot of key income statement and balance sheets accounts. Income statements amounts are for fiscal year 2018 and the trailing twelve months ending Jun 2019. Balance Sheet accounts are the most recent reported amounts.

<b>Income Data:</b>	<b>Latest Reported Full Year</b>	<b>Trailing Twelve Months</b>
Net Sales Revenue	\$31,541,420	\$18,924,689
Net Income	\$1,060,590	\$1,419,183
Adjusted EBITDA	\$3,613,460	\$2,799,590

<b>Balance Sheet Data:</b>	<b>Most Recent Reported</b>	<b>Percent of Total Assets</b>
Current Assets	\$7,509,604	48.38%
Fixed Assets (Net)	\$5,363,423	34.55%
Other Assets	\$2,649,560	17.07%
Total Assets	\$15,522,587	100.00%

A summary of the financial statements along with an analysis of the statements are presented later in this report. Detailed financial statements are included as an addendum.

## Ownership and History

The Company was established in 1989 and is organized under the laws of California. The Company is structured as a C-Corporation.

The Company has engaged Example M&A Intermediaries, LLP and a majority block of the controlling interest has authorized Example M&A Intermediaries, LLP to find a buyer for substantially all of its business-related assets.

## Narrative and Descriptive Information

The narrative needs to be added. When presenting an actual company for sale, you would include descriptive information about the business. The report generated by DealSense includes section headings for the topics that are typically required by prospective buyers. These section headings (topics) are listed below:

- ✓ Industry Overview
- ✓ Ownership and History
- ✓ Overview of the Business
- ✓ Financial Performance
- ✓ Ownership and Control
- ✓ History of the Business
- ✓ Strategy and Business Model
- ✓ Customers and Customer Relationships
- ✓ Products and Services
- ✓ Market Segments
- ✓ Competitive Overview
- ✓ Company and Product Brands
- ✓ Sales and Communication
- ✓ Industry Trends
- ✓ Management and Employees
- ✓ Operations and Business Process

- ✓ Facilities and Premises
- ✓ Vendors and Supply Chain
- ✓ Information Systems
- ✓ Proprietary Technology and Intellectual Property
- ✓ Legal, Regulatory and Environmental

## Financial Performance

### Historic Income Statement Summary

The following table presents the last 5 years of income statement account groups along with their respective percentage of total revenues. The latest historic income statement is for fiscal year, 2018:

	2014	2015	2016	2017	2018
<b>Net Sales Revenue</b>	<b>25,302,860</b>	<b>26,494,580</b>	<b>28,043,400</b>	<b>29,219,270</b>	<b>31,541,420</b>
Total Cost of Goods Sold	20,165,679	21,681,757	22,263,336	22,943,789	23,870,297
<b>Gross Profit</b>	<b>5,137,181</b>	<b>4,812,823</b>	<b>5,780,064</b>	<b>6,275,481</b>	<b>7,671,123</b>
% of Revenue	20.30%	18.17%	20.61%	21.48%	24.32%
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)
<b>Income Before Taxes</b>	<b>725,927</b>	<b>900,061</b>	<b>980,336</b>	<b>1,127,844</b>	<b>1,738,672</b>
% of Revenue	2.87%	3.40%	3.50%	3.86%	5.51%
Total Income Taxes	283,111	351,024	382,331	439,859	678,082
<b>Net Income</b>	<b>442,816</b>	<b>549,037</b>	<b>598,005</b>	<b>687,985</b>	<b>1,060,590</b>
% of Revenue	1.75%	2.07%	2.13%	2.35%	3.36%



## Historic & Adjusted EBITDA

Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) have been adjusted to remove non-transferable and non-recurring income/expenditures as well as discretionary expenses in order to better reflect the “economic level” of earnings. These adjustments are summarized below by income statement account group so they can be traced to the financial statements for verification purposes:

	2014	2015	2016	2017	2018
<b>Historic EBITDA:</b>					
Earnings Before Interest, Depr. & Amort. (EBITDA)	2,377,930	2,694,760	2,903,970	3,065,364	3,453,460
<b>Add/(Deduct) Income Adjustments:</b>					
Nonoperating Income	(20,000)	(30,000)	(40,000)	(50,000)	(60,000)
<b>Total Income Adjustments</b>	<b>(20,000)</b>	<b>(30,000)</b>	<b>(40,000)</b>	<b>(50,000)</b>	<b>(60,000)</b>
<b>Add/(Deduct) Expense Adjustments:</b>					
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)
<b>Total expense adjustments</b>	<b>(65,000)</b>	<b>(100,000)</b>	<b>(140,000)</b>	<b>(180,000)</b>	<b>(220,000)</b>
<b>Total Adjustments</b>	<b>45,000</b>	<b>70,000</b>	<b>100,000</b>	<b>130,000</b>	<b>160,000</b>
<b>Adjusted EBITDA</b>	<b>2,422,930</b>	<b>2,764,760</b>	<b>3,003,970</b>	<b>3,195,364</b>	<b>3,613,460</b>

## Adjusted Free Cash Flow (excluding non-operating income/expenses)

	2014	2015	2016	2017	2018
Historic income from operations	1,513,211	1,543,489	1,661,613	2,224,734	
Total operating adjustments	80,000	110,000	140,000	170,000	
<b>Adjusted Operating Income</b>	<b>1,593,211</b>	<b>1,653,489</b>	<b>1,801,613</b>	<b>2,394,734</b>	
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	
<b>Invested Capital Net Cash Flows</b>	<b>863,359</b>	<b>1,149,964</b>	<b>198,586</b>	<b>1,422,831</b>	

Taxes are calculated based upon income from operations using an effective tax rate of 30.00%.

### Changes in the Net Working Capital Component of Free Cash Flow

Working Capital consists of total current assets. Net Working Capital is the difference between current assets and current liabilities. The following table presents Changes in Net Working Capital, which is a component of the Free Cash Flow calculation. Changes in cash and cash equivalents along with the current portion of interest-bearing debt have been excluded to arrive at Free Cash Flow.

	2014	2015	2016	2017	2018
Accounts Receivable	2,004,300	2,027,370	1,987,130	2,220,890	2,285,390
Inventory	2,000,000	2,370,000	2,685,000	2,765,000	2,815,000
Other Current Assets	133,960	141,440	145,780	138,540	142,390
<b>Current Assets *</b>	<b>4,138,260</b>	<b>4,538,810</b>	<b>4,817,910</b>	<b>5,124,430</b>	<b>5,242,780</b>
Accounts Payable	1,297,600	1,311,800	1,303,850	1,424,150	1,368,000
Taxes Payable	324,500	335,750	334,750	389,400	267,900
Other Current Liabilities	323,700	320,500	330,500	362,500	320,000
<b>Current Liabilities *</b>	<b>1,945,800</b>	<b>1,968,050</b>	<b>1,969,100</b>	<b>2,176,050</b>	<b>1,955,900</b>
<b>Net Working Capital</b>	<b>2,192,460</b>	<b>2,570,760</b>	<b>2,848,810</b>	<b>2,948,380</b>	<b>3,286,880</b>
% of Revenue	8.66%	9.70%	10.16%	10.09%	10.42%
Average Net Working Capital % of Revenue	9.81%	9.18%	9.51%	9.65%	9.81%
<b>Change in Net Working Capital</b>		<b>378,300</b>	<b>278,050</b>	<b>99,570</b>	<b>338,500</b>

\*Please note in the table above, Cash and Cash Equivalents have been deducted from Current Assets. Also, Short-Term Notes Payable as well as any Current Portion of Long-Term Notes Payable have been deducted from Current Liabilities.

## Compound Average Growth Rates (CAGR)

The Compound Average Growth Rates (CAGRs) are based upon historic financial statement data and Adjusted EBITDA for the last 5 years as presented in the following schedule. CAGR is calculated for each year as the total growth from the base period (i.e., the first historic year) divided by the number of years from the base period. The growth rates are calculated for Net Sales Revenue, Net Income, Adjusted EBITDA and Adjusted Free Cash Flows-TIC on a year-to-year basis.

Historic Year	Net Sales Revenue	Net Income	Adjusted EBITDA	Adjusted Free Cash Flow-TIC
2015	4.71%	23.99%	14.11%	
2016	5.28%	16.21%	11.35%	35.72%
2017	4.91%	15.82%	9.66%	-49.03%
2018	5.66%	24.40%	10.51%	18.30%

## Summary Historical Balance Sheets

A summary of the main account groups balances from the Company's balance sheets for the last 5 years follows. The latest balance sheet was prepared as of the end of fiscal year 2018.

