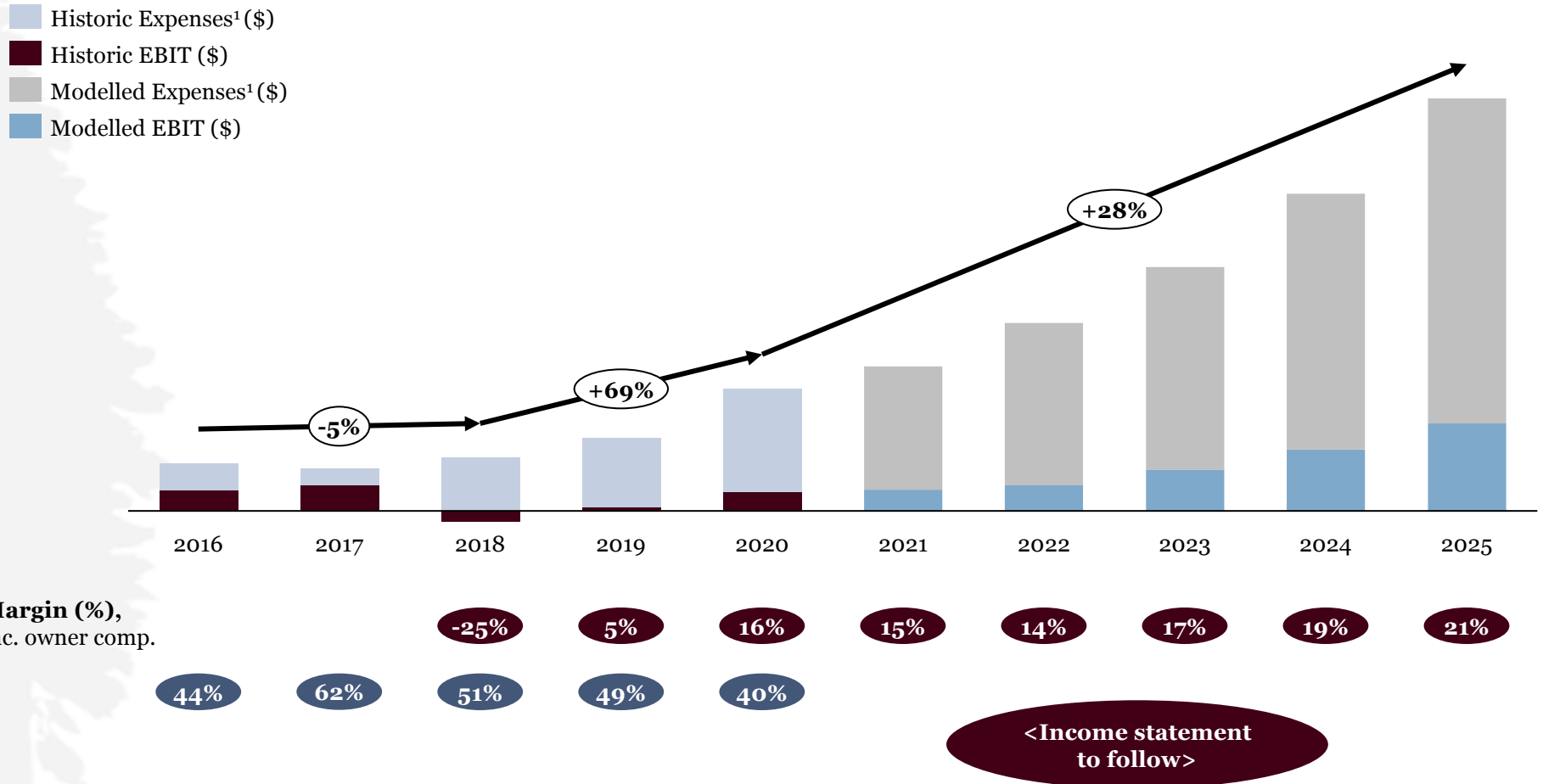# REDWOOD ADVISORS

M&A Support

Example deliverable

XX has had strong rev. growth since 2018 but decreasing margins (due to investments in capabilities)

Breakdown of XX revenue by expenses and earnings per pre-LOI pro forma *($)*

- Historic Expenses[1] ($)
- Historic EBIT ($)
- Modelled Expenses[1] ($)
- Modelled EBIT ($)

-5% +69% +28%

2016   2017   2018   2019   2020   2021   2022   2023   2024   2025

Margin (%),
inc. owner comp.

