

VIFLOOR CANADA LTD.



Confidential Information Memorandum

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Executive Summary

Overview of the Business

For over 30 years, Vifloor Canada Ltd. (“Vifloor”) has provided a variety of flooring products including commercial matting and flooring, custom-designed, custom area rugs, broadloom carpeting and carpet tile for projects of all shapes and sizes.

Dedicated in its pursuit towards quality and innovation, Vifloor’s mission is to provide durable, versatile, and aesthetically pleasing flooring, with a mission that aims “to provide flooring for all walks of life”.

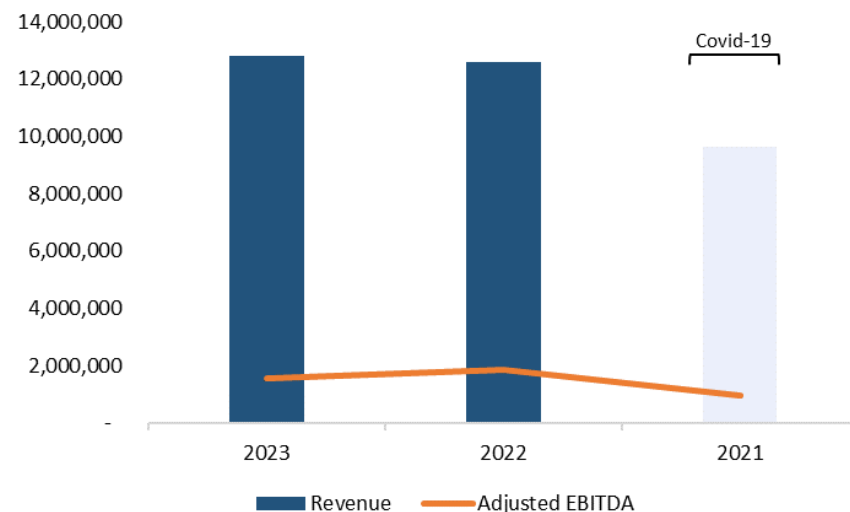
The company serves both commercial and residential markets, with sales across Canada.

| Key Highlights | Information |
|-----------------------------|--|
| Address | 10 Queen Elizabeth Blvd., Unit #1, Toronto, ON M8Z 1L8 |
| Facility | Approximately 23,000 square feet total, including 4,400 sq. ft for the office and show room, and 18,600 sq. ft of warehouse space. |
| Lease | Current rent is approximately \$22,000 a month. |
| Reason for Sale | Eventual retirement. |
| Employees (excluding owner) | 9 full-time, 1 part-time, and 1 contractor. |

Reported Key Financials

| | <u>2023</u> | <u>2022</u> | <u>2021</u> |
|------------------------|-------------|-------------|-------------|
| Revenue | 12,822,000 | 12,606,000 | 9,642,000 |
| Gross Profit | 4,000,000 | 4,244,000 | 3,103,000 |
| Net Income | 1,019,000 | 1,509,000 | 949,000 |
| Reported EBITDA | 1,426,000 | 2,040,000 | 1,314,000 |
| Adjusted EBITDA | 1,550,000 | 1,865,000 | 962,000 |

Revenue and Adjusted EBITDA



Company Overview

Brand Story

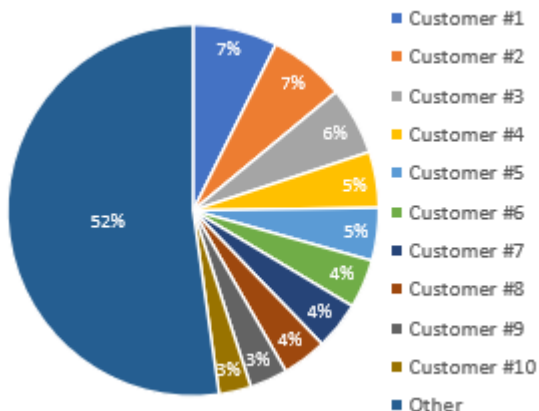
A Toronto-based commercial flooring distributor, Vifloor has served the multifamily, residential, property management, and hospitality markets for over 30 years.

Vifloor promotes exclusive and copyrighted patterned carpets to the architectural, interior design and property management sectors. The attention to detail and personalized services provide clients with an intimate and engaging experience, encouraging clients to return with new opportunities for the company to design solutions that meet their vision.

Years of experience brings unparalleled credibility and professionalism to the company. With thousands of successful projects brought to fruition, Vifloor possesses as much as 40% of the market share in the GTA for certain product categories.

