

# **Half & Full Private Equity Assignment**

Commerce 4FV3: Venture Capital

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*Group Members:*

<b><u>Name</u></b>	<b><u>E-mail</u></b>	<b><u>Student Number</u></b>
Ciaran Downie-Cheetham	downiecc@mcmaster.ca	400148642
Stefano Ammaturo	ammatur@mcmaster.ca	400193805
Aditya Advani	advania@mcmaster.ca	400160881
Pavan Banger	bangerp@mcmaster.ca	400197998
Yash Dosaja	dosajay@mcmaster.ca	400234544

## Question 6

(6A) From Question 5, we can see from the post-money capitalization table that the total value of all total shares owned by investors is \$14,000,000. Since Jennifer believes that Buyouts V would place a high enterprise value on the firm, and that the company had no debt, we can assume that Buyouts V would place a premium of about ~40% on the company, bringing its value to approximately \$20,000,000. Since the proposed buy-out is an all-cash transaction, with a 5-year time horizon, and their history of traditionally requiring a 20% net IRR, we can calculate the following:

- \$20,000,000 in private equity funds raised
- \$2,000,000 in funds reserved for fees (See below:)

Private equity funds raised =		\$ 20,000,000.00		
Time horizon =		5.00	years	
Annual management fees =		2.00%		
Funds reserved as cash for management fees =		\$2,000,000.00	cash discount	0.00%
Funds available for investment =		\$ 18,000,000.00		
Carried interest =		20.00%	performance fees	

Where “funds reserved as cash for management” fees is a PV formula using interest rate of 0%, time horizon of 5 years, and payment annuity of 2% management fees of \$20,000,000 in funds raised.

- \$18,000,000 in funds available for investment (\$20,000,000 - \$2,000,000)
- \$37,208,000 in required portfolio profits to meet IRR requirements (See below:)

<b>Portfolio</b>						
Required return by the limited partners		20.00%	20.00%	20.00%	20.00%	20.00%
LP's cash flow	\$ (20,000,000.00)					\$ 49,766,400.00
LP profits after paying carried interest						\$ 29,766,400.00
Carried interest for the general partner (GP)						\$ 7,441,600.00
<b>LP profits + carried interest (= required portfolio profits)</b>						<b>\$ 37,208,000.00</b>
Total required sale price of the portfolio						\$ 57,208,000.00
Investment in the portfolio						\$ 18,000,000.00
<b>Required IRR (annualized return required for the sale price to be realized)</b>						<b>26.02%</b>
Required multiple of original investment						<b>3.18</b>

- Where LP's cash flow grows at 20% year over year over the 5-year time horizon.
- Where carried interests for the GP is 20% of \$29,766,400 = \$7,441,600
- Where LP profits + carried interest (req. portfolio profits for deal-level) is the sum of the two.

And therefore for Buyouts V:

- Deal-level required IRR: **26.02%**
- Deal-level required multiple of investment: **3.18**

(6B) If Buyouts V projects that it is unable to meet its objective of 20% net return over the 5-year time horizon for its Limited Partners, then it's likely that the General Partners would receive pressure from its investors to cut their losses in a distressed sale, limiting any long-term equity losses by recovering as much cash as possible immediately. Then, to use any recovered cash to pursue other investments that are able to meet the company's deal-level required IRR.

## **Question 7**

(7A) Full LBO in the Appendix, see **Exhibit D-F**.

Given that Buyouts V is seeking a deal-level return of 25% per year over a 5 year period we can compute the present value of their investment from the end of the 5-year period to determine the total EV they should be willing to pay today. Sale of the company will take place at the end of year 5 at 6x forward EBITDA, or 2016 EBITDA. In the year before the deal (2010), EBITDA will be 6.4 MM, growing for 6 periods at 12.5%, we get a forward EBITDA of 12.974 million. This places the exit EV at 77.847 million (Exhibit D).

Buyouts V will sell their total stake and receive any cash on the balance sheet plus equity value leftover after removing the remaining outstanding debt. Next, Buyouts V will receive 92% of the aforementioned value as 8% of total ownership is held by employees.

