

2011 Capital Markets Update

VISTA Private Equity Group

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Founding Partner

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Tracking#354994 and DOFU 072011

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 - Issues to Address / Preparedness

Overview of Vista Private Equity Group, LLP

- **Investment Strategy**
 - Acquire, Build and Hold Small to Medium Size Businesses with Attractive Long-Term Execution Strategies--- Primarily Manufacturing, Distribution and Business Services
- **Transaction Types**
 - Buyouts of Family-Owned Businesses
 - Management Buyout Transactions
 - Growth Capital to Support Expanding Businesses
 - Distressed Investments
- **Investment Size of \$3 to \$20 Million Equity Investments**
- **Investment Criteria**
 - Minimum Revenues of \$10 Million
 - Prefer Businesses with Positive Cash Flow Margins of 10% or Greater
 - Management Teams with Ownership Positions
 - Majority Investment Ownership Positions
 - Primarily Texas and the Southwest U.S.
 - No Startups, Financial Institutions or Oil and Gas Exploration Investments
- **Other Service Offerings Include Business Advisory and Turnaround Management**
- **Vista RED (VPEG's Real Estate Affiliate)—Led by Brent Mann**
 - Commercial Real Estate Development and Acquisition of Existing Properties

Overview of the 2011 Capital Markets

VISTA Private Equity Group



Impact of the 2009 “Perfect Storm” on Business Valuations

	<u>2008</u>	<u>2009</u>
Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA")	\$ 5,000,000	\$ 4,000,000
Purchase Price Multiple	7.2	5.8
Enterprise Value	<u>\$ 36,000,000</u>	<u>\$ 23,200,000</u>

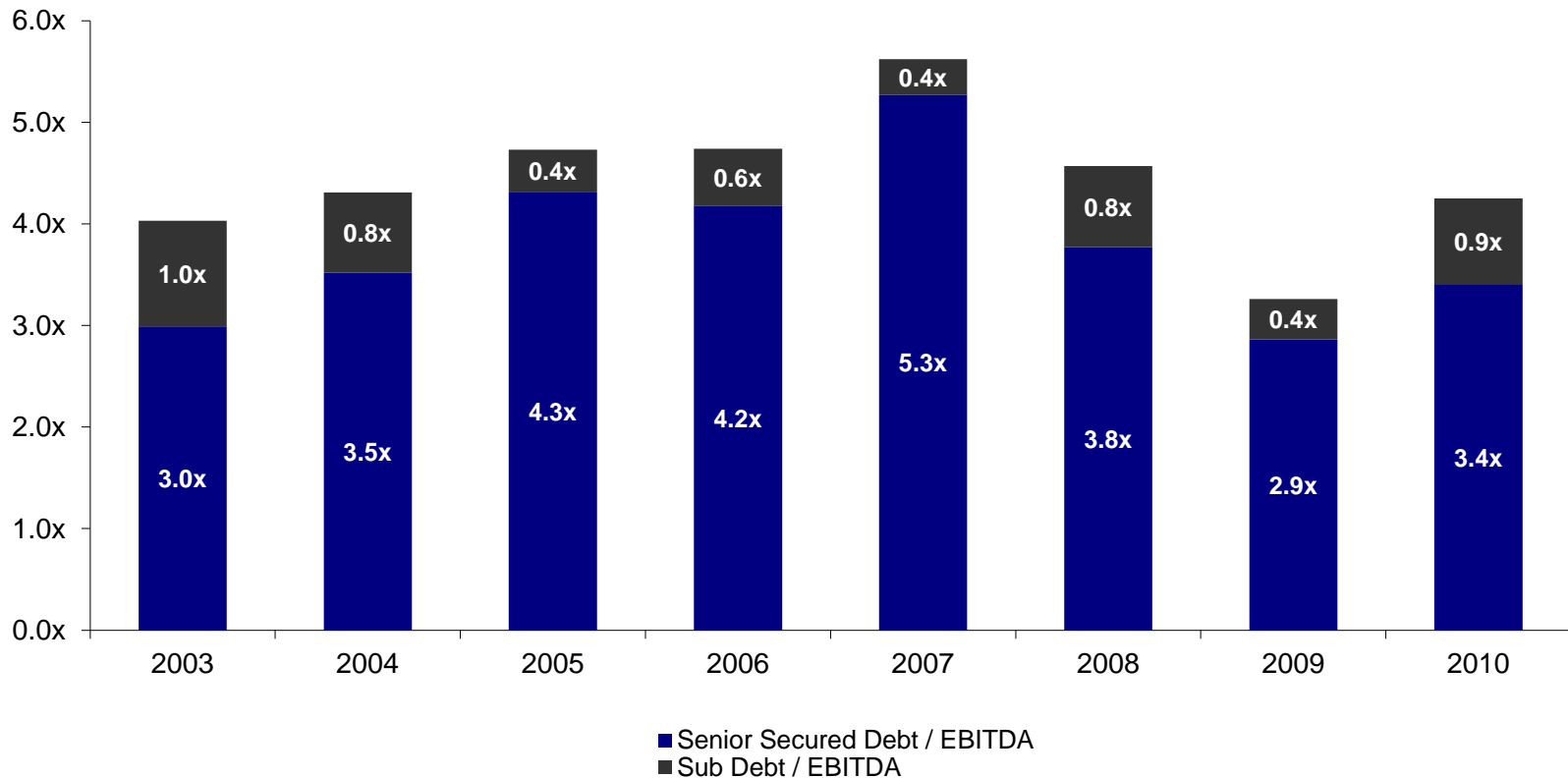
This Represents a 35.6% Reduction in Value!