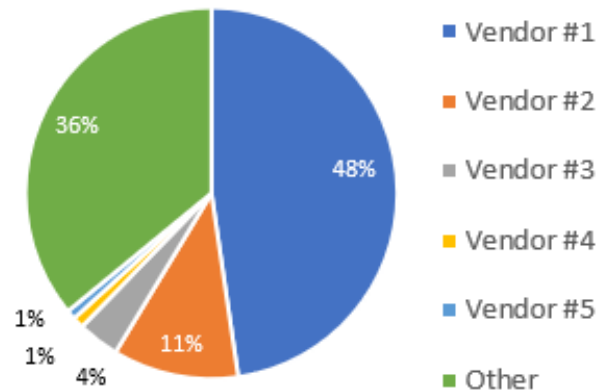
Top Customers

Vifloor's top customers contribute approximately 48% of revenues, and include floor covering contractors, building restoration service providers, and a hotelier. Relationships are not contractual, but are long-standing, with minimal concentration concerns.



Top Vendors

Vifloor's top vendors comprise approximately 64% of its cost of sales and include global carpeting and flooring manufacturers. Two of the top vendors have been serving the business for approximately 30 years, with robust order books, sound payment terms, and limited product claims.



Company Overview (Continued)

Target Market

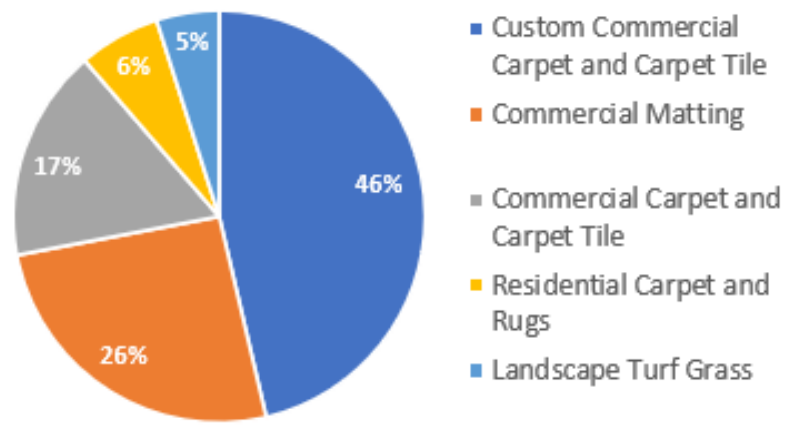
Vifloor’s market consists of sales to the following sectors: commercial property, multi-family high-rise, hospitality providers, residential construction, and senior living.

A dedicated sales team serves distinct geographic regions to serve most parts of Canada. The company generates most of its sales to customers in Ontario.

Products

Vifloor offers the following product lines: commercial matting, commercial flooring, custom area rugs, broadloom carpets, and landscape turf grass.

The company’s current product breakdown is as follows:



Key Strengths

| Factors | Description |
|-------------------------|--|
| Reputation | Vifloor is known for its matting and custom product designs. Over 30 years of operations gives the company deep design knowledge, as well as outstanding credibility among customers. |
| Loyal Customers | After a successful custom project delivery, many enterprise customers return with new project ideas. Relationships with the majority of key customers are strong and long-standing. |
| Competitive Positioning | Vifloor distinguishes itself from competitors with extensive industry and supplier product knowledge through an experienced sales and design team, efficient project implementation and logistics, a focus on customer service and satisfaction, and solid financial footing to take on larger projects. |
| Loyal Employees | Loyal, well-trained employees with low historical turnover. |
| Supplier Relationships | Strong relationships with top suppliers, with the top two having been servicing the business for about 30 years. |

Growth Opportunities

The company's founder has identified several strategies for future growth. The acquirer will benefit from continued strategic oversight provided by Philip ten Kortenaar.

Major strategies to drive future growth include:

| | |
|---------------------------------------|--|
| Expansion of Product Offerings | Opportunity to offer new flooring products and designs to existing customers by investing in and expanding the current offerings. |
| Market Expansion | Marketing exclusive bespoke patterned products to customers in the architectural, interior design, hospitality, and property management sectors. |
| Geographic Expansion | Sales to customers in Ontario comprise a significant portion of total revenues. An opportunity exists to expand sales to markets outside of Ontario. |
| Targeted Marketing Campaigns | Expansion of online marketing efforts through search engine optimization, introduction of online ordering, and other mechanisms may generate additional awareness of the company's products. |
| Additional Hiring | Recruitment of additional, motivated sales representatives, particularly those with a strong sales background, to drive increased sales from new and existing customers. |
| Flooring Installation | An opportunity exists to offer flooring installation services to customers. |

Operations

Location and Lease

- Located at 10 Queen Elizabeth Blvd., Unit #1, Toronto, ON M8Z 1L8
- Operates from an industrial property, approximately 23,000 square feet total, including 4,400 square feet for the office and show room, and 18,600 square feet of warehouse space.
- The current rate of rent is about \$22,000/month. Market rent is estimated to be 40% higher.

