

VALUATION OF YOUR BUSINESS

**Presentation to the
4th Annual Pro Dealer Conference**

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HVERFORD CAPITAL ADVISORS, INC.

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Introduction

- I. Why is Valuation a Critical Tool?
- II. Estate and Gift Tax Planning and Compliance
- III. Mergers and Acquisitions
- IV. Strategic Planning
- V. Three Critical Reasons for Valuation
- VI. Valuation Issues - General

Introduction (cont.)

- VII. Valuation of LBM Dealers for Estate and Gift Tax Planning and Compliance
- VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes
- IX. Valuation of LBM Dealers for Strategic Planning Purposes
- X. Haverford Capital Advisors, Inc.

I. Why is Valuation a Critical Tool?

- Historically, LBM Dealers Have Been Family-Owned and Family-Run Businesses
- Many Are Currently Owned by the Second or Third Generation of the Founding Family
- Ownership of an Equity Interest in Such a Business Has Been Viewed as an Income-Producing Opportunity, Not an Asset With Substantial Value

I. Why is Valuation a Critical Tool (cont.)

■ Three Critical Reasons for Valuation

- Estate and Gift Tax Planning and Compliance**
- Mergers and Acquisitions**
- Strategic Planning**

II. Estate and Gift Tax Planning and Compliance

- 60 Percent of Businesses Never Make it to the Second Generation, and More Than 90 Percent Do Not Reach the Third Generation
- Failures Are Often Due to Lack of a Successor, Discord Among the Heirs, or a Sale by the Heirs to Pay for Estate Taxes
- Yet, 60 to 70 Percent of Private Businesses in America Have No Written Succession Plan

II. Estate and Gift Tax Planning and Compliance (cont.)

■ Estate Taxes Are a Significant Factor

- Marginal Estate Tax Rate as High as 55 Percent for Estates in Excess of \$3 Million
- IRS Audit Rate Approaching 50 Percent for Estates in Excess of \$5 Million
- IRS Audit Rate Approaching 20 Percent for Estates Between \$1 and \$5 Million

II. Estate and Gift Tax Planning and Compliance (cont.)

■ Estate Taxes Are a Significant Factor (cont.)

- IRS Collected in Excess of \$27 Billion in Estate Taxes in 1999
- IRS is Expected to Collect in Excess of \$39 Billion in Estate Taxes in 2004
- Professionally Oriented LBM Market Represents Between \$15 and \$20 Billion of Potential Estate Taxes for the IRS

II. Estate and Gift Tax Planning and Compliance (cont.)

- The Value of an LBM Operation to its Owner Often Represents the Majority of the Overall Value of the Estate
- Primary Objectives of Estate Planning Include the Minimization of Estate and Gift Taxes, the Continuity of the Business, and the Preservation of the Business Owner's Wealth
- A Carefully Prepared and Supportable Business Valuation Can Provide the Estate With the Ability to Better Achieve its Goals

III. Mergers and Acquisitions

The Lumber and Building Materials Market

■ Large and Growing

- Total LBM Market Estimated at \$228 Billion
- Approximately \$116 Billion Sold to Professionals, Including \$76 Billion Related to the New Housing Market and \$40 Billion to Professional Remodelers

III. Mergers and Acquisitions

The Lumber and Building Materials Market (cont.)

■ Large and Growing (cont.)

- According to ProDealer, Revenue for the Largest 350 Pro-Oriented Dealers was up 14% in 1999 to \$39.4 Billion
- Total Market Expected to Exceed \$265 Billion by 2005, of Which \$130 Billion Will Be Attributable to Professionals

III. Mergers and Acquisitions (cont.)

The Lumber and Building Materials Market (cont.)

■ Growing Through Vertical Integration

- Vertical Integration is Becoming an Increasingly Important Strategy for LBM Dealers
- Building Materials Holding Corp. Currently Generates Approximately 39% of its Revenue From Value-Added Products

III. Mergers and Acquisitions (cont.)

The Lumber & Building Materials Market

	1997	1998	1999
<u>Housing Starts (Mil.)</u>	1.5	1.6	1.7
% Chg. Year Ago	0.4	9.9	3.4
Single-Family (Mil.)	1.1	1.3	1.3
% Chg. Year Ago	-1.6	12.4	4.9

III. Mergers and Acquisitions (cont.)

The Lumber & Building Materials Market

	1997	1998	1999
<u>New Home Sales (Ths.)</u>	807	890	909
% Chg. Year Ago	6.8	10.2	2.1
<u>Median New Home Price (Ths.)</u>	145	152	160
% Chg. Year Ago	3.8	4.8	4.9

III. Mergers and Acquisitions (cont.)

The Lumber and Building Materials Market (cont.)