	<u>2008</u>	<u>2009</u>
Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA")	\$ 5,000,000	\$ 5,000,000
Purchase Price Multiple	7.2	5.8
Enterprise Value	<u>\$ 36,000,000</u>	<u>\$ 29,000,000</u>

This Represents a 19.4% Reduction in Value!

Average Pro Forma Credit Statistics of Middle Market LBO Transactions⁽¹⁾

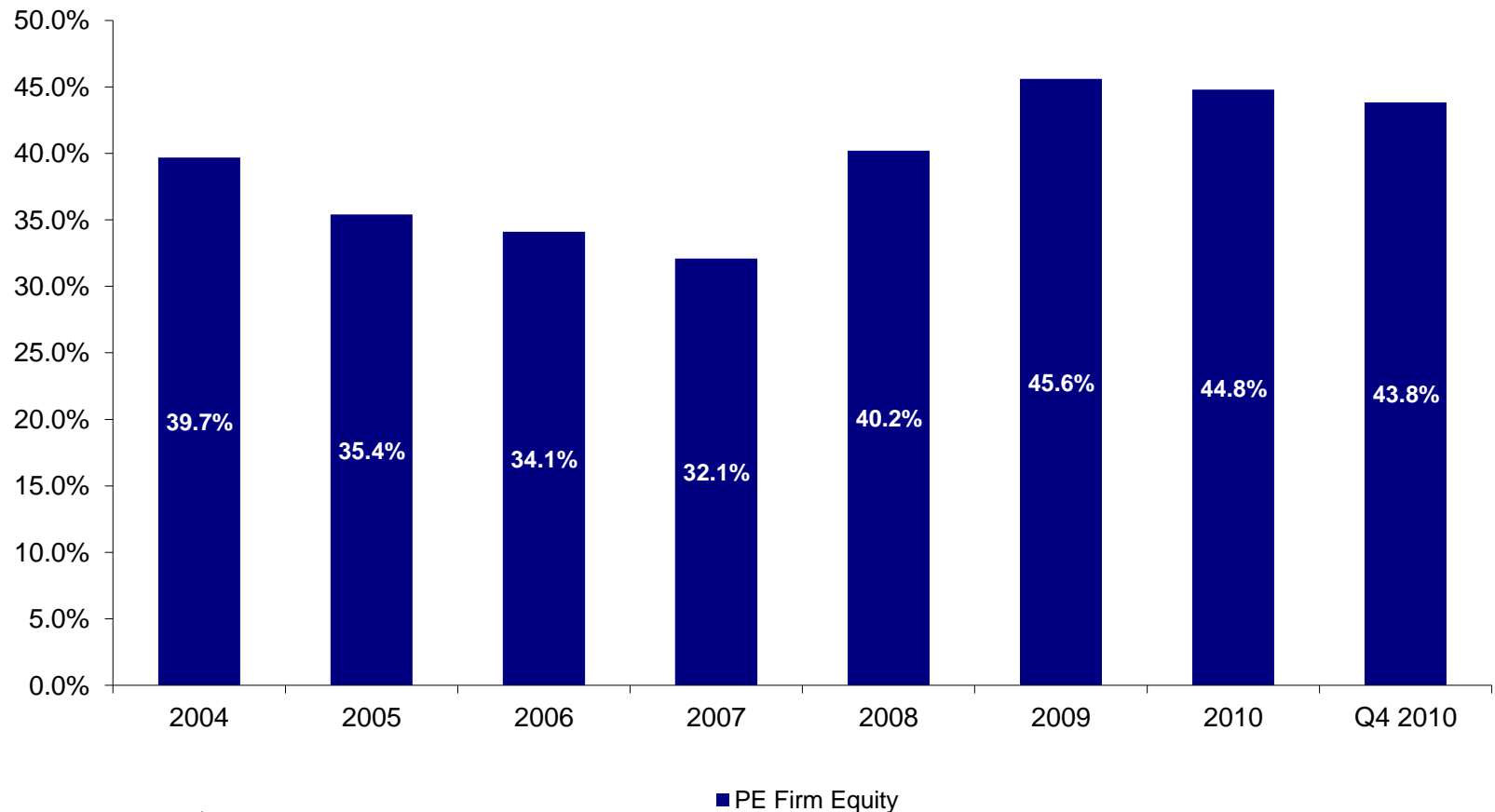
Access to Credit Improved During 2010 Resulting in Increased Purchase Price Multiples



