ARE YOU READY FOR THE FUTURE?

YOUR BUSINESS EXIT STRATEGY

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KEY TAKEAWAYS

- What is Exit Planning?
- Why should you have an Exit Plan?
- What are the Benefits to You?
- Importance of the Right Team
- Exit Planning Engagement

SPEAKERS

▶ Philip Gordillo

Philip Gordillo is a senior vice president and regional wealth manager for Hancock Whitney. In this role, Philip is responsible for the bank's Private Wealth Management line of business in the State of Louisiana. He leads a multidisciplinary team of wealth professionals providing a myriad of services. This includes private banking, financial and estate planning, as well as investment management to high net worth clients across the bank's Louisiana footprint. Philip began his 25 year banking career in the bank's Management Training Program after graduating from the University of New Orleans with a degree in Economics in 1996. He completed the LSU Graduate School of Banking program in 2007.

▶ Stephen Morgan

Stephen Morgan is the investment director at Hancock Whitney, where he facilitates a team of investment professionals focused on delivering superior results, superior investment strategies and client outcomes. Stephen has been in the investment industry for 25 years. He joined Hancock Whitney as part of the acquisition of Capital One Asset Management LLC. Prior to joining Capital One, Stephen worked at Morgan Stanley, efolio.com, Hibernia Bank and Waterhouse Securities. He has a Bachelor of Mathematics from Carleton College and a Master of Mathematics from the University of Wisconsin.

▶ John Scott

John H. Scott is a wealth advisor for the greater New Orleans area. For over sixteen years, John has coached business owners, professionals, and families on how to protect their wealth, invest successfully, and retire confidently. As a Certified Exit Planner™, John is part of a group of exit planning professionals who hold the CExP™ designation. Before joining Hancock Whitney, John worked as a financial advisor at Consolidated Planning and Morgan Stanley. He has a Bachelor of Arts in economics from Vanderbilt University where he was also a pitcher on the baseball team.

▶ Kevin Leftwich

Kevin T. Leftwich is a partner at Ajubita, Leftwich & Salzer, L.L.C. He practices primarily in commercial law, with an emphasis in taxation and commercial transactions. Kevin regularly advises clients in transactional matters, including mergers, acquisitions, reorganizations and business structuring. He also assists with planning, negotiating and drafting real estate and tax credit transactions. Kevin received both his law degree and Masters in Taxation from New York University School of Law, where he was awarded the NYU Tax Policy Fellowship for his outstanding dedication in the field of tax policy.

▶ Frank deVay

Mr. deVay is a managing director of the Mergers & Acquisitions group of Chaffe & Associates, Inc., with emphasis in services to privately held companies. He has more than 20 years' experience in the structuring and negotiation of transactions, the valuation of small and mid-sized companies, and the development and execution of competitive processes for the sale or purchase of businesses. Prior to joining Chaffe in 2000, Mr. deVay began his career as a cost manager with Martin Marietta Manned Space Systems in New Orleans which eventually lead him to become chief financial officer for ProComp, Process Technologies, and Premier Industries. He left the corporate world to enter into the investment banking industry in 1999. Mr. deVay earned a Bachelor of Business Administration from Loyola University New Orleans.

WHAT IS EXIT PLANNING?

JOHN SCOTT

WHAT IS EXIT PLANNING?

"Exit Planning is a process that results in the creation and execution of a strategy allowing business owners to exit their businesses on their terms and conditions. It is an established process that creates a written road map, or Exit Plan, often involving efforts of several professionals, facilitated and led by an Exit Planning advisor who ensures not only the plan creation, but its timely execution."

John H. Brown, Author

Exit Planning: The Definitive Guide

Exit / Succession Planning is a pro-active process that provides for a smooth transition or exit over time along with specific tactics to deal with unexpected contingencies (i.e. illness, burn out, divorce, or death).

THINK ABOUT…

Business owners should always be ready to exit.

1. Business owners should be familiar with exit planning and aware of the numerous avenues to exit their business including the rewards and consequences of each alternative.

2. Business owners should know the value of their business and be aware of factors that increase or decrease the value. Make sure you are covering all of your readiness categories- financial, business and personal.

3. A thorough seller's due diligence now can reveal opportunities to increase value as well as risks that could be deal killers.