Human Resources

- Philip ten Kortenaar is the Owner and Managing Director and oversees day-to-day operations, while managing supplier and customer relationships.
- 10 person staff (nine full-time and one part-time), including office management, sales and design implementation, customer service, inventory and warehouse management.
- One contractor, paid hourly to perform the accounting function.
- All employees are eligible for the company Deferred Profit Sharing Program (DPSP), based on the profitability of the business, as well as a Health Spending Account (HAS).

IT Systems

- QuickBooks Enterprise is the primary accounting system.
- A Salesforce project platform is also utilized from a major supplier to manage their custom projects.

Transaction Overview

Buyer Profile

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

- Experience in the distribution of flooring supplies, including carpeting, tiling, and similar materials.
- An interest in taking a mature and stable business through the next level of growth.
- Ability to leverage technology in creative and strategic pathways to drive growth.
- Familiarity with servicing large wholesale accounts and responsiveness to their custom requirements to deliver flooring supplies 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: The current owner has enjoyed a long a profitable career managing this business. He is now seeking new challenges to devote his time and attention and is looking to transition the business to an interested purchaser with the ability to take it to the next level.

Training and Support: The owner is prepared to stay on and offer full training and cooperation to the prospective buyer to ensure a smooth transition, post-close.

Asking Price: To be negotiated.

Type of Sale: On a debt-free, cash free basis. Structure to be determined.

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 warehouse racking system, lift trucks, cutting machines, air compressor, rug binding and serging machines, pump trucks, showroom racking, display surfaces, office furniture, computer systems, phone system, computers, servers, office furniture and equipment. The business also owns certain trademarks, design copyrights and trade names. 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 summary of the three-year income statement has been presented below:

| Income Statement Summary <i>For the fiscal year ended August 31st</i> | | | |
|--|----------------------|----------------------|---------------------|
| | 2023 | 2022 | 2021 |
| Revenues | \$ 12,821,542 | \$ 12,605,875 | \$ 9,642,077 |
| Cost of Sales | 8,821,087 | 8,361,957 | 6,539,252 |
| Gross Profit | 4,000,455 | 4,243,918 | 3,102,825 |
| Operating expenses | | | |
| Advertising and promotion | 231,183 | 208,916 | 128,199 |
| Amortization | 85,251 | 46,518 | 73,736 |
| Bad debts (recovery) | 360,386 | 53,635 | (110,043) |
| Commissions | 10,639 | 63,944 | 20,892 |
| Computerization | 39,329 | 67,852 | - |
| Interest and bank charges | 41,379 | 38,907 | 37,776 |
| Maintenance and warehouse | 30,887 | 33,375 | 48,395 |
| Occupancy | 327,316 | 292,386 | 281,704 |
| Office and general | 51,015 | 40,402 | 56,067 |
| Professional fees | 130,800 | 71,598 | 160,971 |
| Salaries and benefits | 1,229,832 | 1,286,211 | 1,138,029 |
| Telecommunications | 10,419 | 9,263 | 10,201 |
| Travel | 83,326 | 11,934 | - |
| Vehicle | 28,666 | 28,651 | 20,696 |
| | 2,660,428 | 2,253,592 | 1,866,623 |
| Operating Income | 1,340,027 | 1,990,326 | 1,236,202 |
| Other income | - | - | - |
| Income Before Taxes | 1,340,027 | 1,990,326 | 1,236,202 |
| Income taxes | (321,297) | (481,498) | (287,593) |
| Net Income | 1,018,730 | 1,508,828 | 948,609 |
| Amortization | 85,251 | 46,518 | 73,736 |
| Interest expense | 465 | 3,469 | 4,283 |
| Income taxes | 321,297 | 481,498 | 287,593 |
| Reported EBITDA | \$ 1,425,743 | \$ 2,040,313 | \$ 1,314,221 |
| <i>Gross margin</i> | <i>31.20%</i> | <i>33.67%</i> | <i>32.18%</i> |
| <i>Income before taxes margin</i> | <i>10.45%</i> | <i>15.79%</i> | <i>12.82%</i> |
| <i>EBITDA margin</i> | <i>11.12%</i> | <i>16.19%</i> | <i>13.63%</i> |

Income Statement Highlights

Revenue and Gross Margins

Revenue has been increasing since fiscal 2021, after decreasing due to the pandemic. Gross margin has remained stable, as cost of sales increased proportionally with revenue. Average gross margins per product category:

- 1) Custom Commercial Carpet and Carpet Tile: 25%-30%;
- 2) Commercial Matting: 45%;
- 3) Commercial Carpet and Carpet Tile: 25%;
- 4) Residential Carpet and Rugs: 40%;
- 5) Landscape Turf Grass: 25%.