		-25%	5%	16%	15%	14%	17%	19%	21%
44%	62%	51%	49%	40%					

<Income statement to follow>

[1]Includes owner compensation starting in 2018

Diligence overview and approach

Core area	Overview
Revenue growth	• Analyzed **revenue by geography and type** (on-site, shop, products) to assess feasibility of 2025 revenue goal ($XM)
Margin performance	• Synthesized additional margin improvements from acquisition **synergies for <acq. target> and <acquirer>** • Assessed potentials to improve margins from core services (e.g., repairs, product sales) through **revenue levers and cost reductions**
Capabilities	• Identified and assessed **key core** (e.g., XX) **and operational** (e.g., IT, HR) **capabilities**
Risks	• Identified and assessed **3 high concern and 5 low concern risks** associated with the acquisition

Approach

- **Identified key areas to diligence** (e.g., Houston growth, ex-Houston growth) **and articulated a deal tenet**: a belief that would support moving forward with the acquisition
- For each area, **synthesized key learnings to develop a diligence perspective**: an assessment of the likelihood of that deal tenet being true
- Provided a view on level of conviction by assessment ("high" or "low")
- Conducted **open-source research** (e.g., desk research, social media and news scans) to learn about about target, offers, and reputation
- Stress tested key assumptions and potential path forward through **6 hour plus interviews with <acq. target> owners**
- **Refined with <acquirer> leadership**
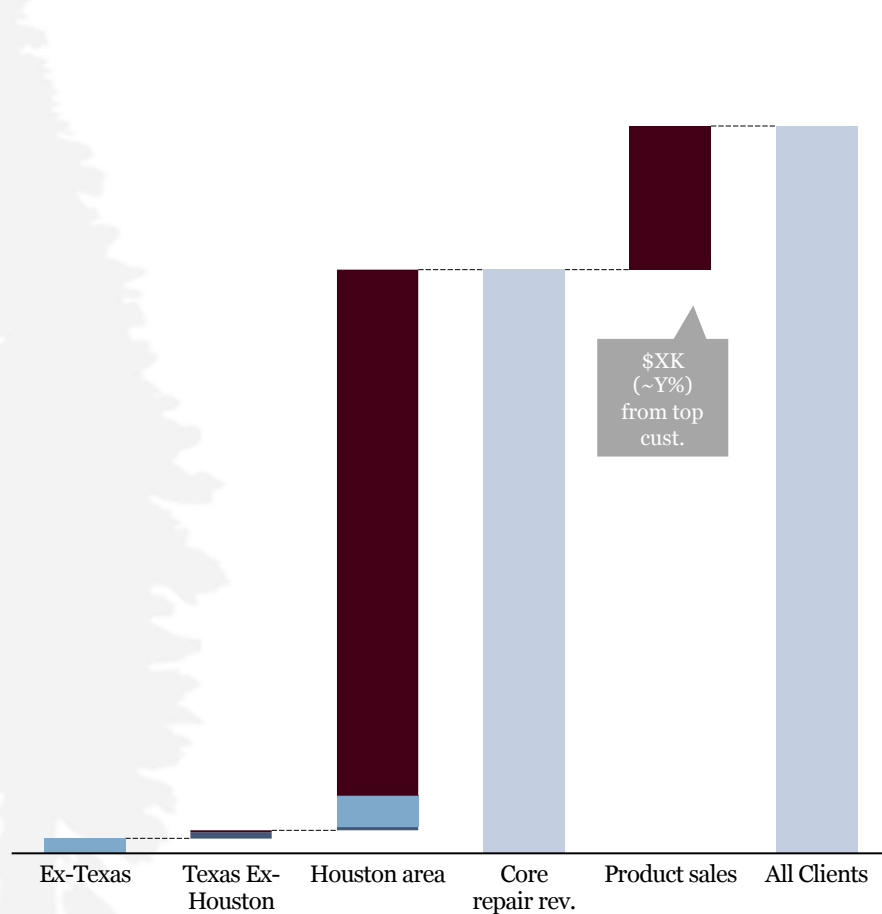
Deep dives follow by area