ARE YOU READY TO EXIT YOUR BUSINESS? PLANNED EXIT

- 67% are not familiar with all exit options

- Most owners don't know what their business is worth
  - 56% felt they had a good idea of what their business is worth, yet only 18% have had a formal valuation in the last two years

- 95% of M&A professionals believe a business owners unrealistic expectations of company value is the biggest obstacle to sale or transfer

ARE YOU READY TO EXIT YOUR BUSINESS? PLANNED EXIT

- 70 – 80% of businesses put on the market do not sell. This is particularly true for businesses with sales under $50 MM

- So what, I'll pass my business on to my heirs
  - Only 30% of all family-owned businesses survive into the second generation
  - 12% Survive into the third generation
  - Only 3% operate at the fourth generation and beyond

Source: Exit Planning Institute

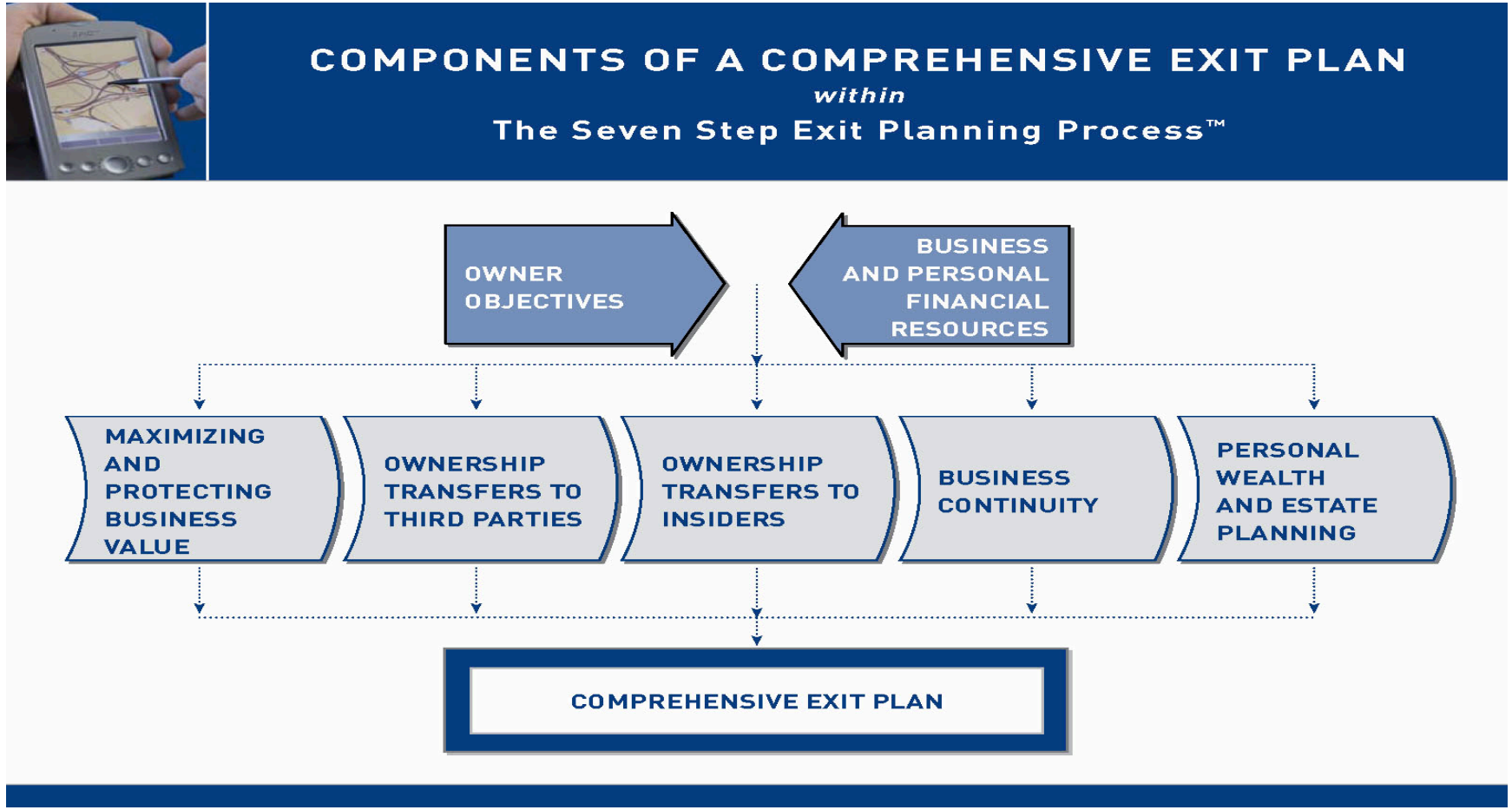
INGREDIENTS OF A SUCCESSFUL EXIT

- Exit Plan based on the owner's objectives
- Experienced team of advisors to design and implement the plan
- Cash flow and a quantified business value
- Strong management team in place
- Time

