

UTECH ELECTRONICS



Confidential Information Memorandum

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Individuals in connection with this CIM include:

Adam Guyatt
Managing Partner
Transaction Advisory Services
(905) 597-1702
Adam@grewalguyatt.ca

Claudio Martellacci
Partner
Transaction Advisory Services
289-819-1744
Claudio@grewalguyatt.ca

Grewal Guyatt LLP
1 West Pearce Street
Suite 700
Richmond Hill, ON L4B 3K3
Canada

Tel: (905) 479-1700
Fax: (905) 770-9774
www.grewalguyatt.ca

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Executive Summary

Overview of the Business

Established in 1991 in Uxbridge, Ontario, Utech Electronics fills a critical space in the Canadian market as a specialized distributor of parts and electronic components for surface-mount technology (SMT).

Catering to diverse client requirements with a focus on quality, competitive pricing, and flexible response times, the business excels in servicing original equipment manufacturers (OEMs) and their manufacturing facilities.

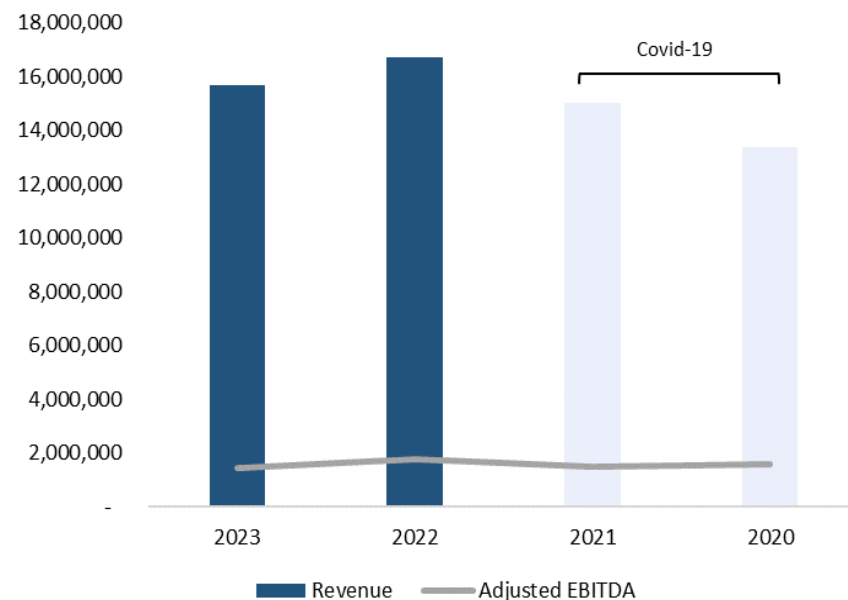
A global supply chain of partnerships with key suppliers enables the business to maintain local inventory to supply its many long-term clients with thousands of inventoried items.

Key Highlights	Information
Address	25 Anderson St., Uxbridge, ON L9P 0C7
Operating Facility	11,900 square feet total, including office and industrial space.
Reason for Sale	Approaching retirement
Employees (excluding owners)	19

Reported Key Financials

	2023	2022	2021	2020
Revenue	15,695,000	16,738,000	15,030,000	13,375,000
Gross Profit	4,241,000	4,546,000	3,642,000	3,304,000
Net Income	1,727,000	2,064,000	1,742,000	1,529,000
Adjusted EBITDA	1,463,000	1,789,000	1,514,000	1,606,000
Reported EBITDA	1,749,000	2,084,000	1,752,000	1,893,000

Revenue and Adjusted EBITDA



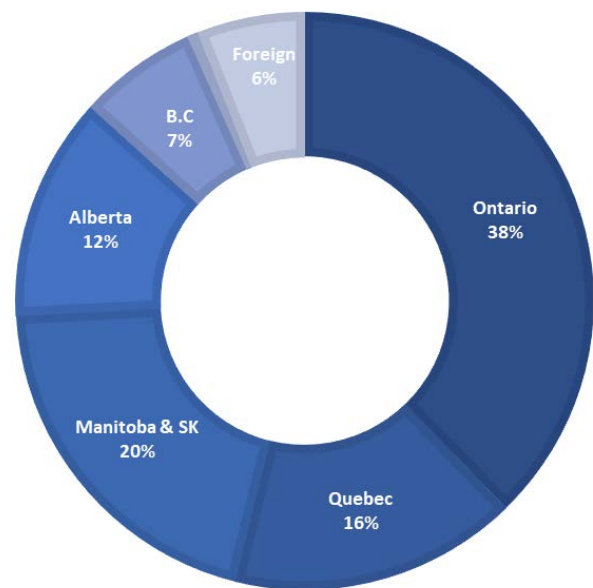
Business Overview

Target Market

Utech’s target market relates to OEMs and their manufacturing facilities. The business has dedicated technical sales representatives across major manufacturing centers across Canada, including Western Canada.