Given that Buyouts V requires there to be at least 2 million in cash on the balance sheet at all times, and that there will be none at the beginning of the transaction, they will have to move this amount at the onset of the transaction. Because of this, they will only be able to pay off 293 thousand in principal in the first year of the transaction as the remaining funds are sent to the balance sheet. This cash balance will continue to accrue interest every year until they exit the

deal. After the 2 million requirement has been met, all remaining cash in subsequent years will be used to pay down the principal on the senior deb (Exhibit E).

At the end of 2015, Half & Full will have an EBITDA of 11.533 million, a FCFF of 5.622 million of which 1.301 million will be used to pay interest. The remaining funds will all be used to pay down the remaining senior debt (4.021 million). See Exhibit E for full calculations. At the beginning of the transaction, Buyouts V will issue 25.2 million total debt, 14.4 million in senior and 10.8 million in subordinated debt. These are calculated by multiplying the 2011 EBITDA (7.2 million) by 2x and 1.5x respectively. In 2015, the senior debt will be fully repaid so the only debt remaining on the balance sheet will be the 10.8 million in subordinated debt, as there is no prepayment option. See Exhibit E for complete Debt Schedule. After the last 4.021 million is paid off on the senior debt, the remaining 754 thousand will flow to the balance sheet. 2015 total cash flow to equity is 781 thousand. At exit, there will be 2.86 million in cash on the balance sheet, equating to a Net Debt of 7.939 million (10.8 - 2.86).

With an exit EV of 77.847 million and a Net Debt of 7.939 million, the remaining value to shareholders is 69.908 million. 92% of this value is 64.315 million, which is what is available to Buyouts V after the sale of Half & Full and the employees' options are exercised.

Given a 5 year term and a target IRR of 25%, Buyouts V should pay no more than the present value of their exit amount. This comes to 21,075,058. Because there are no financing costs or transaction fees, Buyouts V should pay no more than **21.075 million** for Half & Full (Exhibit F).

From Question 5 we know that the price per share based on the second round of VC investment is 0.75 with a post-money share count of 18,664,521. So the maximum price that Buyouts V can pay per share to the old investors is **\$1.13** (18,664,521/18,664,521). The multiple of investment is **3.05** (64.315 million/21.075 million). See full LBO model in Exhibit D-F.

## **Question 8**

(8A) Based on a purchase price of 21,075,058 as calculated in the previous section, we can compute the Internal rate of return (IRR) as well as the multiple of investment for Buyout V. By means of sensitivity analysis by altering the EBITDA growth, exit multiple as well as the multiple of senior and subordinated debt, we are able to determine the effect of these variable on the IRR and Multiple of Investment.

To begin, when the EBITDA growth is reduced by 5%, from 12.5% to 7.5%, essentially this change represents a decrease in the year over year growth of EBITDA. The Multiple of Investment begins at 3.05, and reduces to 2.16, this figure is computed by dividing the Exit value to Buyout V by the Present value of this. At the same time the IRR moves down from Buyouts Vs target IRR which is 25% to 16.7%.

On the other hand, when the EBITDA growth is increased from 12.5% to 17.5%, we can compute the new Multiple of investment as 4.16, a 1.11 increase from the initial value of 3.05. Whereas the IRR has increased significantly to 33% from the initial value of 25, this represents a steep 8% rise in IRR.

When the exit multiple is reduced from 6x to 5x the IRR and multiple of investment follow; this change showed a change in IRR from 25% to 20.0%, and at the same time the multiple of investment is reduced by 0.57 from 3.05 to 2.49. While this change isn't as significant in comparison to the reduction of EBITDA growth, it is nevertheless significant.

Where as an increase in the exit multiple from 6x – 7x displays a increase in the IRR by 4.33% from 25% to 29.33%, the multiple of investment decreases increases from 3.05 to 3.62 a 0.57 increase, related to the previous analysis where we decreased the exit multiple by the same proportion.

When we manipulate the subordinated debt and the senior debt we see similar sensitivity as we did in the previous variations, when senior debt and subordinated debt is equated to 2.5x and 2X

respectively, the change in multiple of investment is represented by a 0.4 decrease, from 3.05 to 2.65. The IRR also decreases from 25% to 21.54%.