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● True, high conviction ● Uncertain, high conviction ● False, high conviction
● True, low conviction ● Uncertain, low conviction ● False, low conviction

Diligence: Revenue growth deep-dive

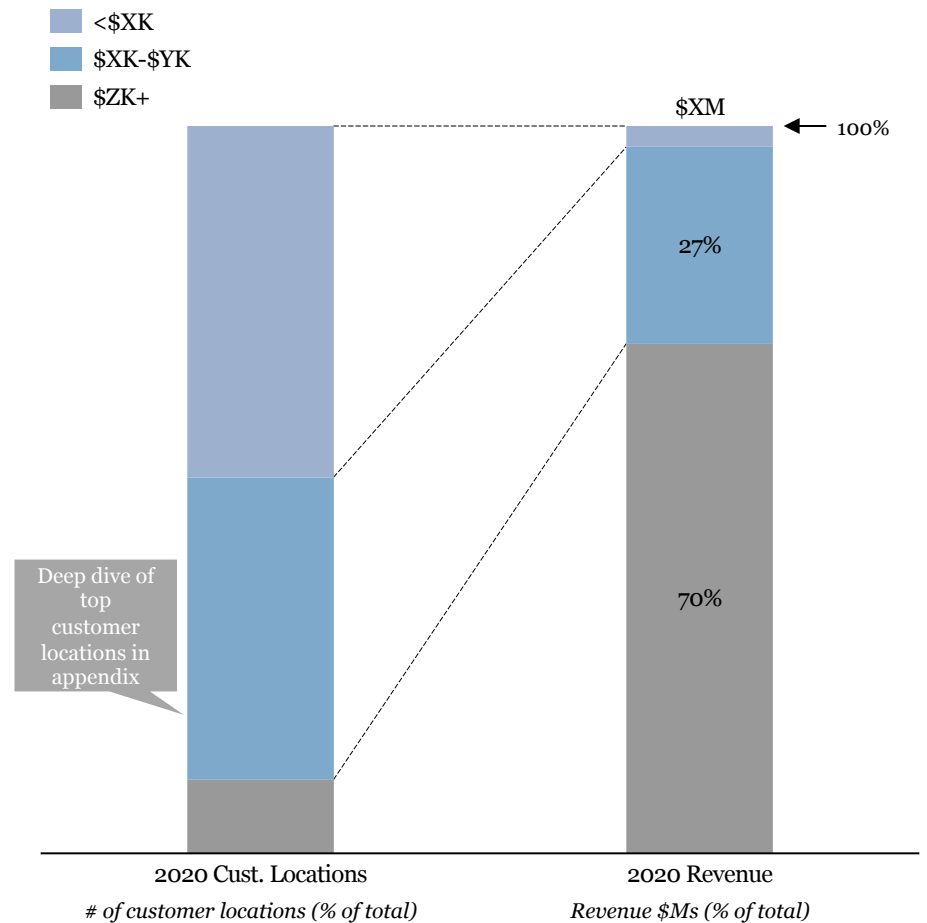| Core service revenue | Texas | Significant growth opportunity remains in Texas, with XX in a strong position to sustain current customers, win additional customers, and scale to meet demand | • XX currently **earns ~$XM in Texas** (~80% of total rev.)
• Est. **~$XK growth oppt. remains in TX, ~65% of which is capturable** |
	US (Ex-Texas)	XXXXX create real growth opportunities outside Texas	• In 2020, ~$YK (~2% of rev.) earned **from ex-Texas custs.** • Ex-Texas customers **won through referrals and Google Ads** • If XX could win ~10 customers similar in size to the YY, XX could earn ~$XM/yr. with curr. capabilities • Expected **ZZ expansion could open ~$XM-$YM+ rev. growth** and additional synergies (e.g., leverage market access)
	Add'l Ex-US (Int'l.)	XX could service YYneeds (via shipment) for int'l customers and potentially seed operations internationally	• **Currently, international sales highly limited** • **Customs delay suggests real challenges to servicing international business from Houston**; potential to avoid with international hubs
Other revenue streams	Product sales	XX able to develop, sell, and ship a range of high-margin products at scale	• XX has **YY product offers with high-potential margins and demand** • In 2020, XX earned **~$XK from product sales**, $XK from top customer (~17% of total rev.) • **XX has required licensing for products** • **Team sees pot. to double product sales to ~$XK+** by scaling sales infrastructure