(1) Defined as Issuers with EBITDA of \$50 million or less (excludes media and telecom loans).
Source: S&P

Average LBO Equity Contribution⁽¹⁾

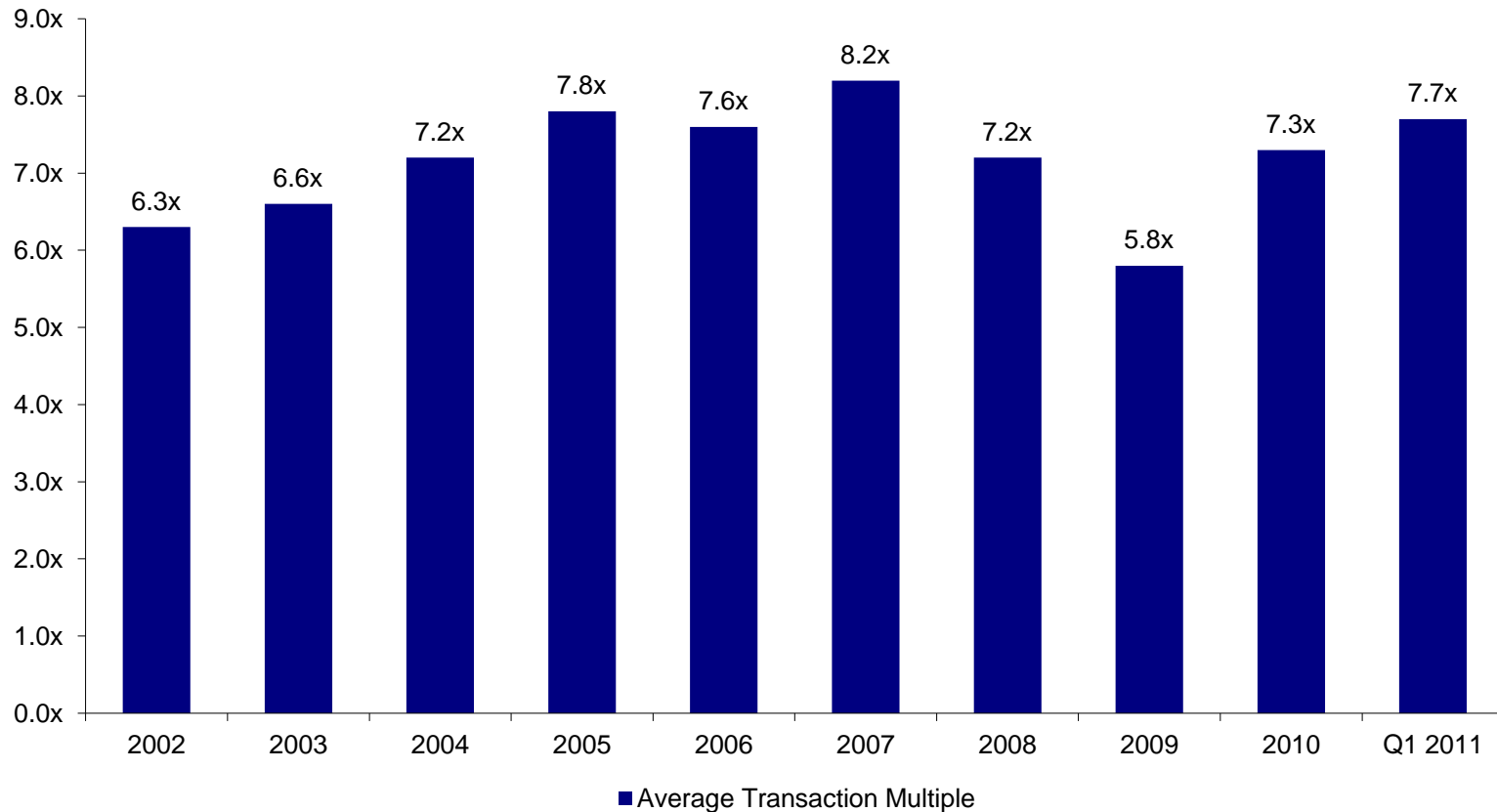
Improving Debt Availability During 2010 Reduced the Equity Requirements Despite Increased Purchase Price Multiples