Decreasing senior debt and subordinated debt to 1.5x and 1X respectively, we see a proportionate change to both IRR and Multiple of Investment as in the previous manipulation. With the Multiple of investment increasing from 3.05 to 3.45 or a 0.4 increase. Whereas the IRR increases from 25% to 28.10% represented a change of 3.1%.

(8B) The IRR is most sensitive to an increase or decrease in the EBITDA growth percentage, with a decrease in the EBITDA multiple from 12.5 to 7.5 resulting in the largest change in IRR, reducing it by 8.3% from 25% to 16.7%. Given a far lower IRR when the EBITDA growth percentage is reduced Buyout Vs can determine that if the company's growth rate were to decrease additional debt may have to be used in the purchase, this knowledge may allow Buyout V to ensure their risk is managed as even a small decline in EBITDA may result in them having a lower return due to taking on more debt than initially expected. In addition to this Buyout V can use this information when setting management goals, to maintain a preferred EBITDA growth rate and IRR they should ensure their costs are not rising, rather decreasing or consistent, and that they maintain strong consistent cash flows. This will maintain a strong IRR throughout.

## **Question 9**

(9A) See Exhibit A for the post money capitalization table of Half & Full and calculations of the Angels and VC's ownership. See Exhibit B for calculation of proceeds, profit, investment multiple and IRR for each shareholder, assuming Burlington does not convert their Series A & B preferred shares. See Exhibit C for calculation of proceeds, profit, investment multiple and IRR for each shareholder, assuming Burlington converts their Series A & B preferred shares.

(9B) Burlington A: Burlington's Series A shares result in the VC firm to realize a profit, investment multiple, IRR and proceeds as seen in Exhibit B and C. As can be seen, it would be in Burlington's best interest not to convert their series A shares, as they would realize a 2% higher IRR if they don't. In either case, Burlington series A shares realize the firm the highest dollar profit compared to the other shareholders. This is expected though, as they invested the most amount of money. It's interesting to note, however, that when they don't convert their shares, the IRR on their series B shares are much higher than the IRR on their series A shares. This is most likely due to the liquidation preference given to their series B shares in the case they do not convert.

Burlington B: Burlington's Series A shares result in the VC firm to realize a profit, investment multiple, IRR and proceeds as seen in Exhibit B and C. As can be seen, it is in Burlington's best interest not to convert their series B shares as they would realize a 29% larger IRR compared to if they converted. As mentioned above, this is mainly due to the liquidation preference agreed upon in the term sheet. When creating the deal, Burlington specified they wanted an IRR of just above 60%. As seen in Exhibit A, this was actually 62.43%. This was calculated based on market value projections of Half & Full, specifically, it having a market value of \$60,000,000 at the time of exit. However, when Buyouts V purchased Half & Full for \$41,500,000, this caused the IRR on Burlington's series B shares to be much less than desired in the case where they do convert. When they don't convert, they actually realize an IRR larger than desired.

Overall, it would be in Burlington's best interest not to convert either of their series A nor series B shares.

Angels: The Angels realize the lowest return out of all the shareholders. Requiring an IRR of 70%, with Buyouts V purchasing the company for \$41,500,000 they actually realized an IRR of less than half of what they wanted. Because they had the least amount of ownership in the company, their dollar profit was also the lowest out of all the shareholders.

Uncle: The uncle made the best investment out of all the shareholders. He realized the highest IRR. This makes sense as he got into the company early and his investment had a lot more time

to grow. Since the company was in its earliest stages, he invested with the most risk and was awarded proportionally.

Half & Full: Half & Full both received a great return as well. Being the founders of the company, they had the most time for their investment to grow and owned a solid piece of the company. They realized one of the highest IRR's out of all the shareholders and had the highest investment multiple.

### **Question 10**

(10A) By increasing the borrowing of senior debt from a 2x EBITDA multiple up to a 2.5x 2013 multiple and increasing the subordinated debt to a 2.0x 2013 EBITDA multiple, Buyout V was presented with an opportunity to recapitalize Half and Full at the end of 2013. The interest rates stayed the same, along with adding a cash dividend by taking the sum of the net new proceeds. By adding the respective EBITDA multiples into the model at the end of 2013, this increases the new principal balance which re-evaluates the ending balance for debt payments. This can be seen in exhibit G.