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Rev. is concentrated with a large Houston footprint and XX cust. locations generating 70% of revenue

Breakdown of XX rev. by geographic area and type *(# of customer locations)*

$XK (~Y%) from top cust.

Ex-Texas | Texas Ex-Houston | Houston area | Core repair rev. | Product sales | All Clients

Breakdown of XX customers based on revenue

<$XK
$XK-$YK
$ZK+

$XM
100%

27%

70%

Deep dive of top customer locations in appendix

2020 Cust. Locations
# of customer locations (% of total)
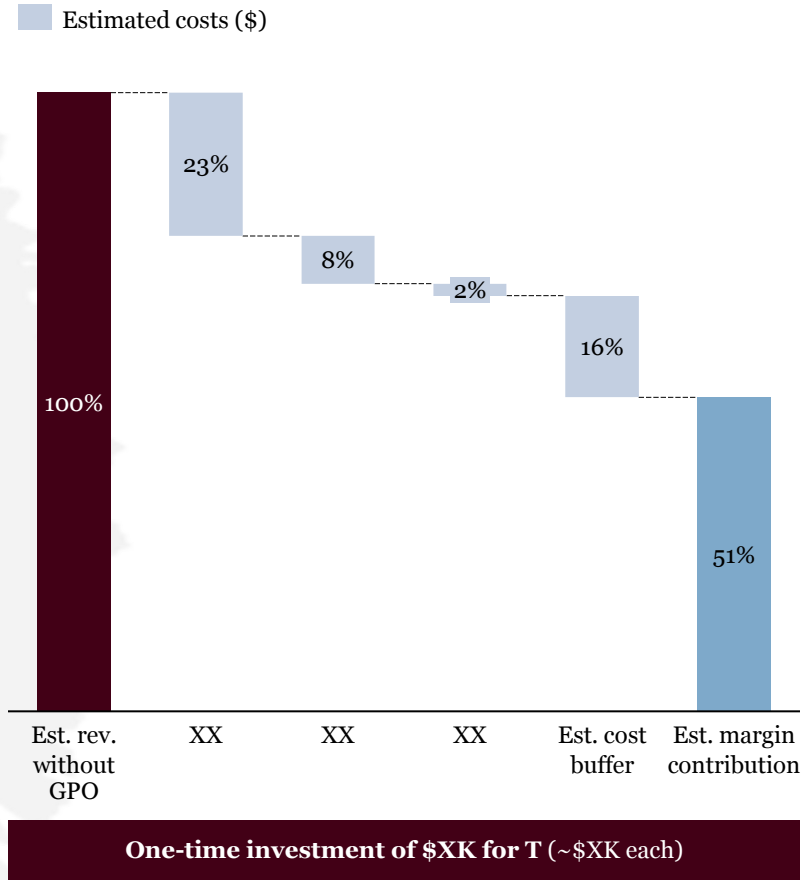
2020 Revenue
Revenue $Ms (% of total)

Per customer revenue ranges from $XK to ~$YK with a mean of ~$ZK for the top XX customers

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Basic economic analysis of key expansion opportunities

Est. potential margin contribution from DFW expansion *($)*

Est. pot. margin contribution from Austin area expansion *($)*

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