The majority of sales are from Ontario and Quebec, where most Canadian hardware manufacturers are located. The business is also exploring further sales opportunities in both the US and international markets.

The following chart illustrates the geographic sales distribution:



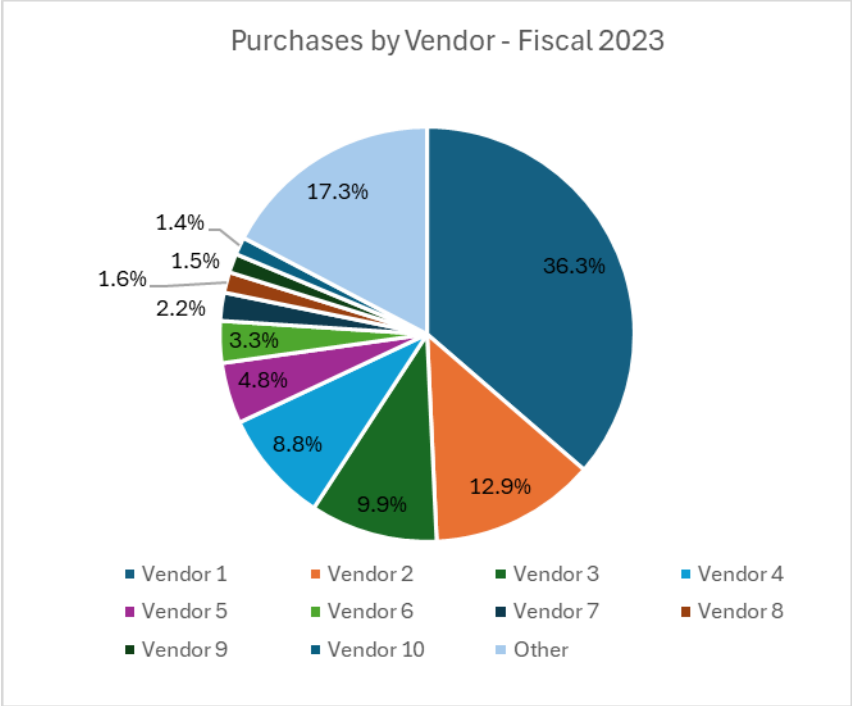
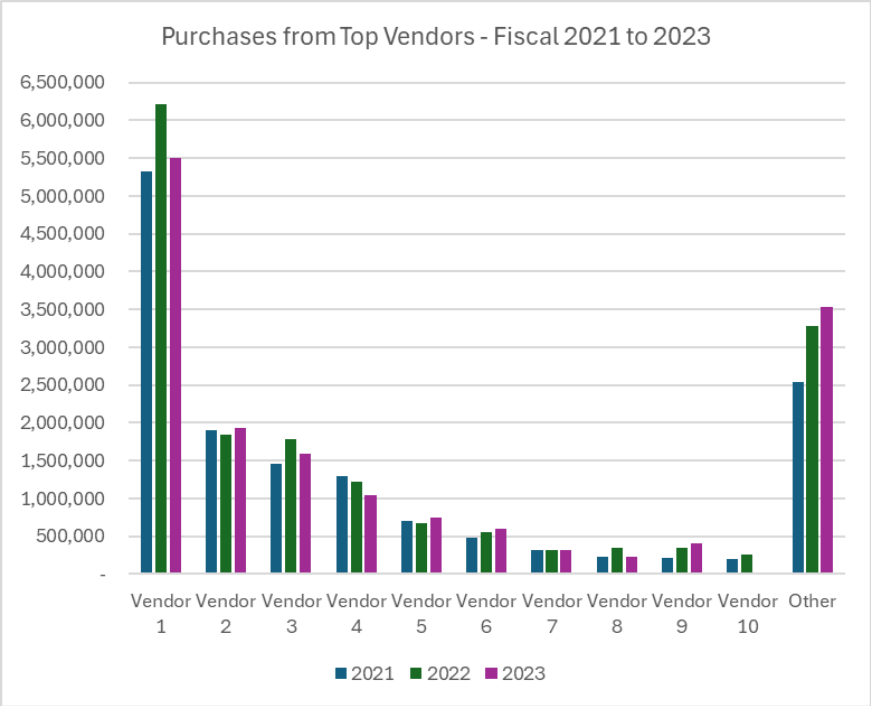
Key Strengths