In detail, the exit enterprise value remained the same at the end of 2015 at \$77.84M, given the 6x forward EBITDA multiple exit. However, the exit equity value has decreased since the company is now paying nearly 3x more in net debt because of the adjustments made in 2013. As a result, the exit value to Buyout V by accounting the 92% of ownership,  $\$45,676,666 \times 92\%$  gives us an aggregate dollar exit proceeds at \$42,022,533. Furthermore, calculating the aggregate dollar exit profit, we factor in the sum of the net new proceeds, which accounts for the cash dividends declared that equals \$22,175,949, and calculate the dollar exit profits of \$22,698,483. The multiple of investment is also adjusted by factoring in the newly declared dividends to arrive at a 1.54 multiple of investment and the IRR of the new cash flows is 30.82%. See below.



Exit Valuation (2015)	2010	2011	2012	2013	2014	2015	2016
Sale Multiple	6.0x						
Exit Enterprise Value						77,847,803	
Exit Equity Value						45,676,666	
<b>Ownership</b>							
Company Employees	8.00%						
Buyouts V	92.00%						
Exit Value to Buyouts V						42,022,533	
Target Deal-Level IRR	25.00%						
Investment Term (Years)	5						
Present Value Buyouts V (Disc. 25%)	\$13,769,943.62						
<b>Cash Flows:</b>							
	2010	2011	2012	2013	2014	2015	
	(41,500,000)				22,175,949		42,022,533

Aggregate Dollar Exit Proceeds:	42,022,533
Aggregate Dollar Profit:	
Purchase Amount:	41,500,000
Dividend:	22,175,949
Exit Value:	42,022,533
Profit:	22,698,483
Multiple of Investment:	1.5470
IRR:	30.8322%

(10B) The original multiple of investment is 3.05, and with the adjustments made in 2013, the multiple of investment dropped to 1.54. Additionally, the original IRR was 16.69%, with the new IRR reaching 30.82%, exceeding the target deal-level IRR value of 25%. The multiple of investments value is computed by dividing the exit value to Buyout V and the purchase price of 41.5 million . (Original projections = \$64,198,483/\$41,500,000 to reach a 1.547 multiple of investment). The new projections multiple of investments is accounting for dividends, by taking the sum of the exit value and dividends and dividing it by the new purchase amount to achieve a lower multiple of investment. Given that the newly projected IRR at 30.82% exceeds the deal-level IRR, the projections may seem attractive, however the IRR of the cash flows is disrupted with the debt multiples being adjusted half-way through. The exit value Buyout V receives is also far less then the value of the original projections. Therefore, the original projections seem to have been more attractive, even though the IRR was below the deal-level IRR.

(10C) The major drivers of financial return for this LBO transaction were the 12.5% annual EBITDA growth, along with a rise in operating margins such as EBIT, as well as the additional leverage as a result of the increase in EBITDA multiple at the end of 2013. The

growth in EBITDA showcases that the company is on track to perform well year over year, however business trends underlying these drivers such as seasonality, sustainability, and payment plans can disrupt the growth.

For instance, the case mentioned a large customer who owed money, asked for a 6-month payment moratorium, and a supply contract with the second major national reseller was awarded to a competitor. This disrupts the businesses profitability, operations, and overall financial returns, which can lead to implications when it comes to a buyout.

When the private equity firm, Buyout V conducts their due diligence, questions such as why their largest customer was asking to delay payments, and what the main reason was for losing out on one of the top suppliers can alter the LBO financial returns. Profitability and net income are reduced if the company does not receive its payments, especially from its largest customer. However, seasonality might have affected this customer, as they were unsuccessful at fulfilling orders, hence, asking for a delay in payments. Losing out on one of the top suppliers could be due to many reasons, but within the apparel industry, sustainability and ethics could have been a major factor which led the supplier to enter a contract with a competitor. Although these were shortfalls in 2008, unexpected implications can always arise, and therefore altering the LBO financial returns.

