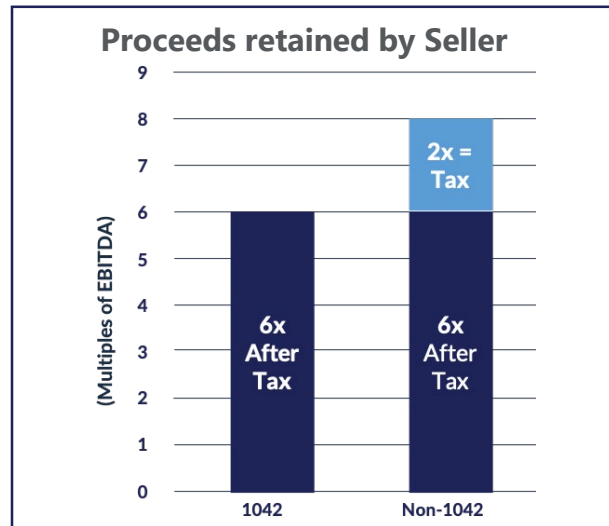


Shareholder Tax Benefit – 1042 Exchange

IRC Section 1042 enables selling shareholder to **defer or eliminate capital gains tax** on the sale of his/her shares to a qualifying ESOP.

Calculation of Net Shareholder Proceeds		Third Party Sale
<u>Calculation of Taxable Gain</u>		
Taxable Gain		100.0%
<u>Calculation of Taxes on Gains</u>		
- 20.0% Federal Capital Gains Tax		(20.0)%
- 5.0% State & Local Capital Gains Tax		(5.0)%
Total Federal, State, and Local Tax		(25.0)%
<u>Calculation of Net Shareholder Proceeds</u>		
Sale Price		100.0%
- Federal, State, and Local Tax		(25.0)%
Net Shareholder Proceeds		75.0%

Calculation of Net Shareholder Proceeds		ESOP with 1042
<u>Calculation of Taxable Gain</u>		
Taxable Gain		100.0%
<u>Calculation of Taxes on Gains</u>		
- 0.0% Federal Capital Gains Tax		(0.0)%
- 0.0% State & Local Capital Gains Tax		(0.0)%
Total Federal, State, and Local Tax		(0.0)%
<u>Calculation of Net Shareholder Proceeds</u>		
Sale Price		100.0%
- Federal, State, and Local Tax		(0.0)%
Net Shareholder Proceeds		100.0%



In a taxable transaction, the Company would have to sell for approximately **33% more in order to provide the selling shareholder the same net after-tax.**

Therefore, all else equal, a 6.0x EBITDA purchase price from an ESOP will provide the Selling Shareholder with an after-tax purchase price equivalent of 8.0x EBITDA from a third-party sale.

8x is not common...

The following chart summarizes private transaction data as reported by Pratt's Stats and the Pepperdine Private Capital Markets Project:

Pepperdine Private Capital Markets 2020 Report Median Deal Multiples by EBITDA Size of Company												
EBITDA	Manufacturing	Construction & Engineering	Consumer Goods & Serv.	Wholesale & Distribution	Business Services	Basic Materials & Energy	Healthcare & Biotech	Information Technology	Financial Services	Media & Entertainment	Average of All Industries	Average of All Industries - PE
\$0 - 1M	4.0x	3.5x	4.3x	4.0x	4.0x	3.0x	2.5x	4.5x	4.5x	5.0x	3.9x	5.0x
\$1 - 5M	6.0x	4.5x	6.0x	5.3x	6.0x	4.0x	6.3x	5.5x	5.0x	6.0x	5.5x	5.0x
\$5 - 10M	6.3x	5.5x	6.5x	5.5x	6.3x	6.5x	4.8x	6.8x	6.3x	7.0x	6.1x	7.5x
\$10 - 25M	7.0x	6.3x	7.0x	5.5x	7.0x	6.5x	6.5x	7.0x	8.5x	8.5x	7.0x	8.0x
\$25 - 50M	7.3x	8.0x	7.5x	7.0x	8.0x	n/a	8.5x	9.0x	8.5x	9.0x	8.1x	8.5x
> \$50M	10.0x	9.0x	8.0x	7.3x	8.5x	n/a	10.0x	10.0x	10.0x	10.0x	9.2x	9.8x

Instead, 5.5x to 6.1x is common for Companies with \$1-10 million of EBITDA...

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