Factors	Description
Reputation	Strong brand reputation amongst OEMs with respect to the delivery of high-quality products and services, as well as timeliness of service.
Loyal Customers	Key customers have been with the business for many years with annual contractual agreements in place.
Competitive Positioning	Utech distinguishes itself from competitors by maintaining a diverse local inventory, which facilitates faster delivery than competitors, competitive pricing, and technical knowledge of the electronic components held for sale.
Loyal Employees	Loyal, well-trained employees and sales reps with low historical turnover.
Global Supply Chain	Inventory is sourced from a portfolio of global diversified suppliers directly into Canada at a lower-cost than if imported through the US.

Business Overview

Top Vendor Analysis

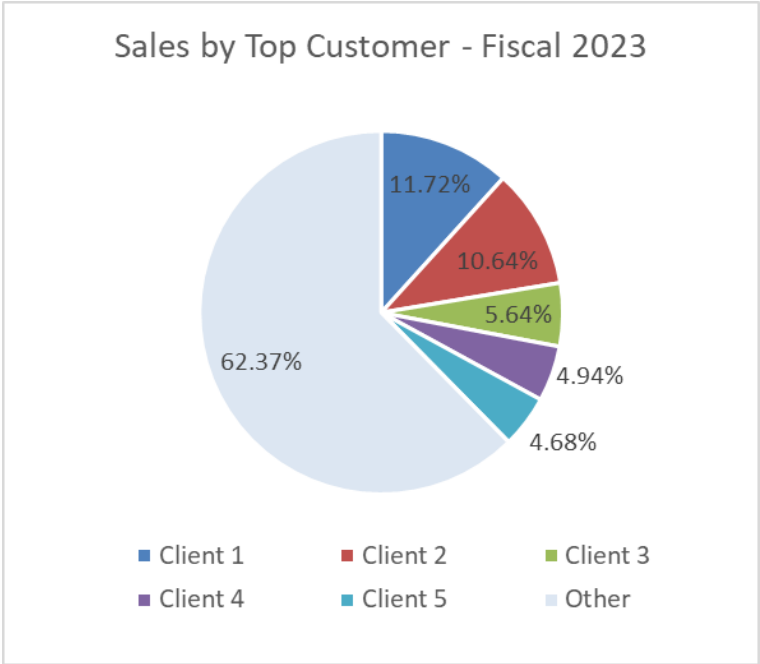
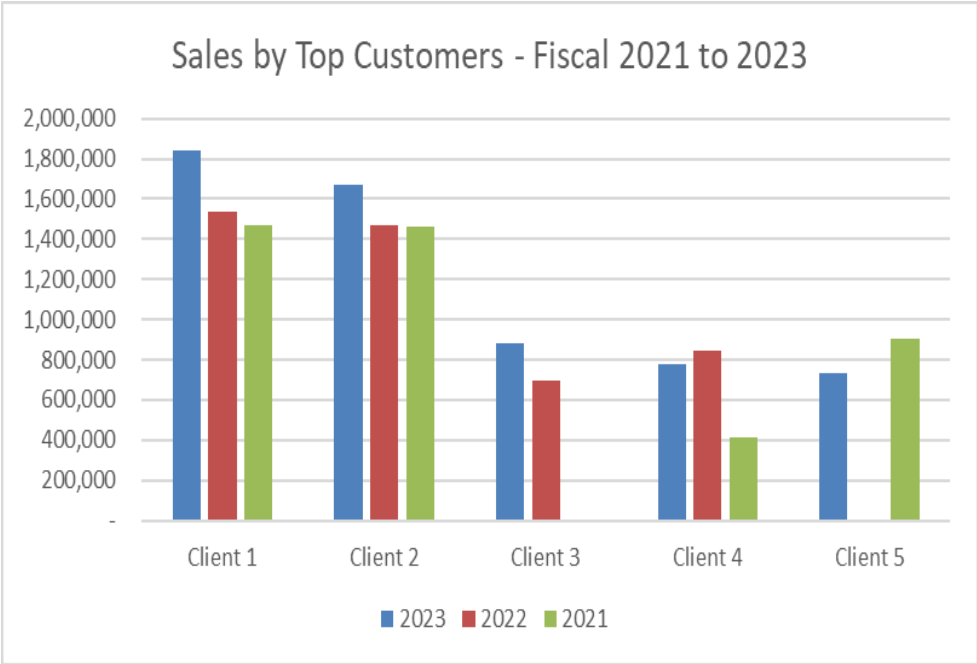
Utech primarily purchases its inventory from ten key suppliers. The majority of the supply agreements renew automatically each year. Purchases from the top vendors by cost for fiscal 2021 to 2023, and by proportion for 2023, have been presented below:



Business Overview

Top Customer Analysis

Utech’s customer base is diversified, with many having twelve-month contractual terms indicating expected pricing and delivery volumes. Sales to the top customers by revenue for fiscal 2021 to 2023, and by proportion for 2023, have been presented below:



Growth Opportunities

The founders have identified several strategies for future growth and have begun taking steps to implement them. The acquiror will also benefit from the strategic oversight provided by the founders during the post-closing transition period.

Major strategies to drive future growth include:

Expansion of Product Offerings

Opportunity to up-sell complementary electronic components and supplies to existing clients by expanding the current line of inventory. Clients typically procure components from multiple suppliers and may benefit from purchasing from a single source that can meet their timing requirements.

Additional Hiring

Recruitment of additional sales representatives in Ontario and Quebec, particularly those with a technical sales background (e.g. certified electronic technologists), to drive greater sales from new, as well as existing clients.

Geographic Expansion

Sales in the United States and Europe currently comprise only 6% of Utech's total revenue. A strong opportunity exists to expand sales to markets outside Canada.

Targeted Marketing Campaigns

The business recently upgraded its website in fiscal 2023, enabling online ordering. An opportunity exists to expand online marketing efforts through search engine optimization, improving the online ordering process, and generating additional awareness of Utech's products.

Available Leverage

The business has access to a TD Bank revolving credit facility of up to \$2.5 million. This enables the business to meet ongoing cash flow obligations, as well as capitalize on opportunities to maximize profitability and expansion opportunities (including those noted above).

Facilities and Employees

Location and Lease

- Head office located at 25 Anderson Blvd. in Uxbridge, Ontario, and consists of approximately 11,900 square feet premises with office and industrial space.
- The property is owned by a corporation controlled by the partners of Utech, who are interested in selling the property along with the sale of the business.

Employees/ Human Resources

- Keith McCrone and Chris Riley are responsible for overseeing the daily operations of the business, including the management of relationships with suppliers and customers.
- The business employs a total of 19 employees, including:
 - 10 dedicated sales representatives across Canada;
 - 4 warehouse workers;
 - 2 accounting personnel; as well as a
 - 2 purchasing managers and 1 website product manager.

Transaction Overview

Buyer Profile

The ideal buyer should have one or more of the following qualities:

- Experience in the distribution of electrical, electronic, or similar components.
- An interest in taking a mature and stable business through the next level of growth.
- Familiarity with servicing OEMs and responsiveness to their requirements to deliver products in a timely manner.
- Ability to manage the logistics of global supply procurement and key supplier relationships.
- For the financial or strategic buyer, the ability to recognize potential cost synergies as well as cross-selling and up-selling opportunities to drive revenue growth.

Sale Details

Reason for Sale: Current owners have been operating the business for over 30 years and are now considering retirement.

Training and Support: The owners are prepared to remain on post-closing for up to twelve months, to assist with the seamless transition of the business.

Type of Sale: Sale of the partnership units or shares of the related holding companies on a debt-free, cash free basis.

Inventory and Working Capital: The operating level of working capital, including inventory will be negotiated and included in the sale price.

Assets: Largely consists of computers, servers, office furniture and equipment. The business also owns certain trademarks and trade names. The Uxbridge property is to be included in the prospective sale of the business.

A complete list of the assets to be included in an eventual sale will be provided, with redundant assets or liabilities extracted beforehand.

Financial Overview

A four-year income statement summary of the business has been presented below:

Income Statement Summary				
For the fiscal year ended November 30,				
	2023	2022	2021	2020
Revenues	\$ 15,695,384	\$ 16,737,900	\$ 15,029,679	\$ 13,374,821
Cost of Sales	11,454,483	12,191,642	11,387,514	10,070,339
Gross Profit	4,240,901	4,546,258	3,642,165	3,304,482
Operating expenses				
Salaries and benefits	1,569,125	1,475,148	1,011,251	983,556
Commissions	454,989	457,178	380,995	357,113
Occupancy	89,076	89,014	86,006	90,894
Freight and delivery	66,679	83,037	70,691	62,214
Consulting fees	63,786	69,388	139,097	59,962
Insurance	60,751	57,680	66,891	41,853
Professional fees	45,184	28,723	17,717	23,400
Office and general	32,971	31,212	28,821	31,848
Telecommunications	24,516	21,979	26,360	27,618
Utilities	22,339	21,534	17,808	17,380
Warehouse	20,111	27,095	21,996	20,397
Amortization of capital assets	19,922	16,092	10,438	7,074
Interest and bank charges	17,766	21,963	16,861	16,672
Interest on bank loan	-	-	-	7,370
Travel and vehicle	17,479	18,677	14,896	17,297
Repairs and maintenance	12,122	10,975	13,774	11,024
Advertising and promotion	7,547	17,423	4,060	17,066
Bad debts (recovery)	(9,975)	35,000	(27,000)	(17,245)
	2,514,388	2,482,118	1,900,662	1,775,493
Net Income	1,726,513	2,064,140	1,741,503	1,528,989
Amortization	19,922	16,092	10,438	357,113
Interest	2,199	3,748	-	7,370
Reported EBITDA	\$ 1,748,634	\$ 2,083,980	\$ 1,751,941	\$ 1,893,472
Gross margin	27.02%	27.16%	24.23%	24.71%
Profit margin	11.00%	12.33%	11.59%	11.43%
Reported EBITDA margin	11.14%	12.45%	11.66%	14.16%

Income Statement Highlights

Revenue

The business observed a decline in revenue in fiscal 2020 due to the impact of the Covid 19 pandemic and ensuing industry slowdown. Revenues recovered in fiscal 2021 and have returned to an upward trend.

Profitability and Margins

Margins have historically been remarkably consistent, with gross margins in the range of about 24% to 27%, and profit margins of 11% to 12%.

Reported EBITDA margins have ranged from 11% to 14% over the four-year period.

Financial Overview

The four-year balance sheet summary of the business has been presented below:

Balance Sheet Summary				
As at the fiscal year end November 30,				
	2023	2022	2021	2020
Assets				
Current				
Cash	\$ 1,243,376	\$ -	\$ 403,048	\$ 973,054
Accounts receivable	3,316,280	2,669,537	2,404,973	1,774,912
Inventory	2,963,904	3,988,073	2,236,091	1,578,012
Prepaid expenses	55,624	68,306	44,310	52,822
Due from related party	1,182,802	1,218,376	1,250,751	1,291,213
	8,761,986	7,944,292	6,339,173	5,670,013
Non-current				
Cash surrender value of life insurance	179,856	167,841	154,787	141,224
Capital assets	154,316	129,218	114,380	81,261
Trademark	10,000	10,000	10,000	10,000
	344,172	307,059	279,167	232,485
Total Assets	\$ 9,106,158	\$ 8,251,351	\$ 6,618,340	\$ 5,902,498
Liabilities				
Current				
Bank indebtedness	\$ -	\$ 912,710	\$ -	\$ -
Accounts payable and accrued liabilities	2,848,927	1,453,905	1,500,271	1,156,045
Total Liabilities	2,848,927	2,366,615	1,500,271	1,156,045
Partners' Equity				
Partners' capital	6,257,231	5,884,736	5,118,071	4,746,453
Total Partners' Equity	6,257,231	5,884,736	5,118,071	4,746,453
Total Liabilities and Partners' Equity	\$ 9,106,158	\$ 8,251,351	\$ 6,618,340	\$ 5,902,498

Balance Sheet Highlights

Liquidity

Strong current ratio of 2.7 for fiscal 2023. Historically, this ratio has ranged from 2.7 to 3.8.

A ratio of 2.0 and above is considered very healthy in this industry, indicating sufficient liquidity to cover its short-term obligations with its current assets.

Receivables and Inventory

Historically, the accounts receivable turnover has been similar to its accounts payable turnover, indicative of cash collections occurring around the same time as suppliers are paid. The business maintains a sizable inventory to fulfill client order requirements on a timely basis.

Leverage and Equity

Debt to equity ratio for fiscal 2023 is zero. The business utilizes a low amount of leverage, placing significantly more reliance on internal financing as its primary capital source. Growing partners' capital reflects profitability over the 30+ years of operation.