## Appendix

### Exhibit A -

Post-Money Capitalization Table (Fully Diluted)				
	<u>Shares</u>	<u>% Owned</u>	<u>Price</u>	<u>Value</u>
Half	3,000,000	16.33%	0.7638	2,291,383
Full	2,000,000	10.89%	0.7638	1,527,589
Uncle	3,000,000	16.33%	0.7638	2,291,383
Angels	902,919	4.92%	0.7638	689,645
Options pool	2,266,406	12.34%	0.7638	1,731,068
VC round 1	4,582,385	24.94%	0.7638	3,500,000
VC round 2	2,618,506	14.25%	0.7638	2,000,000
<b>TOTAL</b>	<b>18,370,216</b>	<b>100.00%</b>		<b>14,031,068</b>

Angels need 70% IRR on their 5-year investment of \$500,000.				
	PV =	500,000		
	n =	5		
	r =	70%		
	FV =	7,099,285		
Thus, Angels need \$ 7,099,285 out of the ending market value of the company to meet their IRR requirements.				
Ending market value (at the end of year 6) based on 14X \$5MM of net income (in year 7) =				70,000,000
Required equity stake to be given to Angels today for their IRR requirements =				10.14%
In this down round, VCs appear to need over 62% IRR on their 3-year investment of \$2,000,000.				
Pre-money valuation today = 12,000,000				
VCs' down round investment = 2,000,000				
<b>Post-money valuation today = 14,000,000</b>				
Revised ending market value (at the end of year 6) based on 12X \$5MM of net income (year 7) = 60,000,000				
		<u>Company</u>	<u>VCs</u>	
	PV =	14,000,000	2,000,000	
	n =	3	3	
	FV =	60,000,000	8,571,429	
	IRR =	62.43%	62.43%	
Thus, round 2 VCs need \$ 8,571,429 out of the ending market value after accounting for revised shares to meet their IRR requirements				
New equity stake to be given to VCs today for their IRR requirements =				14.29%

## Exhibit B -

*Assuming Series A & B do not convert						
Acquisition Payment			41,500,000			
Series B	3x Liquidation Pref		6,000,000			
Series A + option pool			5,231,068			
Total left for participation			30,268,932			
	Shares	Distribution				
Series B	2,618,506	4,314,558.40				
Series A+ option	6,848,791	11,284,874.78				
Angels	902,919	1,487,756.44				
Uncle	3,000,000	4,943,153.29				
Full	2,000,000	3,295,435.53				
Half	3,000,000	4,943,153.29				
Total	18,370,216	30,268,932				
	Proceeds	Dollar Profit	IRR	Initial Investment	Investment Multiple	
Burlington A	16,515,943.06	13,015,943.06	47%	3,500,000	4.7	
Burlington B	10,314,558.40	8,314,558.40	73%	2,000,000	5.2	
Angels	1,487,756.44	987,756.44	24%	500,000	3.0	
Uncle	4,943,153.29	4,793,153.29	89%	150,000	33.0	
Full	3,295,435.53	3,195,435.53	79%	100,000	33.0	
Half	4,943,153.29	4,793,153.29	79%	150,000	33.0	
	41,500,000.00					

## Exhibit C -

*Assuming both Series A and Series B are converted						
Acquisition Payment			41,500,000			
		Shares	Distribution			
	Series B	2,618,506	5,915,444.10			
	Series A+ option	6,848,791	15,472,045.98			
	Angels	902,919	2,039,777.71			
	Uncle	3,000,000	6,777,274.58			
	Full	2,000,000	4,518,183.05			
	Half	3,000,000	6,777,274.58			
	<b>Total</b>	<b>18,370,216</b>	<b>41,500,000.00</b>			
		Proceeds	Dollar Profit	IRR	Initial Investment	Investment Multiple
	<b>Burlington A</b>	15,472,045.98	11,972,045.98	45%	3,500,000	4.4
	<b>Burlington B</b>	5,915,444.10	3,915,444.10	44%	2,000,000	3.0
	<b>Angels</b>	2,039,777.71	1,539,777.71	32%	500,000	4.1
	<b>Uncle</b>	6,777,274.58	6,627,274.58	100%	150,000	45.2
	<b>Full</b>	4,518,183.05	4,418,183.05	89%	100,000	45.2
	<b>Half</b>	6,777,274.58	6,627,274.58	89%	150,000	45.2
	<b>Total</b>	<b>41,500,000.00</b>				