BENEFITS OF EXIT PLANNING

- Maximize Value
  - Higher Business Value
  - Industry Leadership and Reputation
- Minimize Risk
  - Risk During the Transition
  - Risk of Excessive and Unnecessary Taxes
- Stay in Control
  - Set Your Own Timeline and Terms
  - Set Your Business on the Course You Think is Best

COMPREHENSIVE EXIT PLAN



CREATING YOUR EXIT PLAN

Next Steps:

Creating Your Exit Plan
A Series of Meetings

Today's Meeting
Set the Timeline

Collect Data and Set Strategy
Objectives, Resources, Ideal Path

Meet with Advisors
Advisor Input, Your Decisions

Review and Confirm Road Map
Preliminary Recommendations

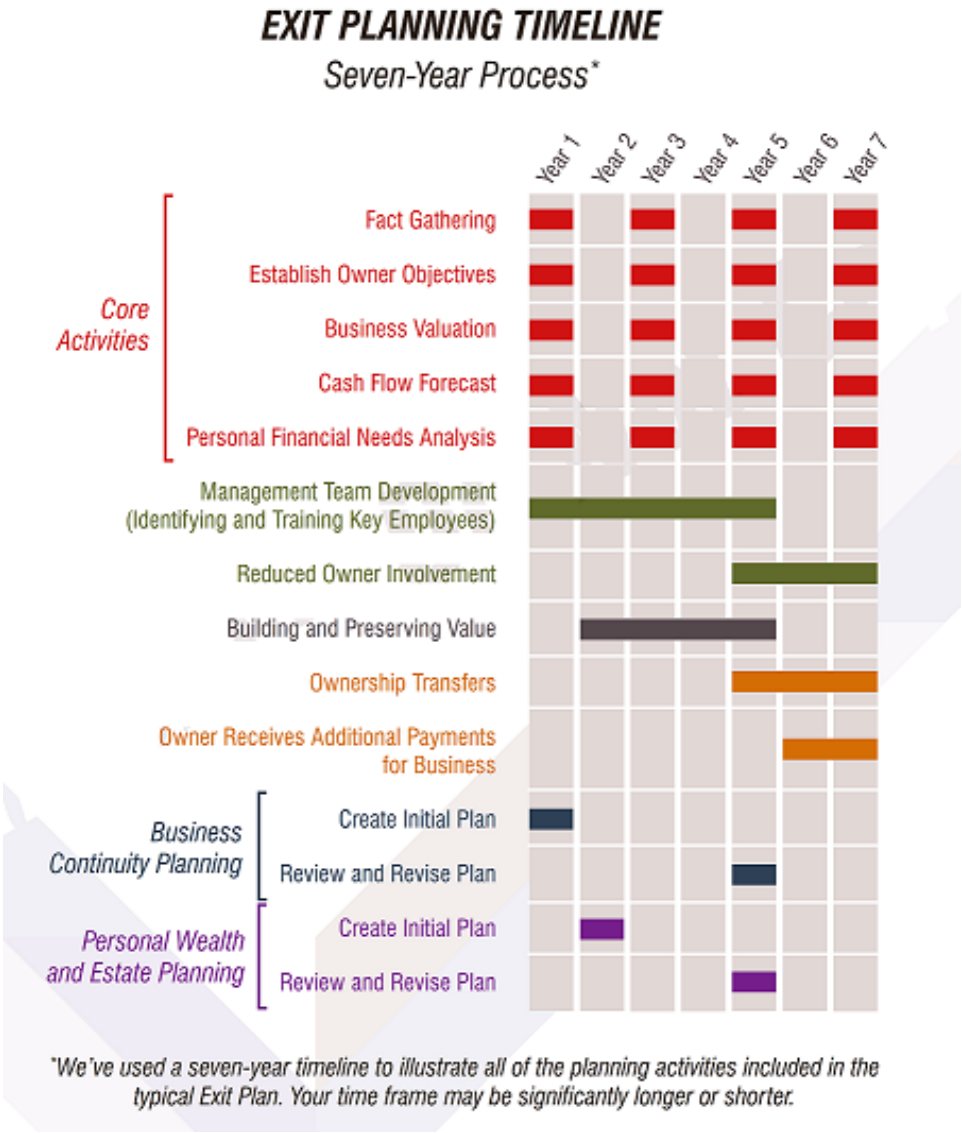
Present Final Plan
Family, Co-Owners, Employees