	2014	2015	2016	2017	2018
<b>ASSETS</b>					
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
<b>Total Assets</b>	<b>14,799,125</b>	<b>14,918,781</b>	<b>15,692,445</b>	<b>15,884,755</b>	<b>15,522,587</b>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>					
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
<b>Total Liabilities</b>	<b>8,680,959</b>	<b>8,578,645</b>	<b>8,808,506</b>	<b>8,721,184</b>	<b>7,839,480</b>
<b>Stockholders' Equity:</b>					
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
<b>Total Stockholders' Equity</b>	<b>6,118,166</b>	<b>6,340,136</b>	<b>6,883,939</b>	<b>7,163,571</b>	<b>7,683,107</b>
<b>Total Liabilities &amp; Stockholders' Equity</b>	<b>14,799,125</b>	<b>14,918,781</b>	<b>15,692,445</b>	<b>15,884,755</b>	<b>15,522,587</b>

## Summary Historical Statements of Cash Flows

The Historical Statements of Cash Flows for the last 5 years presented below in summary format.

	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)
<b>Net Cash Flow</b>	<b>(90,564)</b>	<b>6,225</b>	<b>4,071</b>	<b>9,139</b>
Cash at Beginning of Year	313,943	223,379	229,604	233,675
<b>Cash at End of Year</b>	<b>223,379</b>	<b>229,604</b>	<b>233,675</b>	<b>242,814</b>

The Cash Flows Available to Equity Holders presented below shows the impact of changes in equity accounts on Net Cash Flow. The calculation of Cash Flows Available to Equity Holders starts with Net Cash Flow from the Historical Statements of Cash Flows and adds back the changes in the equity and dividend accounts. The result represents the amount of cash flows that are available to equity holders.

		2015	2016	2017	2018
<b>Net Cash Flow</b>		<b>(90,564)</b>	<b>6,225</b>	<b>4,071</b>	<b>9,139</b>
Plus: Preferred dividends	80,000	80,000	85,000	85,000	85,000
Plus: Common dividends	227,450	247,067	239,202	323,353	456,054
Change in Preferred Stock		0	(50,000)	0	0
Change in Common Stock		0	(220,000)	0	0
<b>Total cash flows available to equity holders</b>		<b>236,503</b>	<b>60,427</b>	<b>412,424</b>	<b>550,193</b>

## Financial Ratio Analysis

A time series of various business and financial ratios have been calculated from each year's historic financial statements. These ratios measure the Company's liquidity positions, coverage capacity, leverage/capitalization, operating efficiency and equity performance.

The key data points used to prepare these ratios are summarized in the following table:

### Source Data for Ratio Analysis:

#### Income and Expense Data:

	2014	2015	2016	2017	2018
Sales	25,302,860	26,494,580	28,043,400	29,219,270	31,541,420
Cost of Sales	20,165,679	21,681,757	22,263,336	22,943,789	23,870,297
Gross Margin	5,137,181	4,812,823	5,780,064	6,275,481	7,671,123
Officer Salary	350,000	400,000	450,000	500,000	550,000
Non-Officer Wages	10,640,000	10,685,000	11,564,000	11,809,500	12,618,400

Total Wages	10,990,000	11,085,000	12,014,000	12,309,500	13,168,400
Office Utilities	17,800	28,000	36,000	60,000	80,000
Total General & Administrative Expense	3,037,730	2,486,432	3,319,075	3,616,368	4,129,399
Total Operating Exp. (COGS+Selling Exp.+G&A Exp.)	23,953,159	24,981,369	26,499,911	27,557,657	29,316,686

#### Earnings Data:

Net Operating Income	1,349,701	1,513,211	1,543,489	1,661,613	2,224,734
EBITDA	2,377,930	2,694,760	2,903,970	3,065,364	3,453,460
EBIT	1,404,361	1,574,621	1,637,259	1,776,273	2,342,654
EBT	725,927	900,061	980,336	1,127,844	1,738,672
Net Income After Tax	442,816	549,037	598,005	687,985	1,060,590

#### Cash Flow Data:

Net Change in Cash		(90,564)	6,225	4,071	9,139
Cash from Operations		981,516	862,646	1,430,146	1,600,486
Equity Net Cash Flows (FCF-E)		156,313	800,477	(681,766)	156,343
Invested Capital Net Cash Flows (FCF-TIC)		1,325,051	1,602,150	671,134	2,067,041