## Exhibit D - Buyouts V LBO Model: Financials

Buyouts V - HALF & FULL LBO								
Financials		2010	2011	2012	2013	2014	2015	2016
EBITDA		6,400,000	7,200,000	8,100,000	9,112,500	10,251,563	11,533,008	12,974,634
Growth %	12.50%							
Depreciation %	25.00%		1,800,000	2,025,000	2,278,125	2,562,891	2,883,252	
EBIT			5,400,000	6,075,000	6,834,375	7,688,672	8,649,756	
Unlevered Taxes	35.00%		(1,890,000)	(2,126,250)	(2,392,031)	(2,691,035)	(3,027,415)	
Cash Flow Forecast								
EBITDA			7,200,000	8,100,000	9,112,500	10,251,563	11,533,008	
Unlevered taxes			(1,890,000)	(2,126,250)	(2,392,031)	(2,691,035)	(3,027,415)	
Working Capital Adjustment			-	-	-	-	-	
Other cash Adjustment			-	-	-	-	-	
CFO			5,310,000	5,973,750	6,720,469	7,560,527	8,505,593	
CAPEX			(1,800,000)	(2,025,000)	(2,278,125)	(2,562,891)	(2,883,252)	
FCFF			3,510,000	3,948,750	4,442,344	4,997,637	5,622,341	
Interest Expense			(1,872,000)	(1,855,874)	(1,705,040)	(1,521,667)	(1,301,196)	
Tax Shield	35.00%		655,200	649,556	596,764	532,583	455,419	
Debt Issue (Repayment)		25,200,000	(293,200)	(2,742,432)	(3,334,068)	(4,008,553)	(4,021,747)	
Remaining Funds			2,000,000	-	-	-	754,817	
Interest Income			-	40,000	40,520	41,047	41,580	
Taxes On Interest	35.00%		-	(14,000)	(14,182)	(14,366)	(14,553)	
FCFE			2,000,000	26,000	26,338	26,680	781,844	
Net Cash Flow			2,000,000	26,000	26,338	26,680	781,844	

## Exhibit E - Buyouts V LBO Model: Cash Position & Debt Schedule

Cash Position	2010	2011	2012	2013	2014	2015	2016
Beginning Balance		-	2,000,000	2,026,000	2,052,338	2,079,018	
Interest Income	2.00%	-	40,000	40,520	41,047	41,580	
Net Cash Flow		2,000,000	26,000	26,338	26,680	781,844	
Ending Balance	-	2,000,000	2,026,000	2,052,338	2,079,018	2,860,862	
Cash Balance Check	2,000,000	TRUE	TRUE	TRUE	TRUE	TRUE	
Debt Schedule	2010	2011	2012	2013	2014	2015	2016
<b>Senior Debt</b>							
Beginning Balance		14,400,000	14,106,800	11,364,368	8,030,301	4,021,747	
Interest Expense		(792,000)	(775,874)	(625,040)	(441,667)	(221,196)	
Principal Repayment		(293,200)	(2,742,432)	(3,334,068)	(4,008,553)	(4,021,747)	
Total Payment		(1,085,200)	(3,518,306)	(3,959,108)	(4,450,220)	(4,242,943)	
Ending Balance	14,400,000	14,106,800	11,364,368	8,030,301	4,021,747	-	
EBITDA Multiple	2.0x						
Interest Rate	5.5%						
<b>Subordinated Debt</b>							
Beginning Balance		10,800,000	10,800,000	10,800,000	10,800,000	10,800,000	
Interest Expense		(1,080,000)	(1,080,000)	(1,080,000)	(1,080,000)	(1,080,000)	
Principal Repayment		-	-	-	-	-	
Total Payment		(1,080,000)	(1,080,000)	(1,080,000)	(1,080,000)	(1,080,000)	
Ending Balance	10,800,000	10,800,000	10,800,000	10,800,000	10,800,000	10,800,000	
EBITDA Multiple	1.5x						
Interest Rate	10.0%						
<b>Total Debt Payments</b>							
Total Interest Expense		(1,872,000)	(1,855,874)	(1,705,040)	(1,521,667)	(1,301,196)	
Total Principal Repayment		(293,200)	(2,742,432)	(3,334,068)	(4,008,553)	(4,021,747)	
Total Payment		2,165,200	4,598,306	5,039,108	5,530,220	5,322,943	
<b>Net Debt</b>							
Total Outstanding	25,200,000	24,906,800	22,164,368	18,830,301	14,821,747	10,800,000	
Cash	-	2,000,000	2,026,000	2,052,338	2,079,018	2,860,862	
Net Debt	25,200,000	22,906,800	20,138,368	16,777,963	12,742,729	7,939,138	