Implementation
Take Action

Manage the Process

Recommendations	Due Date	Responsible Party

EXIT PLANNING PROCESS TIMELINE



Source: Business Enterprise Institute's Business Owner Workbook

YOUR FIRST PRIORITY
PROTECT WHAT YOU HAVE

Create a contingency/disaster plan with clearly defined tactics. Then share with family and key management

- Define situations that could trigger the plan
- Define the role of key management and family members in maintaining business continuity
- Introduce heirs/successors to key managers and advisors/outside relationships such as bankers, accountants, attorneys, etc.
- Write a will and discuss with family. Inform family of all liabilities associated with business ownership
- Review buy/sell agreements if you have partners
- Explore key man policies to provide funding for an unexpected transition

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Chaffe & ASSOCIATES Investment Bankers

CLIENT'S PERSONAL ACTION ITEMS

- **Personal / Financial**
  - Personal goals and objectives for present and life after business
  - Exit options analysis

- **De-risking Personal Financial**
  - Begin personal financial planning (net worth analysis)
  - Review personal insurance
  - Consult professionals to begin or review your tax and estate planning

TEAM OF PROFESSIONAL ADVISORS

- No one professional has all the answers
- Diverse skills and talents are necessary
- Team approach minimizes time and cost

OWNER'S VIEW


Valuation Specialist
Financial Insurance Advisor
Business Attorney
Estate Planning Attorney
CPA
Transaction Intermediary
Asset/Wealth Manager
Business Consultant/ Coach
Business Owner

ESTATE PLANNING

KEVIN LEFTWICH, PARTNER
AJUBITA, LEFTWICH & SALZER, LLC

ESTATE TAX PLANNING

- The Goal of Estate Tax Planning is to Minimize Gift and Estate Taxes to Maximize the Assets Received by Your Beneficiaries
- Annual Gift Exclusion: $15,000 per Recipient Per Year
- Lifetime Gift/Estate Exemption: $11.7 Million in 2021
- Lifetime GST Exemption: $11.7 Million in 2021
- Tax Rate: 40%
- Basis Step-Up

MARITAL DEDUCTION & PLANNING

- Property Left Directly to a Spouse is not Subject to Gift or Estate Taxes
- Property Left in Trust for the Benefit of a Spouse may not be Subject to Gift or Estate Tax
- Portability
- Credit Trust

DESCENDANT PLANNING

- Annual Gift Exclusion: $15,000 Per Year
- Installment Sales
- Irrevocable Life Insurance Trust (ILIT)
- Grantor Retained Annuity Trust (GRAT)

CHARITABLE PLANNING

- Charitable Gifts are Deductible for Estate Tax Purposes
- Charitable Gifts may be Deductible for Income Tax Purposes

EXIT OPTIONS

FRANK DEVAY

EXIT OPTIONS

Types of Buyers/Successors	Pros	Cons
Family Members	• Familiarity with business • Legacy intact • Time to prepare to run business	• Lack of funding • Lack of acumen, experience, or desire to run business • Sibling fairness considerations • Ongoing worry
Employee Stock Ownership Plan	• Tax benefits • Employees retained	• Administrative Compliance • Lower Price
Strategic Buyer	• Viewpoint is of an acquirer • Price based on return rate & market • Purchase 100% of business • Transaction may be financed internally • Brings management expertise • Owner not required to work post transaction	• Limited in latitude regarding pricing & terms • Internal approvals take longer • Potential Loss of Brand Identity • Employees may not be retained
Financial Buyer	• View is of an investor or partner • Market based pricing (competitive) • Flexible - Can purchase less than 100% of company, open to minority recaps • Management integral to transaction • Exit in three to seven years (second payday)	• Likely to have financing contingency • More strenuous reporting requirements • Loss of autonomy if add-on investment

BUSINESS READINESS

- **Financial Reporting**
  - Accurate financial statements for management decisions including interim financial statements and forecast
  - Verification of financial information by independent CPA (audit, review or compilation)
  - Quality of Earnings Report
- **Proper Documentation**
  - Articles of Incorporation / Organization, By-Laws, Board Minutes, insurance policies, contracts, HR records, employee benefit documentation, etc.
  - Environment or regulatory matters