Operating Expenses

Operating expenses increased in the past three years, due to a one-time bad debt from a customer, as well as higher occupancy expenses, professional fees, travel expenses, and salaries expenses, contributing to a lower operating income in fiscal 2023.

Profitability

Over the preceding three-year period, pre-tax income margins were between 10.5% and 15.8%. Reported EBITDA margins have fluctuated from 11.1% to 16.2% in the same period.

Financial Overview (Continued)

The three-year balance sheet summary of the company has been presented below:

| Balance Sheet Summary | | | | |
|---|---------------------|---------------------|---------------------|--|
| As at the fiscal year end August 31st | | | | |
| | 2023 | 2022 | 2021 | |
| Assets | | | | |
| Current | | | | |
| Cash | \$ 1,682,504 | \$ 1,908,888 | \$ 2,542,173 | |
| Accounts receivable | 786,799 | 1,362,523 | 1,284,894 | |
| Inventory | 549,996 | 736,572 | 561,388 | |
| Income taxes receivable | 77,723 | - | 87,407 | |
| Prepaid expenses | - | - | 9,520 | |
| Due from related party | 17,472 | 114,410 | 106,315 | |
| | 3,114,494 | 4,122,393 | 4,591,697 | |
| Non-current | | | | |
| Property, plant and equipment, net | 155,805 | 172,281 | 188,968 | |
| Investment in subsidiary | 1 | 1 | 1 | |
| | 155,806 | 172,282 | 188,969 | |
| Total Assets | \$ 3,270,300 | \$ 4,294,675 | \$ 4,780,666 | |
| Liabilities | | | | |
| Current | | | | |
| Accounts payable and accruals | \$ 1,433,512 | \$ 1,844,387 | \$ 1,820,832 | |
| Due to related party | 1,763,220 | 2,353,220 | 2,876,824 | |
| Income taxes payable | - | 22,230 | - | |
| Total Liabilities | 3,196,732 | 4,219,837 | 4,697,656 | |
| Shareholder's Equity | | | | |
| Share capital | 121 | 121 | 121 | |
| Retained earnings | 73,447 | 74,717 | 82,889 | |
| Total Shareholders's Equity | 73,568 | 74,838 | 83,010 | |
| Total Liabilities and Shareholder's Equity | \$ 3,270,300 | \$ 4,294,675 | \$ 4,780,666 | |

Balance Sheet Highlights

Liquidity and Leverage

Healthy current ratio of 2.20, with historically consistent amount of cash on hand to cover liabilities.

Working Capital

The accounts receivable turnover has increased from fiscal 2021, requiring an average of only 31 days to collect receivables in fiscal 2023. The receivables turnover is greater than the payables turnover, allowing for a strong cash conversion cycle, and thus better utilization of cash on hand.

Equity and Leverage

Low retained earnings due to sizable year-end dividend paid out to owner. In the period under review, the company has not assumed any commercial loans. The business has relied on internal financing and advances from related parties as a source of capital for growth.

Memorandum

Financial Overview (Continued)

The Adjusted EBITDA of the company has been presented below:

| Adjusted EBITDA | 2023 | 2022 | 2021 |
|------------------------------|----------------------|----------------------|---------------------|
| Revenue | \$ 12,821,542 | \$ 12,605,875 | \$ 9,642,077 |
| Net Income | 1,018,730 | 1,508,828 | 948,609 |
| <i>Add-back:</i> | | | |
| Amortization | 85,251 | 46,518 | 73,736 |
| Interest Expense | 465 | 3,469 | 4,283 |
| Income Taxes | 321,297 | 481,498 | 287,593 |
| | 407,013 | 531,485 | 365,612 |
| Reported EBITDA | 1,425,743 | 2,040,313 | 1,314,221 |
| <i>% of reported revenue</i> | <i>11.12%</i> | <i>16.19%</i> | <i>13.63%</i> |
| <i>EBITDA Adjustments:</i> | | | |
| Advertising and promotion | 42,785 | 31,005 | 9,547 |
| Rent | | | |
| <i>Actual</i> | 310,307 | 277,963 | 266,660 |
| <i>Market</i> | (434,000) | (425,000) | (417,000) |
| Legal fees | | | |
| <i>Actual</i> | 67,172 | 5,580 | 119,391 |
| <i>Market</i> | (10,000) | (10,000) | (10,000) |
| Bad debts | | | |
| <i>Actual</i> | 360,386 | 53,635 | (110,043) |
| <i>Market</i> | (10,000) | (10,000) | (10,000) |
| Management salaries | | | |
| <i>Actual</i> | 140,000 | 280,000 | 280,000 |
| <i>Market</i> | (392,000) | (385,000) | (378,000) |
| Travel expenses | | | |
| <i>Actual</i> | 83,326 | 11,934 | - |
| <i>Market</i> | (45,000) | (45,000) | - |
| Automobile expenses | 7,000 | 7,000 | 7,000 |
| CEWS subsidies | - | - | (101,745) |
| Computerization | | | |
| <i>Actual</i> | 39,329 | 67,852 | 26,670 |
| <i>Market</i> | (35,000) | (35,000) | (35,000) |
| | 124,305 | (175,031) | (352,519) |
| Adjusted EBITDA | 1,550,048 | 1,865,282 | 961,702 |
| <i>% of reported revenue</i> | <i>12.09%</i> | <i>14.80%</i> | <i>9.97%</i> |

Explanation for EBITDA Adjustments

The adjustments to net income to arrive at Adjusted EBITDA are as follows:

- A. Advertising expense includes discretionary donations and sponsorships.
- B. Market rent is estimated at 40% greater than the current rate.
- C. Legal fees were non-recurring and due to a non-payment by a customer.
- D. Historically bad debts did not exceed \$10,000. Prior year write-offs and recovery related to one customer, under active recovery efforts.
- E. Adjusted the CEO's salary to a market rate, as well as the office manager, which is a role currently fulfilled by the spouse.
- F. Business related travel on average should not exceed \$45,000 a year.
- G. Personal use automobile expenses.
- H. Non-recurring Covid-19 subsidies received.
- I. Adjustment for IT related expenses incurred to upgrade existing infrastructure.

EBITDA Highlights

Based on the adjustments to net income presented above, we highlight that Reported EBITDA and Adjusted EBITDA have improved since fiscal 2021.

Industry Overview

Industry Highlights

As of 2023, the flooring industry generated a combined revenue of \$3 billion. The industry has extremely low concentration with the 4 largest operators taking up only 0.4% of the market share. In 2023, average profit margin of the industry was 3.5%.

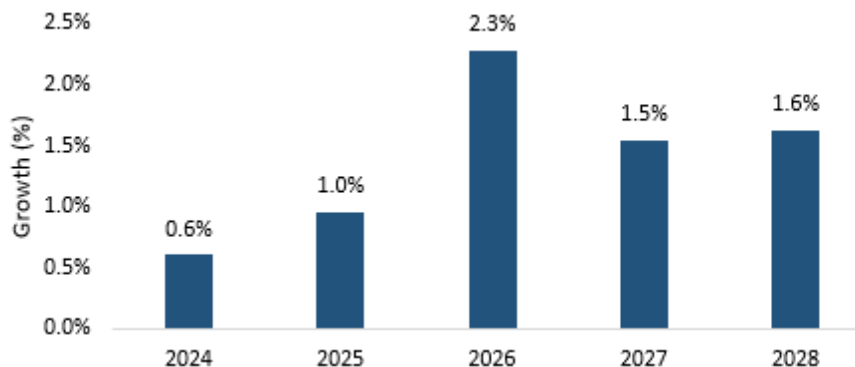
The sale of floor coverings is strongly linked to new home construction and disposable income. New housing starts fell in 2023, but is expected to climb back in 2025. Per capita disposable income and residential renovation expenditure are expected to rise, creating a favourable environment to drive industry revenue growth.

Customers can switch between wholesalers, but doing so can be both cost and time-sensitive, which makes it less likely to occur. Consequently, wholesale demand remains more “sticky” than it does for retailers.

Small, local retailers are expected to leave the market as larger retailers expand their reach to homeowners and contractors. Wholesalers are critical to responding to market demand, which gives wholesalers more power to dictate prices and terms.

Revenue Growth for Flooring Providers

Over the next 5 years, industry revenue growth is expected to be in the 1%-3% range. Although historically having a below GDP growth rate, the industry also enjoys low volatility.



Source: IBISWorld 2024

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:

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