(1) Deals with EBITDA \$50 million or less
Source: S&P

Transaction Multiples

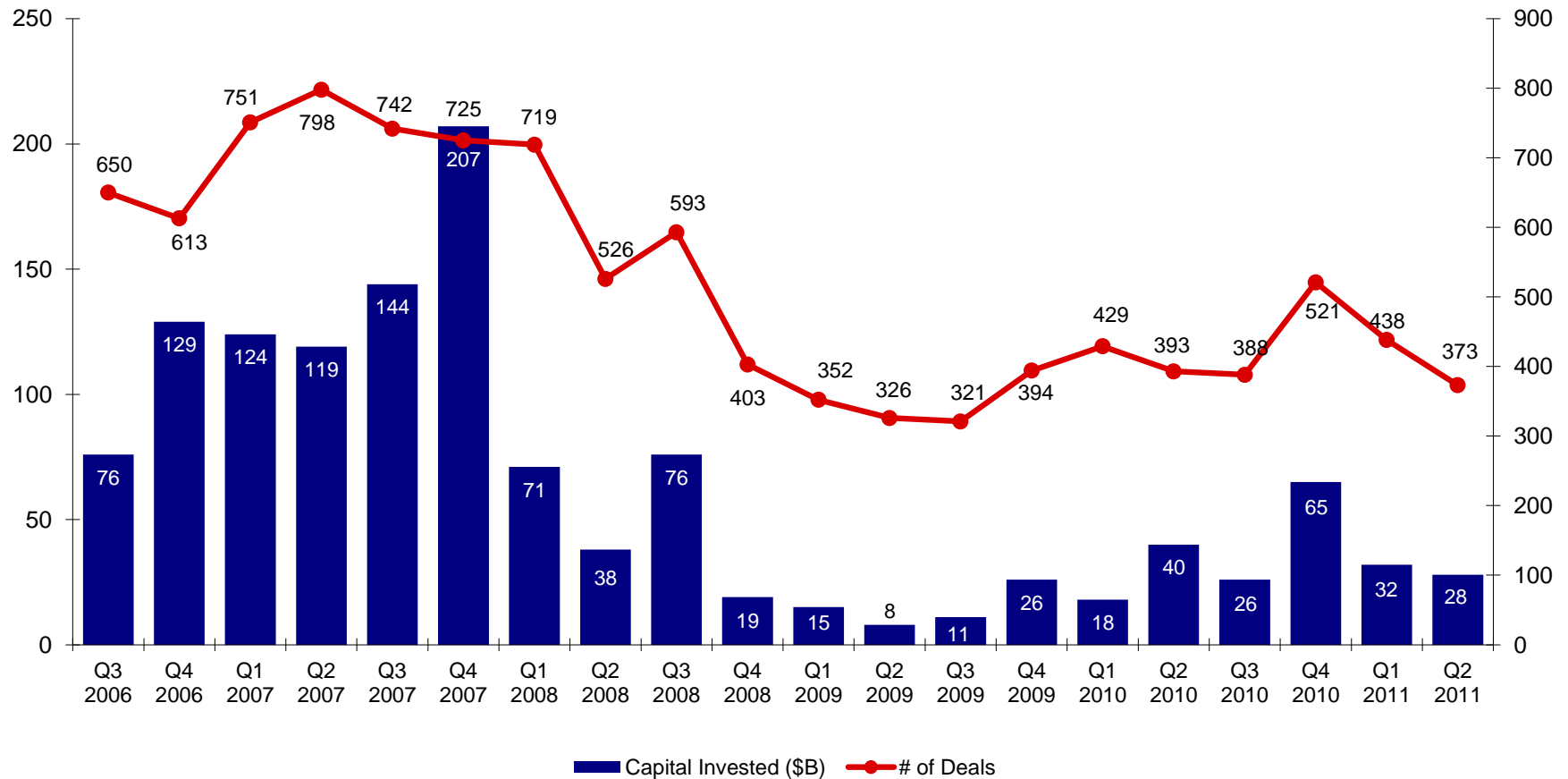
**Reduced Availability of Debt and Increased Equity Financing Results in Smaller Purchase Multiples
During 2009 and Early 2010.....However, Multiples Now Increasing**