BUSINESS READINESS (*CONTINUED*)

- **Key Valuation Drivers**
  - People – Strong management team with deep bench
  - Earnings / EBITDA
  - Sector / Economic factors
  - Growth prospects clearly articulated
- **Business continuity**
  - Eliminate owner / key man dependency, customer or supplier concentration
  - Management / key employee retention
  - Customer relationships exist at multiple levels and can be transferred
  - Transferrable, scalable systems and processes

KEY TERMS

- **EBITDA:** Earnings before interest expense, taxes, depreciation & amortization (Cash flow available to all capital providers)

  Net income
  +interest expense on long term debt
  + income taxes
  +depreciation and amortization
  EBITDA

- **Total Enterprise Value ("TEV")** = equity + long term debt

- **Pricing multiple** = TEV / EBITDA

- **Equity** = pricing multiple x EBITDA – LT debt

SIZE MATTERS
A BUYER'S PERSPECTIVE

- **Size Matters—(Proxy for Risk / Influencer of Value)**
  - Most strategic and private equity buyers seek companies with EV > $20MM
  - Integration, diligence costs, level of sophistication
  - Market multiples reward larger businesses
  - Greater pricing variance on smaller transactions

SIZE MATTERS
MARKETS REWARD LARGER BUSINESSES

TOTAL ENTERPRISE VALUE (TEV)/EBITDA

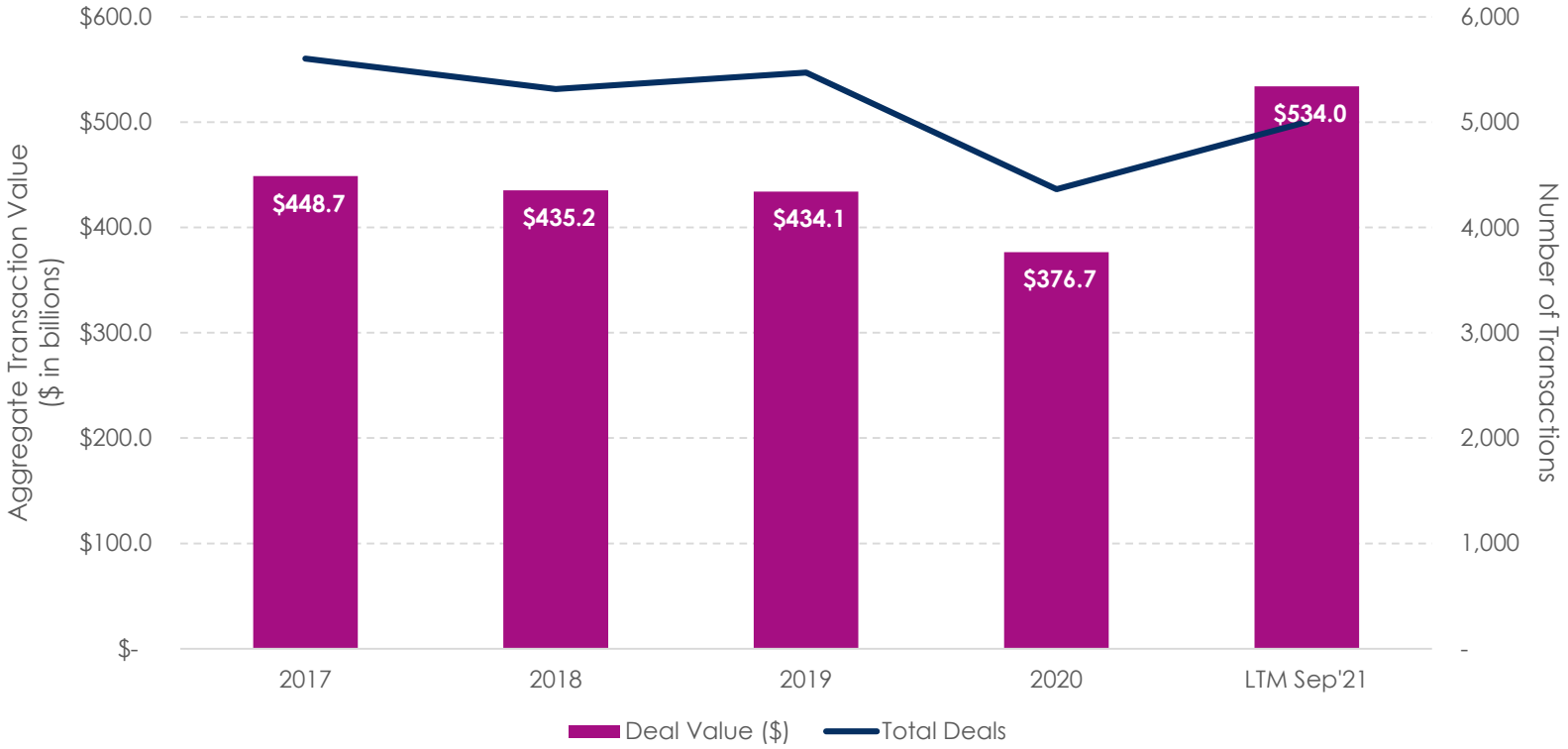
TEV	2003 –2016	2017	2018	2019	2020	YTD 2021	Total	N =
10-25	5.6	6.3	5.9	6.1	5.9	6.0	5.7	1511
25-50	6.2	6.6	6.8	6.9	6.8	6.9	6.4	1152
50-100	6.9	8.2	8.8	7.5	8.1	7.4	7.3	787
100-250	7.7	9.1	8.7	9.4	8.6	7.9	8.1	415
Total	6.2	7.2	7.2	7.1	7.0	6.8	6.5	
N =	2604	269	291	314	313	74		3865