■ Highly Fragmented

- Largest 350 Pro-Oriented Dealers Only Account for \$39.4 Billion, or Approximately 17 Percent of Total Industry Sales of \$228 Billion, With the Balance Derived by Big-Box Retailers and About 8,000 to 9,000 Smaller Dealers

III. Mergers and Acquisitions (cont.)

Challenges Facing Independent LBM Dealers

- Limited Business Organization
- Continued Pricing Pressures
- Increasing Administrative and Operational Burdens

III. Mergers and Acquisitions (cont.)

Challenges Facing Independent LBM Dealers (cont.)

- Competition From Large, Well-Capitalized Companies
- Growth in Specialized Distributors Selling Directly to Professionals

III. Mergers and Acquisitions (cont.)

Challenges Facing Independent LBM Dealers (cont.)

■ Changing Business Patterns

- Value Added Products and Services
- New and Larger Competitors
- Horizontal Integration - One-stop Shopping
- Vertical Integration - Manufacturing Facilities for Millwork, Doors, Windows, Panels, and Trusses

III. Mergers and Acquisitions (cont.)

Challenges Facing Independent LBM Dealers (cont.)

■ Changing Business Patterns (cont.)

- Installation
- Sales and Marketing Programs
- Increasing Requirement for Sophisticated Information Systems and the Internet-Based Marketplace (E-Commerce)

III. Mergers and Acquisitions (cont.)

Challenges Facing Independent LBM Dealers (cont.)

■ Lack of Access to Capital

- Traditional Working Capital Issues / Personal Guarantees
- New Product Lines
- New Production Facilities
- State-of-the-Art Computer Systems
- State-of-the-Art Equipment

III. Mergers and Acquisitions (cont.)

Challenges Facing Independent LBM Dealers (cont.)

- Lack of Liquidity / Lack of Viable Exit Strategy
- Impact of Seasonal and Cyclical Trends
- Labor Shortage

III. Mergers and Acquisitions (cont.)

Challenges Facing Independent LBM Dealers (cont.)

- Suppliers and Customers Getting Larger Through Consolidation
 - Requiring Better Pricing
 - Requiring Better Service, and More Service
 - Installation
 - Just in Time Inventory
 - Requiring Broader Product Offerings

III. Mergers and Acquisitions (cont.)

The Aggregation of LBM Dealers

- National and Super-Regional Participants
- The Big Boxes
- Regional or Local LBM Dealers
- Financial Buyers
- Buyers Focused on Vertical Integration or Diversification

III. Mergers and Acquisitions (cont.)

The Emergence of Industry Consolidators

■ Potential for Growth

- Consolidation Play
- Revenue Enhancement
- Cost Reductions
 - Purchasing Power
 - Centralization of Certain Fixed Cost Functions
 - Synergies
- Vertical Integration

III. Mergers and Acquisitions (cont.)

Growth in Consolidation

- More Than 30 Different Buyers Involved in Publicly Announced Transactions in the Last 2 1/2 Years
- More Than 100 Transactions Involving More Than \$4 Billion in Revenue
- During the First 7 Months of 2000, There Have Been More Than 29 Transactions Involving at Least 12 Different Buyers Involving More Than \$900 Million in Revenue

III. Mergers and Acquisitions (cont.)

Growth in Consolidation

	<u>1998</u>	<u>1999</u>	<u>7 Mos 2000</u>	<u>Ann. 2000</u>
Number of Announced Transactions	28	45	29	50
Number of Units Involved	141	146	123	211
Total Announced Acquired Revenue (\$MM)	1,468	1,488	935	1,603

III. Mergers and Acquisitions (cont.)

Growth in Consolidation

Average Revenue Per Transaction (\$MM)

	<u>1998</u>	<u>1999</u>	7 Mos <u>2000</u>
Low Estimate	52.4	33.1	32.2
High Estimate	59.9	38.4	40.0
Disclosed Deals	104.9	51.3	66.8

III. Mergers and Acquisitions (cont.)

Growth in Consolidation

Average Revenue Per Acquired Unit (\$MM)

	<u>1998</u>	<u>1999</u>	7 Mos <u>2000</u>
Low Estimate	10.4	10.2	7.6
High Estimate	11.9	11.8	9.4
Disclosed Deals	12.9	12.8	11.0