Financial Overview

The adjusted EBITDA of the business from fiscal 2020 to 2023 has been presented below:

Adjusted EBITDA	2023	2022	2021	2020
Revenue	\$ 15,695,384	\$ 16,737,900	\$ 15,029,679	\$ 13,374,821
Net Income	1,726,513	2,064,140	1,741,503	1,528,989
<i>Add-back:</i>				
Amortization	19,922	16,092	10,438	357,113
Interest Expense	2,199	3,748	-	7,370
	22,121	19,840	10,438	364,483
Reported EBITDA	1,748,634	2,083,980	1,751,941	1,893,472
<i>% of reported revenue</i>	<i>11.14%</i>	<i>12.45%</i>	<i>11.66%</i>	<i>14.16%</i>
<i>EBITDA Adjustments:</i>				
Rent	10,134	9,935	9,756	9,411
Management salaries	(360,000)	(353,000)	(346,000)	(339,000)
Legal and accounting				
<i>Actual</i>	45,184	28,723	17,717	23,400
<i>Market</i>	(25,000)	(25,000)	(25,000)	(25,000)
Insurance	44,000	44,000	44,000	44,000
Consulting fees	-	-	62,000	-
	(285,682)	(295,342)	(237,527)	(287,189)
Adjusted EBITDA	1,462,952	1,788,638	1,514,414	1,606,283
<i>% of reported revenue</i>	<i>9.32%</i>	<i>10.69%</i>	<i>10.08%</i>	<i>12.01%</i>

Explanation of EBITDA Adjustments

A: Added redundant rent expense pertaining to the Montreal office that is no longer used.

B: Deducted an estimated market value of the services provided by management, since they are remunerated through partner draws.

C: Added actual professional fees incurred and deducted a normalized amount expected in each year.

D: Added the amount of discretionary key person insurance incurred in each year.

E: Added one-time security consulting fees incurred in fiscal 2021.

Based on the adjustments presented above, the adjusted EBITDA has ranged from approximately \$1.46 million to \$1.79 million over the four-year period.

Property Details

General

The business leases its facility located at 25 Anderson Blvd. in Uxbridge, Ontario. The owner is a related company, 2272306 Ontario Inc., which is jointly controlled by Keith McCrone and Chris Riley.



Description of Property

Description of Property

Location:	25 Anderson Boulevard, Uxbridge, Ontario
Legal Description:	LOT 2, PLAN 40M2336, S/T EASEMENT IN GROSS UNTIL 2026 12 08 AS IN DR568402 S/T EASEMENT IN GROSS OVER PT 1 ON PLAN 40R24690 AS IN DR607858 TOWNSHIP OF UXBRIDGE
General Description:	Industrial Building
Date of Construction:	2012
Site Area:	2.00 acres or 87,120 square feet
Site Shape:	Rectangular
Approximate Building Area:	11,886 square feet (Source: MPAC)
Accommodation:	Owner Occupied