Please note that N for 2003-16 encompasses fourteen years of activity.

Source: GF Data; August 2021

Disclaimer: Some deals do not make it to the finish line. The above numbers are averages. If you take a 7 multiple, there may be a 4 and a 15 used to calculate the average. This means you may get lower results than the above multiples.

MARKET DYNAMICS DRIVING HIGH VALUATIONS



Source: S&P Capital IQ: Transactions ≤ $1B Enterprise Value, September 2021

MONEY, MONEY, MONEY

- There is $3.7 trillion of capital looking for a home. To put this number in perspective, it is more than the combined gross domestic product of Spain ($1.25T) and Italy ($1.85T)[1]
- Private equity fund raising is still robust with over $500 billion raised in each of the past five years
- Private equity is under pressure to deploy its record high $2.44 trillion[2] in un-invested cash
- There is a great deal of cash on corporate balance sheets, approximately $2.4 trillion[3]
- Debt is still cheap and debt coverage ratios are still loose

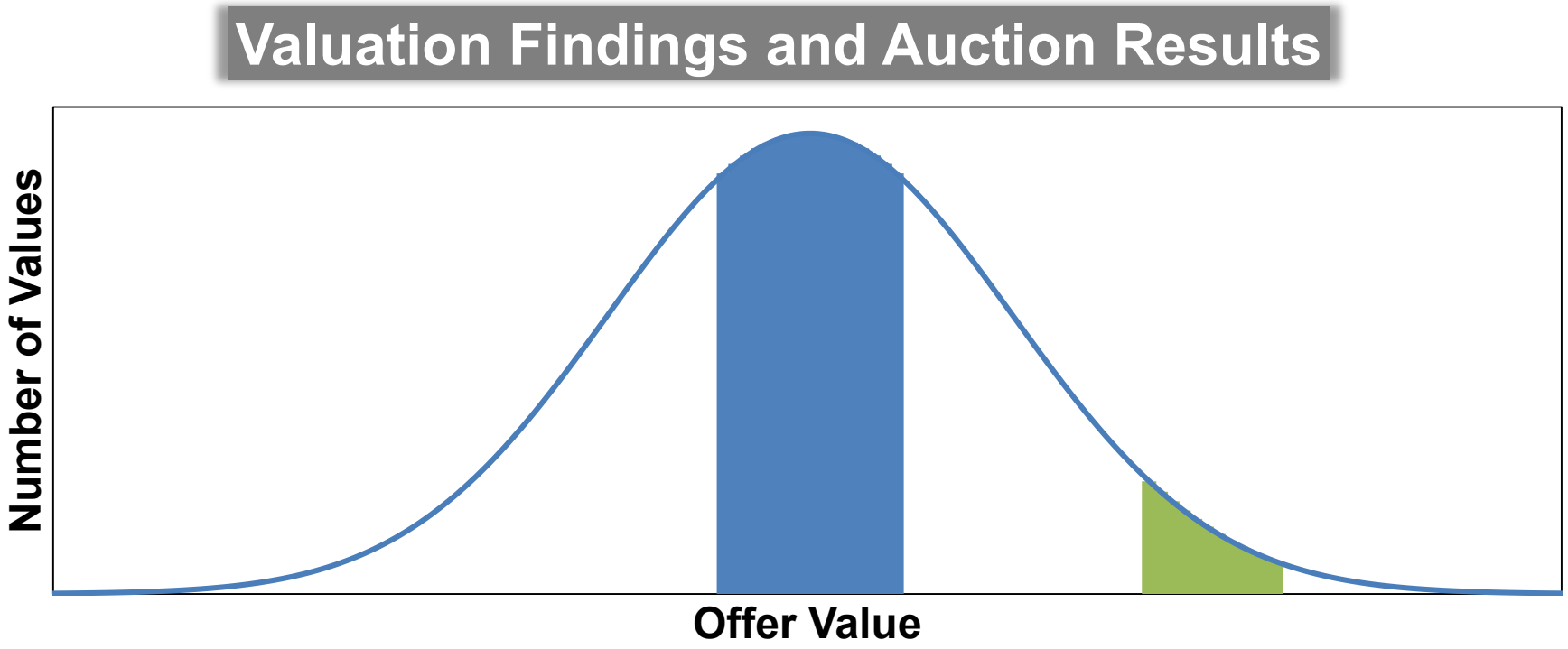
1. International Monetary Fund World Economic Outlook (October 2016)
2. Financial Times (June 26, 2019)
3. Wall Street Journal podcast. S&P 500 non-financials (April 18, 2018)