III. Mergers and Acquisitions (cont.)

*Five Largest Pro-Dealers Ranked by
1999 Pro Sales (in millions)*

	1999	1998	% Change
1. Carolina Holdings	1,719.5	1,332.6	29
2. Builders FirstSource	1,455.0	801.2	82
3. 84 Lumber	1,420.0	1,320.0	8
4. Wickes Lumber	953.9	801.1	19
5. Building Materials Holding Corp.	926.5	719.4	29
	<hr/>	<hr/>	<hr/>
Total	6,474.9	4,974.3	30%

IV. Strategic Planning

- Business Valuations Are Increasingly Being Viewed as an Important Management Tool
- Private Company Valuations Can Provide Feedback That Helps to Keep Management Focused on the Activities Which Add the Greatest Level of Value

V. Three Critical Reasons for Valuation

- Estate and Gift Tax Planning and Compliance
- Mergers and Acquisitions
- Strategic Planning

VI. Valuation Issues - General

Three Basic Approaches to Valuation

- The Income Approach (the Discounted Cash Flow Approach)
- The Market Approach (the Public Market Comparable Approach and the Comparable Acquisition Approach)
- The Cost Approach

VI. Valuation Issues - General (cont.)

■ The Discounted Cash Flow Approach

- Project the Net Revenues to Be Generated by the Company
- Project the Expenses Associated With That Net Revenue Stream, Analyzing the Variable / Fixed Nature of Various Expenses, Excluding Interest Expense
- Subtract the Expenses and Income Taxes From the Net Revenues to Obtain Net Income

VI. Valuation Issues - General (cont.)

- The Discounted Cash Flow Approach (cont.)
 - Convert the Net Income to Cash Flow by Adding Back Depreciation, Subtracting Capital Expenditures, and Subtracting Increases in Working Capital, but Not Subtracting Principal Payments
 - Discount the Forecasted Debt-Free Cash Flows Back to Present Value, Thereby Accounting for Both the Time Value of Money and Forecasted Risks, Yielding Total Consideration

VI. Valuation Issues - General (cont.)

- The Discounted Cash Flow Approach (cont.)
 - Subtract the Face Value of Interest-Bearing Debt From the Total Consideration, Yielding Equity Value

VI. Valuation Issues - General (cont.)

■ The Public Market Comparable Approach

- Identify Publicly Traded Comparable Companies
- Analyze the Financial and Operating Performance of the Public Companies
- Analyze How Investors Are Pricing the Public Companies, and Why

VI. Valuation Issues - General (cont.)

- The Public Market Comparable Approach (cont.)
 - Make Inferences About How Investors Would Price, or Value, the Subject Company Through the Utilization of Various Ratios Such as:
 - Market Value of Total Capital / Net Revenue
 - Market Value of Total Capital / Earnings Before Interest Expense, Taxes, Depreciation, and Amortization (EBITDA)
 - Market Value of Total Capital / EBIT
 - Market Value of Equity / Book Value of Equity

VI. Valuation Issues - General (cont.)

- The Public Market Comparable Approach (cont.)
 - Subtract the Face Value of Interest-Bearing Debt From the Total Consideration, Yielding Equity Value

VI. Valuation Issues - General (cont.)

■ The Comparable Acquisition Approach

- Identify Acquisitions of Comparable Companies
- Analyze the Financial and Operating Performance of the Acquired Companies
- Analyze How Buyers Are Pricing the Acquisitions, and Why

VI. Valuation Issues - General (cont.)

- The Comparable Acquisition Approach (cont.)
 - Make Inferences About How Buyers Would Price, or Value, the Subject Company Through the Utilization of Various Ratios Such as:
 - Market Value of Total Capital / Net Revenue
 - Market Value of Total Capital / Earnings Before Interest Expense, Taxes, Depreciation, and Amortization (EBITDA)
 - Market Value of Total Capital / EBIT
 - Market Value of Equity / Book Value of Equity

VI. Valuation Issues - General (cont.)

■ The Comparable Acquisition Approach (cont.)

- Subtract the Face Value of Interest-Bearing Debt From the Total Consideration, Yielding Equity Value
- The Comparable Acquisition Approach is Typically Only Utilized to Value 100 Percent Interests

VI. Valuation Issues - General (cont.)

■ The Cost Approach

- Adjust Assets and Liabilities, Both On- and Off-Balance Sheet, to Market Value
- Difficult to Identify and Value Intangible Assets, Such as Customer List and Goodwill; Therefore, the Cost Approach Tends to Undervalue a Company

VI. Valuation Issues - General (cont.)

■ The Cost Approach (cont.)