## Exhibit F - Exit Valuation

Exit Valuation (2015)	2010	2011	2012	2013	2014	2015	2016
Sale Multiple	6.0x						
Exit Enterprise Value						77,847,803	
Exit Equity Value						69,908,665	
<b>Ownership</b>							
Company Employees	8.00%						
Buyouts V	92.00%						
Exit Value to Buyouts V						64,315,972	
Target Deal-Level IRR	25.00%						
Investment Term (Years)	5						
Present Value Buyouts V	\$21,075,057.70						
Buyout Price Per Share using Q5 Share Amount	1.13						
Multiple of Investment	3.05						

After Applying the Full-Ratchet Provision of the Previous VC Round (From Half&Full Question 5)

### Post-Money Capitalization Table (Fully Diluted)

	Shares	% Owned	Price	Value
Half	3,000,000	16.07%	0.75009	2,250,259
Full	2,000,000	10.72%	0.75009	1,500,172
Uncle	3,000,000	16.07%	0.75009	2,250,259
Angels	1,065,624	5.71%	0.75009	799,310
Options pool	2,266,406	12.14%	0.75009	1,700,000
VC round 1	4,666,130	25.00%	0.75009	3,500,000
VC round 2	2,666,360	14.29%	0.75009	2,000,000
TOTAL	18,664,521	100.00%		14,000,000

## Exhibit G

Debt Schedule	2010	2011	2012	2013	2014	2015	2016
<b>Senior Debt</b>							
Beginning Balance		14,400,000	14,106,800	11,364,368	8,030,301	22,781,250	19,782,668
Interest Expense		(792,000)	(775,874)	(625,040)	2.5x	(1,252,969)	(1,088,047)
Principal Repayment		(293,200)	(2,742,432)	(3,334,068)		(2,998,582)	(3,730,486)
Total Payment		(1,085,200)	(3,518,306)	(3,959,108)		(4,251,551)	(4,818,533)
Ending Balance	14,400,000	14,106,800	11,364,368	8,030,301		19,782,668	16,052,182
EBITDA Multiple	2.0x						
Interest Rate	5.5%						
<b>Subordinated Debt</b>							
Beginning Balance		10,800,000	10,800,000	10,800,000	10,800,000	18,225,000	18,225,000
Interest Expense		(1,080,000)	(1,080,000)	(1,080,000)	2.0x	(1,822,500)	(1,822,500)
Principal Repayment		-	-	-		-	-
Total Payment		(1,080,000)	(1,080,000)	(1,080,000)		(1,822,500)	(1,822,500)
Ending Balance	10,800,000	10,800,000	10,800,000	10,800,000		18,225,000	18,225,000
EBITDA Multiple	1.5x						
Interest Rate	10.0%						
<b>Total Debt Payments</b>							
Total Interest Expense		(1,872,000)	(1,855,874)	(1,705,040)		(3,075,469)	(2,910,547)
Total Principal Repayment		(293,200)	(2,742,432)	(3,334,068)		(2,998,582)	(3,730,486)
Total Payment		2,165,200	4,598,306	5,039,108		6,074,051	6,641,033
<b>Net Debt</b>							
Total Outstanding	25,200,000	24,906,800	22,164,368	18,830,301		38,007,668	34,277,182
Cash		2,000,000	2,026,000	2,052,338		2,079,018	2,106,046
Net Debt	25,200,000	22,906,800	20,138,368	16,777,963		35,928,650	32,171,136