PROCESS OVERVIEW

Preliminary Measures		Execution	
Preparation	**Marketing**	**Due Diligence**	**Negotiations/Signing**
▪ Establish transaction objectives and parameters ▪ Prepare documentation to provide prospective buyers (CIM, Management Presentation and Data Room) ▪ Create potential buyer list with input from the client ▪ Quality of Earnings	▪ Contact prospective buyers ▪ Sign Confidentiality Agreements ▪ Solicit initial non-binding indications of interest ▪ Consider narrowing the potential buyer list based on the terms of the expressions of interest	▪ Schedule management presentations / open virtual data room ▪ Provide additional detailed financial and operational information ▪ Provide draft/outline of key required terms of Purchase & Sale Agreement ▪ Request "best and final" offers ▪ Select preferred buyer	▪ Sign exclusivity agreement and enter final negotiations ▪ Negotiate terms of the definitive purchase agreement ▪ Regulatory and other approvals ▪ Close transaction
Weeks 1 – 4	**Weeks 5 – 8**	**Weeks 9 – 13**	**Weeks 14 – 18**

Typical sell-side transactions take between 15 – 26 weeks to close.

AUCTION PROCESS RESULTS



The auction process is designed to find those buyers who will pay at the top end of the valuation range or above, and to provide the best overall terms for the Company.

5 BUSINESS SALE DEAL KILLERS

1. Irrational valuation expectations
2. Failure to understand the company's most important asset
3. Business owners believing they can negotiate alone, and refusing to hire and use a strong deal team
4. Believing that pre-sale due diligence isn't worth the time, effort or cost
5. Time is not on your side

PURCHASE AGREEMENT

KEVIN LEFTWICH

PURCHASE DOCUMENTS

- Letter of Intent
- Purchase Agreement
  - Disclosure Schedules
- Rollover Documents
- Employment Contracts
- Real Estate Documents (Purchase, Lease, Etc.)
- Loan Documents
- Ancillary Documents (Bill of Sale, Etc.)

PURCHASE AGREEMENT: DEAL STRUCTURE

- Asset Sale vs. Equity Sale
- Tax Consideration & Planning
- Purchase Price is Usually Presented on a "Cash-Free, Debt Free" Basis
- Working Capital Targets
- Pre-Closing Restructuring

PURCHASE AGREEMENT: REPRESENTATIONS, WARRANTIES & COVENANTS

- Representations & Warranties are a Series of Statements Made by the Seller Regarding the Business (Due Authorization, Title, Compliance, Liabilities, Environmental, Etc.)
  - Fundamental Representations & Warranties
  - Disclosure Schedules
  - Importance of Due Diligence
- Covenants are Forward-Looking Obligations of the Seller (Non-Compete, Non-Solicitation, Non-Disparagement, Etc.)