- The Theory is That a Company Utilizes its Entire Bundle of Assets, Including Tangible Assets, Working Capital, and Intangible Assets, to Generate the Primary Driver of Value: Cash Flow
- Therefore, the Cost Approach is Typically Only Utilized to Value Holding Companies (i.e. Non-Operating Companies) or Companies Which Should Be Liquidated

VI. Valuation Issues - General (cont.)

■ Other Valuation Considerations

- Value Indications Must Be Adjusted for Factors Related to:

- The Size of the Interest Being Valued (Minority v. Majority Interest)

- On a Per Share Basis, an Investor Would Be Willing to Pay More for a Share of a Controlling Interest Than for a Share of a Minority Interest Holding

VI. Valuation Issues - General (cont.)

■ Other Valuation Considerations (cont.)

– Value Indications Must Be Adjusted for Factors Related to: (cont.)

■ The Lack of Marketability of a Closely Held (Private) Company

■ The Capital Structure

■ Assets Included or Excluded

VII. Valuation of LBM Dealers

for Estate & Gift Tax Planning & Compliance

■ The Basis of All Estate Planning

- On a Per Share Basis, an Investor Would Be Willing to Pay More for a Share of a Controlling Interest Than for a Share of a Minority Interest Holding**

- The Owner of a Minority Interest Has Limited Power and Control in Company Operations**

- The Owner of a Minority Interest Typically Has No Power to Influence Corporate Policy, Including the Existence and Timing of Cash Distributions**

VII. Valuation of LBM Dealers

for Estate & Gift Tax Planning & Compliance

- The Basis of All Estate Planning (cont.)
 - Concept is Made Tangible When One Observes the Premiums Paid Over the Minority Interest Price in the Acquisition of a Controlling Interest in a Publicly Traded Company
 - Concept is Accepted by Both the IRS and the Tax Courts
 - Magnitude of the Discount is Subject to Question
 - Therefore, the Goal is to Have All IRS Transfer Taxes (Gift and Estate) Calculated on Minority Interest Transfers

VII. Valuation of LBM Dealers

for Estate & Gift Tax Planning & Compliance

- A Well-Planned Program of Gifting Minority Interests Over Time Can Ultimately Reduce the Overall Transfer Tax Burden by Taking Advantage of Discounts for Both Minority Interest and Lack of Marketability Considerations on Each Transfer, as Well as the Annual \$10,000 Per Child Tax Exclusion Provided by the IRS

VII. Valuation of LBM Dealers

for Estate & Gift Tax Planning & Compliance

- Such a Series of Transfers Could Ultimately Lead to the Reduction of a 100 Percent Interest to a Minority Interest Itself by the Time of Death, at Which Point Estate Taxes Would Also Be Calculated on a Minority Interest Basis

VII. Valuation of LBM Dealers

for Estate & Gift Tax Planning & Compliance

- Family Limited Partnerships, Multiple Classes of Stock, and Other Sophisticated Estate Planning Techniques
 - Can Satisfy Family Goals Which May Initially Seem at Odds
 - Income Needs
 - Long Term Capital Preservation Needs
 - Estate Value Reduction Requirements
 - Control of Asset Needs
 - Business and Operational Requirements

VII. Valuation of LBM Dealers

for Estate & Gift Tax Planning & Compliance

- Family Limited Partnerships, Multiple Classes of Stock, and Other Sophisticated Estate Planning Techniques (cont.)
 - Benefits, Especially the Reduction of Gift and Estate Taxes, Can Be Enhanced Through the Use of Valuation Discounts

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes

Alternative I - Market / Income Approach

■ Create Historical Pro Forma Cash Flow Statement

– Typical Adjustments

■ Excess Owners' Compensation

■ Real Property Lease

■ Non-Recurring Expenses

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Alternative I - Market / Income Approach (cont.)

- Typical Adjustments (cont.)
 - Other Personal or Discretionary Expenses on the Books of the Company
 - Automobile Leases
 - Compensation and Perks to Family Members
 - Discretionary Types of Insurance Coverage
 - Discretionary T&E and Club Dues
 - Discretionary Retirement Contributions

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Alternative I - Market / Income Approach (cont.)