#### Balance Sheet Data:

Cash & Equivalents	818,163	888,379	1,570,194	2,023,355	2,266,824
Accounts Receivable	2,004,300	2,027,370	1,987,130	2,220,890	2,285,390
Inventory	2,000,000	2,370,000	2,685,000	2,765,000	2,815,000
Working Capital	2,292,729	2,609,589	2,924,013	3,350,132	3,954,206
Net Fixed Assets	5,142,852	4,962,042	4,634,661	5,534,900	5,363,423
Net Intangible Assets	245,670	236,340	227,010	217,680	208,350
Total Assets	14,799,125	14,918,781	15,692,445	15,884,755	15,522,587
Trade Accounts Payable	1,233,100	1,240,800	1,228,350	1,329,650	1,294,600
Total Current Liabilities	2,663,694	2,817,600	3,464,091	3,797,653	3,555,398
Total Liabilities	8,680,959	8,578,645	8,808,506	8,721,184	7,839,480

#### Invested Capital Data:

Total Interest-Bearing Debt	6,708,159	6,583,595	6,812,406	6,518,134	5,856,580
Total Equity	6,118,166	6,340,136	6,883,939	7,163,571	7,683,107
Total Invested Capital (TIC)	12,826,325	12,923,731	13,696,345	13,681,705	13,539,687

The following ratios have been calculated using the above data:

	2014	2015	2016	2017	2018
<b>Liquidity Ratios:</b>					
The following liquidity ratios measure the short-term ability of a company to meet its maturing obligations.					
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:

The following 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.

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:

The following leverage/capitalization ratios measure the amount of a company's operations that are financed from debt versus financed from equity.

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:

The following operating ratios measure the efficiency and productivity of a company using the resources that are available and the returns on sales and investments.

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:

The following equity ratios measure the performance of assets and earnings in relation to common and preferred equity.

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

### Key Ratios Compared to RMA Industry Data

The Company's financial ratios are compared to composite, industry financial ratios in the table below. The source of the industry data is *RMA Annual Statement Studies* for 2018. The NAICS Code for the industry data is 339920 for the Sporting and Athletic Goods Manufacturing industry. The industry data was compiled from sample of 47 different companies within a Sales size range of \$10MM to \$25MM. RMA industry data from the Median Quartile quartile was used in the comparison.

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.

	Business 2018	Industry 2018
<b>Liquidity Ratios:</b>		
Current Ratio	2.1	1.9
Quick Ratio	1.3	0.7
Accounts Receivable Turnover	13.8	11.6
Inventory Turnover	8.5	3.5
Accounts Payable Turnover	18.4	11.4
Working Capital Turnover	8.0	6.8

### Coverage Ratios:

Times Interest Earned	3.9	4.1
Current Portion of Long-Term Debt Coverage Ratio	1.9	1.7

### Leverage/Capitalization Ratios:

Fixed Assets to Tangible Net Worth	0.7	0.3
Total Debt to Tangible Net Worth	1.0	1.7

### Operating Ratios:

Percent Return On Tangible Net Worth	23.3%	22.1%
Percent Return On Total Assets	11.2%	5.8%
Net Sales to Net Fixed Assets	5.9	24.1
Net Sales to Total Assets	2.0	1.9
Percent Depreciation & Amortization to Net Sales	3.5%	1.3%
Percent Officer Salaries to Net Sales	1.7%	0.0%

## Key Ratios Compared to Integra Industry Data

The Company's financial ratios are compared to composite, industry financial ratios in the table below. The source of the industry data is *Integra Industry Data* from Microbilt. The NAICS Code for the industry data is 339920 for the Sporting and Athletic Goods Manufacturing industry. The industry data was compiled from a sample of 94 different companies within a sales size range of \$10,000,000 - \$24,999,999.

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.

### Integra - Business vs. Industry Ratios, Current Year

	Business 2018	Industry 2018	Difference	Variance	5 Yr Average Variance
<b>Liquidity/Solvency Ratios:</b>					
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%

## Financial Statement Projections

In order to present management's internal expectations on future performance, this Confidential Information Memorandum includes a summarized projected income statement for 5 years.