PURCHASE AGREEMENT: INDEMNIFICATION

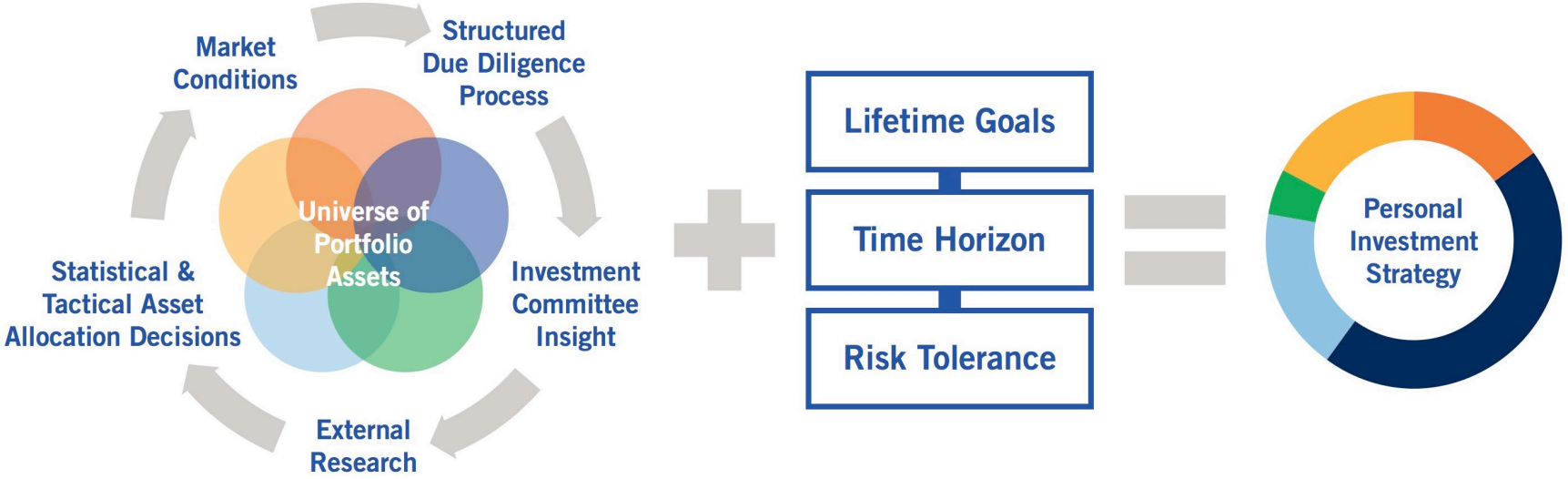
- The Indemnification Section will Stipulate When the Buyer has the Right to "Claw-Back" the Purchase Price
- Survival of Representations & Warranties
- Indemnification Caps
- Baskets
- Escrow
- Rep & Warranty Insurance

INVESTMENT STRATEGIES

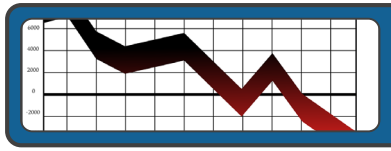
STEPHEN MORGAN

INVESTMENT STRATEGIES CUSTOMIZED TO CLIENT GOALS

- Look for an investment advisor with a disciplined process that makes sense for you
- Asset class diversification can help manage the balance of risk and return
- Your manager should align their process to your goals, time horizon, and risk tolerance in order to develop a personal investment strategy



SPECIAL CONSIDERATIONS IN BUSINESS TRANSITIONS



Concentrated Stock Holdings?

Structured Pay Out Timing

IRS

Tax Management

Future Business Funding?

Coordination with Risk Management

HANCOCK WHITNEY

Chaffe & ASSOCIATES Investment Bankers

SPEAKERS

Frank deVay

Managing Director – Chaffe & Associates

fdevay@chaffe-associates.com

Stephen Morgan

Director, Wealth Portfolio Management
Hancock Whitney

Stephen.Morgan@hancockwhitney.com

John Scott

Certified Exit Planner, Vice President,
Private Wealth Advisor – Hancock Whitney

John.Scott@hancockwhitney.com

Kevin Leftwich

Partner, Ajubita, Leftwich & Salzer, L.L.C.

kleftwich@alsfirm.com

Philip Gordillo

Senior Vice President Regional Wealth
Manager – Hancock Whitney

philip.gordillo@hancockwhitney.com