Municipal Information

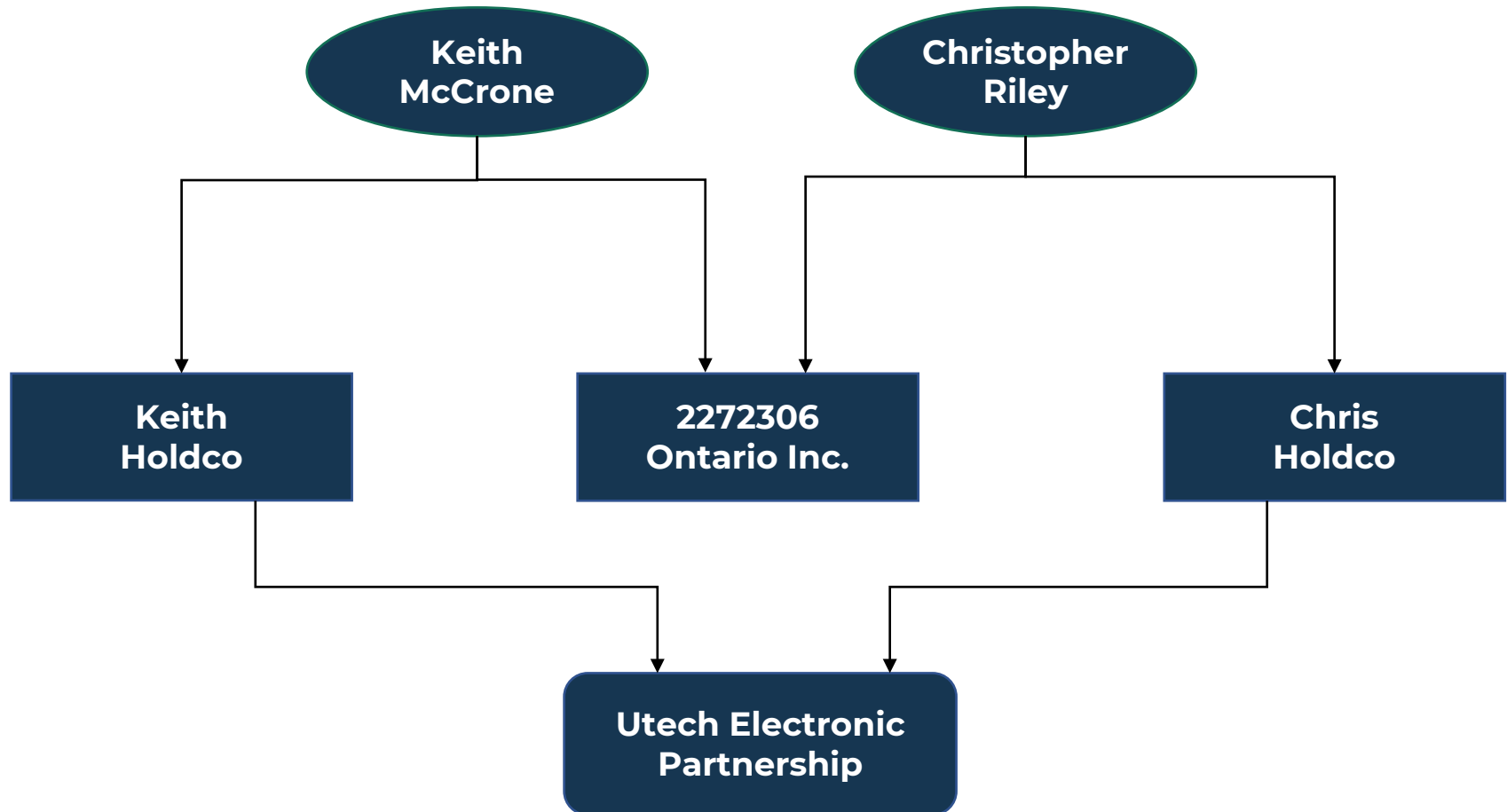
Official Plan Designation:	Industrial
Zoning:	M1- Rural Industrial Zone
Assessment Roll Number(s) & Current Value Assessment(s):	18-290-1000-20051-20000 \$1,470,000

Highest and Best Use

Site As If Vacant:	A future industrial building
Property As Improved:	Continued use of existing improvements.

Organizational Chart

The ownership structure of Utech is presented below:



2272306 Ontario Inc. is jointly controlled by Keith and Chris and owns the real estate from which Utech operates.

Industry Overview

Industry Description

The Electronic Parts and Equipment Wholesaling industry in Canada (NAICs 417320) consists primarily of operators engaged in the wholesaling of new and used electronic components, navigational and communications equipment and supplies. Operators that wholesale computers and related equipment are specifically excluded.

Source: IBISWorld 2023

Industry Performance

Industry revenue has been rising at a CAGR of 2.3% to \$19.2 billion over the five years to 2023. This includes a 1.4% increase in 2023 alone. Growth has been predominantly driven by the rise in consumer spending and corporate profit which has stimulated demand for electronic parts and equipment from both consumers and businesses.

Despite the global economy having been hamstrung by the COVID-19 pandemic, electronic part and equipment wholesalers have benefited in its wake as manufacturers and dealers replenish diminished inventories and stockpile new goods to hedge against future supply chain shortages.