Sample Calculation of Pro Forma Cash Flow (A)

	<u>As is</u>	<u>Adjusted</u>
Net Revenue	15,000,000	15,000,000
Cost of Sales	<u>11,250,000</u>	<u>11,250,000</u>
Gross Profit	3,750,000	3,750,000
Owner's Compensation	700,000	300,000
Building Lease	120,000	80,000
Other Operating Expenses	<u>2,470,000</u>	<u>2,470,000</u>
EBITDA	460,000	900,000

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Alternative I - Market / Income Approach (cont.)

- Most Transactions Have Been Occurring at Multiples Ranging From 4.0 to 6.5 Times Adjusted EBITDA
- Sample Valuation (Using the Cash Flow Calculated on the Prior Page - Example A):

Adjusted EBITDA	900,000
Multiple	<u>5.3</u>
Purchase Price	4,770,000
Less: Outstanding Debt	<u>1,000,000</u>
Pre-tax Proceeds to Shareholders	3,770,000

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Alternative I - Market / Income Approach (cont.)

Sample Calculation of Pro Forma Cash Flow (B)

	<u>As is</u>	<u>Adjusted</u>
Net Revenue	50,000,000	50,000,000
Cost of Sales	<u>39,000,000</u>	<u>39,000,000</u>
Gross Profit	11,000,000	11,000,000
Owner's Compensation	1,500,000	500,000
Non-Recurring Expenses	1,000,000	0
Discretionary Retirement Contrib.	350,000	0
Other Operating Expenses	<u>7,150,000</u>	<u>7,150,000</u>
EBITDA	1,000,000	3,350,000

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Alternative I - Market / Income Approach (cont.)

- Sample Valuation (Using the Cash Flow Calculated on the Prior Page - Example B):

Adjusted EBITDA	3,350,000
Multiple	<u>5.5</u>
Purchase Price	18,425,000
Less: Outstanding Debt	<u>4,000,000</u>
Pre-tax Proceeds to Shareholders	14,425,000

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Alternative I - Market / Income Approach (cont.)

- Most Transactions Have Been Occurring at Multiples of Adjusted EBITDA Ranging From 4.0 to 6.5, Yielding Total Consideration
 - Factors Impacting the Purchase Price Multiple
 - Size
 - Profitability

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Alternative I - Market / Income Approach (cont.)

- Factors Impacting the Purchase Price Multiple (cont.)
 - Quality of Revenue
 - Is it Sustainable
 - Is it Overly Dependent Upon One or a Few Customers
 - Growth Trends
 - Mix of Product Lines

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Alternative I - Market / Income Approach (cont.)

- Factors Impacting the Purchase Price Multiple (cont.)
 - Potential Synergies and Economies of Scale
 - Stability / Reputation
 - Environmental Liabilities
 - C Corporation v. S Corporation v. Partnership

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Alternative I - Market / Income Approach (cont.)

- Factors Impacting the Purchase Price Multiple (cont.)
 - Level of Working Capital or Net Asset Value to Be Delivered at Closing
 - A Business is a Bundle of Assets Which Are Used Together to Generate a Cash Flow Stream; Included in This Bundle Are Tangible Assets, Intangible Assets, and Working Capital

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Alternative I - Market / Income Approach (cont.)

- Factors Impacting the Purchase Price Multiple (cont.)
 - Level of Working Capital or Net Asset Value to Be Delivered at Closing
 - Assets Included or Excluded
 - Quality of Inventory and Accounts Receivable
 - Can the Inventory Be Sold at Retail Values
 - Are the Accounts Receivable Collectable

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Alternative I - Market / Income Approach (cont.)

– Factors Impacting the Purchase Price Multiple (cont.)

■ Total Consideration or Equity Value

■ Quality of the Financial and Operating Information, i.e. Can it Be Verified

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Alternative I - Market / Income Approach (cont.)

- Factors Impacting the Purchase Price Multiple (cont.)

- Opportunities for Buyer

- Revenue Growth From Existing Customers
- New Marketing
- Product Line Expansion
- New Services
- Subsequent “Fold-in” Acquisitions

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Alternative I - Market / Income Approach (cont.)