The assumptions for these projections were provided by the Client concerning anticipated future performance. The assumptions and the anticipated results may or may not prove to be correct. No representations, expressed or implied, are made as to the accuracy of such statements, estimates and projections.

In addition, these projections do not consider any synergies or economies of scale that would result from a transaction with a specific buyer.

## Projected Income Statement Summary

	Historic	2019	2020	2021	2022	2023
<b>Net Sales Revenue</b>	<b>31,541,420</b>	<b>33,029,158</b>	<b>34,605,870</b>	<b>36,277,151</b>	<b>38,049,272</b>	<b>39,928,935</b>
Total Cost of Goods Sold	23,870,297	24,242,201	25,547,762	26,303,387	27,528,243	28,924,612
<b>Gross Profit</b>	<b>7,671,123</b>	<b>8,786,958</b>	<b>9,058,109</b>	<b>9,973,764</b>	<b>10,521,029</b>	<b>11,004,323</b>
% of Revenue	24.32%	26.60%	26.18%	27.49%	27.65%	27.56%
Total Selling Expenses	1,316,990	1,486,312	1,557,264	1,632,472	1,712,217	1,796,802
Total General & Administrative Expenses	3,959,399	4,414,198	4,176,884	4,217,419	4,423,001	4,659,503
Total Other Revenues and Expenses	(496,062)	(334,523)	(478,712)	(426,997)	(282,036)	(116,428)
<b>Income Before Taxes</b>	<b>1,898,672</b>	<b>2,551,925</b>	<b>2,845,248</b>	<b>3,696,876</b>	<b>4,103,774</b>	<b>4,431,590</b>
% of Revenue	6.02%	7.73%	8.22%	10.19%	10.79%	11.10%
Total Income Taxes	718,002	2,551,925	2,845,248	3,696,876	4,103,774	4,431,590

## Projected EBITDA less Capital Expenditures (CapEx)

The above projections assume the following capital expenditures will be required in order to keep pace with revenues and remain competitiveness in the marketplace. EBITDA less Capital Expenditures are also presented for each projected year.

<u>Projected Year</u>	<u>EBITDA</u>	<u>Capital Expenditures</u>	<u>EBITDA less CapEx</u>
2019	4,816,427	(0)	4,816,427
2020	5,086,663	2,750,000	2,336,663
2021	5,233,999	1,500,000	3,733,999
2022	5,524,690	1,200,000	4,324,690
2023	5,853,437	1,100,000	4,753,437

## Projected Compound Average Growth (CAGR)

The CAGRs based upon the estimated projected income statements. CAGR is calculated for each year as the total growth from the base period (i.e., the first projected year) divided by the number of years from the base period. The growth rates are calculated for Net Sales Revenue, Net Income, EBITDA and EBITDA minus Capital Expenditures for each projected year.

<u>Projected Year</u>	<u>Net Sales Revenue</u>	<u>Net Income</u>	<u>EBITDA</u>
2019			
2020	4.77%	11.49%	5.61%
2021	4.80%	20.36%	4.24%
2022	4.83%	17.16%	4.68%
2023	4.86%	14.79%	5.00%

## Acquisition & Transaction Information

The proposed transaction is for the sale of substantially all of its business-related assets.

<u>Assets Available for Acquisition</u>	<u>Historical Cost</u>	<u>Adjusted Value</u>
Accounts Receivable	\$2,846,381	\$2,846,381
Inventory	\$3,062,445	\$3,062,445
Other Current Assets	\$3,213,904	\$147,017
Fixed Assets	\$4,554,828	\$4,554,828
Identifiable Intangible Assets	\$25,000	\$5,080,000
Other Non-Current Assets	\$2,430,341	\$2,330,341

### Seller Motivations

The seller is considering the sale for the following reasons:

- Provide personal liquidity.
- Gain access to management expertise.
- Retirement from the business.

### Seller's Post-Sale Involvement

After the sale, the seller:

- Will provide training to the buyer.
- Will sign a non-compete agreement.

### Auction Sale

The sale will be conducted as an auction. The initial deadline for submitting bids is Sept 30, 2019.

## Contact Information

For addition information, please contact:

Example M&A Intermediaries, LLP  
6789 Main St.  
Los Angeles, CA 90211  
jane.doe@exampleintermediaries.com  
(310) 555-1212

Please refer to the Company ID No. EMA 457635-01 in all inquiries.