Industry Snapshot

Revenue

\$19.2bn

'18-'23 ↑ 2.3 %

'23-'28 ↑ 1.8 %

Employees

24,771

'18-'23 ↓ 1.0 %

'23-'28 ↑ 1.8 %

Profit

\$402.2m

'18-'23 ↑ 1.4 %

Profit Margin

2.1%

'18-'23 ↓ 0.1 pp

Businesses

1,701

'18-'23 ↓ 0.8 %

'23-'28 ↑ 0.2 %

Wages

\$2.5bn

'18-'23 ↓ 2.5 %

'23-'28 ↑ 1.8 %

Employees per Business

15

'18-'23 ↓ 0.1 %

'23-'28 ↑ 1.6 %

Revenue per Business

\$11.3m

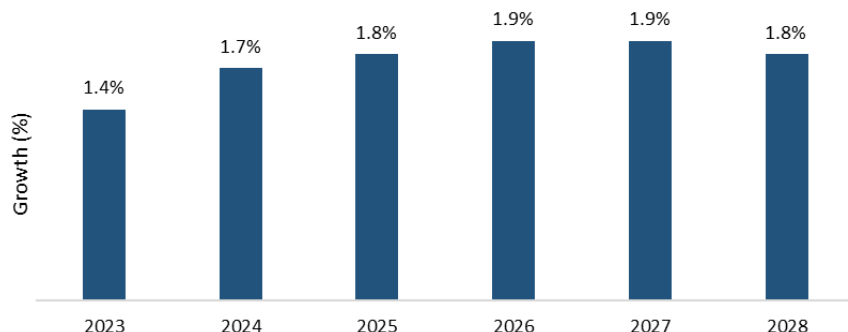
'18-'23 ↑ 3.2 %

'23-'28 ↑ 1.6 %

Industry Overview (Continued)

Industry Forecast

Revenue growth for Electronic Part & Equipment
Wholesaling in Canada



Competition

With a moderate level of competition, the industry is largely fragmented, with the top players generating only 6% of industry revenues in 2023, as follows:

- WESCO International Inc. (\$673m)
- Celestica Inc. (\$164m)
- Arrow Electronics Inc. (\$145m)
- Avnet International Canada Ltd (\$127m)

External Environment



Electronic part and equipment wholesalers enjoy a favorable regulatory environment with minimal direct subsidies, but are supported by private trade associations for collaboration, professional standards, and education.



Electronic component costs are decreasing, driven by technological advancements. This trend makes components more affordable and facilitates their integration into a broader range of products, thus boosting industry demand. Other factors include increasing investment interest in next-generation communication networks, such as 5G networks.



Offshore manufacturing poses challenges to the industry, including component availability and supply chain disruptions. This risk can be mitigated by forming partnerships with offshore manufacturers to ensure a consistent supply of electronic parts and equipment. Ongoing disintermediation will also require industry operators to adapt to changing market conditions.

Appendices

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Definitions

Asset Sale: *[also see Stock/Share Sale]*

The Purchaser acquires all or part of the company's assets; while the Vendor retains the ownership of the company entity (Shares).

Fair Market Value (FMV): *[also see Net Book Value]*

The price at which the business and/or property would change hands between a willing purchaser and a willing Vendor, neither being under any compulsion to buy or to sell and both having reasonable knowledge of the relevant facts.

Gross Margin:

A company's total sales revenue minus cost of goods sold, divided by the total sales revenue, expressed as a percentage. Gross margin is an important measure of a company's profitability.

Net Book Value (NBV): *[also see Fair Market Value]*

NBV is the value at which an asset is carried on a balance sheet. It is the historical cost of an asset minus accumulated depreciation.

Normalized Financial Statements:

Normalized financial statements are financial statements that have been adjusted to eliminate non-recurring and non-business related items.

SDE:

Seller's Discretionary Earnings. SOE is a commonly used valuation multiple for small businesses where the purchaser would most likely be an individual or main street purchaser, who would take on a hands-on approach to working in the business. It is typically EBITDA plus one owner's salary adjusted to FMV.

Definitions

Stock/Share Sale: *[also see Asset Sale]*

The Purchaser acquires all or part of the company's stock/shares and the ownership of the company or specific shares/stocks is/are transferred to the Purchaser. Since the assets of the business are owned by the company and the company is an independent entity and its ownership is represented by the shares/stock, purchasing the shares includes the assets and liabilities of the company unless otherwise specifically excluded.

Working Capital:

Also called net working capital, though there are a number of methods for calculating this, it is traditionally calculated as total current assets minus total current liabilities, excluding interest-bearing debt. Investment in Working Capital in the form of inventory and accounts receivable is necessary to maintain the company's daily operations. Working Capital is a measure of both a company's efficiency and its short-term financial health.

EBITDA:

Earnings before interest, taxes, depreciation and amortization, commonly used as a measure of the cash flow of a business.

Current Ratio:

A liquidity ratio that measures a company's ability to cover its short-term obligations with its current assets.

Accounts Receivable Turnover:

Measures the number of times a company collects its average accounts receivable balance. It is a quantification of a company's effectiveness in collecting outstanding balances from clients and managing its line of credit process.

Contact Information

For more information, you may reach out to the transaction advisors at Grewal Guyatt below:

Grewal Guyatt LLP, Chartered Professional Accountants

Claudio Martellacci

1 West Pearce Street, Suite 700

Richmond Hill, ON

M8V 4A1

Direct: (289)-819-1744

Fax: (905)-770-9774

E-mail: claudio@grewalguyatt.ca

Website: <http://www.grewalguyatt.ca/>