- Factors Impacting the Purchase Price Multiple (cont.)
 - Seller's Near Term Capital Requirements for Computer Systems, Manufacturing Facilities, Expansion of Facilities for New or Extended Product Lines, Etc.
 - Motivations of the Buyer and the Seller
 - Timing - Seller's Market

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Alternative II - Cost Approach

	<u>Net Book Value</u>	<u>Transacted Value</u>
Cash	200,000	1,000
Accounts Receivable	2,000,000	1,950,000
Inventory	2,500,000	2,400,000
Real Property	250,000	1,000,000
Personal Property	200,000	200,000
Intangible Assets	<u>0</u>	<u>1,000,000</u>
 Total Net Book Value	 \$ 5,150,000	
 Total Consideration		 \$ 6,551,000

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Cost Approach

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**Market / Income
Approach**

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Additional Considerations

■ Composition of Purchase Price

- Cash
- Stock
- Note
- Contingent Note

■ Subordinated to Senior Indebtedness

■ Based on Future Financial Performance

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Additional Considerations (cont.)

■ Important Ancillary Agreements

- Employment Agreements

 - Owners

 - Sales Force

- Non-Compete Agreement

- Real Property Lease

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Additional Considerations (cont.)

■ Tax and Legal Considerations

- Form of Business Organization

 - C Corporation v. S Corporation v. Partnership

- Legal Structure of Transaction

 - Assets v. Stock Acquisition

 - Accounts Receivable / Working Capital

- Tax Considerations

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Transaction Structure	Seller	Buyer
<p>C corporation</p> <ul style="list-style-type: none"> • Desired form of transaction • Tax implications • Non-compete allocation 	<p>stock</p> <p>single level of tax at capital gains rates</p> <p>low</p>	<p>assets</p> <p>write-up assets and increase depreciation</p> <p>low</p>
<p>S corporation/Partnership/LLC</p> <ul style="list-style-type: none"> • Desired form of transaction • Tax implications • Non-compete allocation 	<p>indifferent</p> <p>single level of tax at capital gains rate</p> <p>low</p>	<p>assets</p> <p>write-up assets and increase depreciation</p> <p>low</p>
<p>Generally speaking, buyers and sellers would avoid the following:</p> <p>C corporation – (less desirable)</p> <ul style="list-style-type: none"> • Form of transaction • Tax and other implications • Non-compete allocation 	<p>assets</p> <p>double level of tax at ordinary rates</p> <p>high</p>	<p>stock</p> <p>inability to write-up assets; risk of assuming off-balance sheet liabilities</p> <p>low</p>

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Additional Considerations (cont.)

- Evaluating Potential Partners
 - Strong Management Team
 - Experienced Acquisition Team
 - Aligning Incentives
 - Attractive Governance Structure

VIII. Valuation of LBM Dealers for Acquisition / Merger Purposes (cont.)

Additional Considerations (cont.)

■ Evaluating Potential Partners (cont.)

- Momentum
- Currency and Capital
- Communication

IX. Valuation of LBM Dealers for Strategic Planning Purposes

- The Primary Goal of Value-Based Management (VBM) is to Create a Corporate Culture in Which Decisions and Practices Are Focused on the Creation of Shareholder Value

IX. Valuation of LBM Dealers for Strategic Planning Purposes

- Various “Metrics” Can Be Used to Measure Business Value And/or the Change in Business Value
 - Stock Price
 - Earnings Per Share
 - Return on Invested Capital (ROIC)
 - Economic Value Added (EVA)®
 - Cash Flow Return on Investments (CFROI)

IX. Valuation of LBM Dealers

for Strategic Planning Purposes (cont.)

- In the Absence of Regular Objective Feedback Regarding Value, it Can Be Much Easier for Private Company Managers to Lose Their Focus
- It is Critical to Understand the Primary Drivers of Company Value and to Use This Understanding as the Foundation for Business Decisions Such as:
 - The Sale or Purchase of a Business or a Business Segment
 - Significant Capital Expenditures
 - New Business Initiatives

X. Haverford Capital Advisors, Inc.

Haverford Capital Advisors, Inc. is an investment banking firm that specializes in providing merger and acquisition, capital raising, valuation, and other financial advisory services to private middle market companies, with a particular expertise and focus on companies that participate in the lumber and building materials industry.

We represent owners during the process of selling their businesses, merging or partnering with other companies, or growing through acquisition. We can assist our clients in all aspects of strategic planning and capital raising, such as business plan preparation, financial modeling, and the evaluation of financing alternatives. We also have extensive experience preparing business valuations for strategic, transactional, legal, or tax-driven purposes.

Haverford Capital Advisors has successfully completed a substantial number of financial advisory assignments. The company is staffed by experienced professionals that are focused on delivering the highest quality financial advisory services tailored to the specific needs of our clients.

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