Source: WY Campbell & Company Market Analysis (2002-2004); Capital IQ and Angle Advisors Market Analysis (2005-Q1 2011)
Excludes Technology, Media, Telecom—Transactions between \$10-\$250 million

U.S. Private Equity Deal Flow – Quarterly

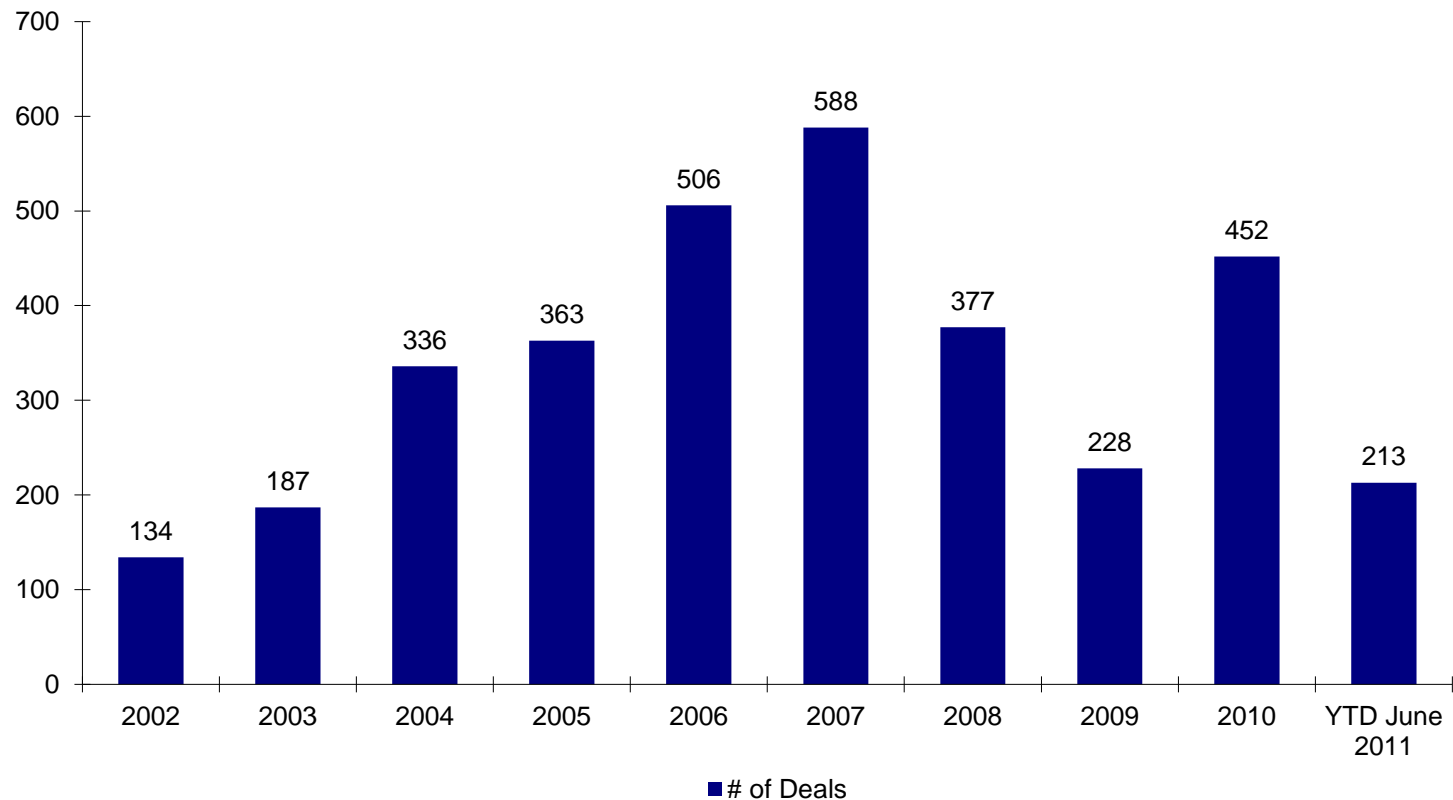
During 2010, Deals Closed and Capital Invested Increased by 21% and 147%, respectively, from 2009



Source: Pitchbook 2011

U.S. Private Equity Exits Per Year

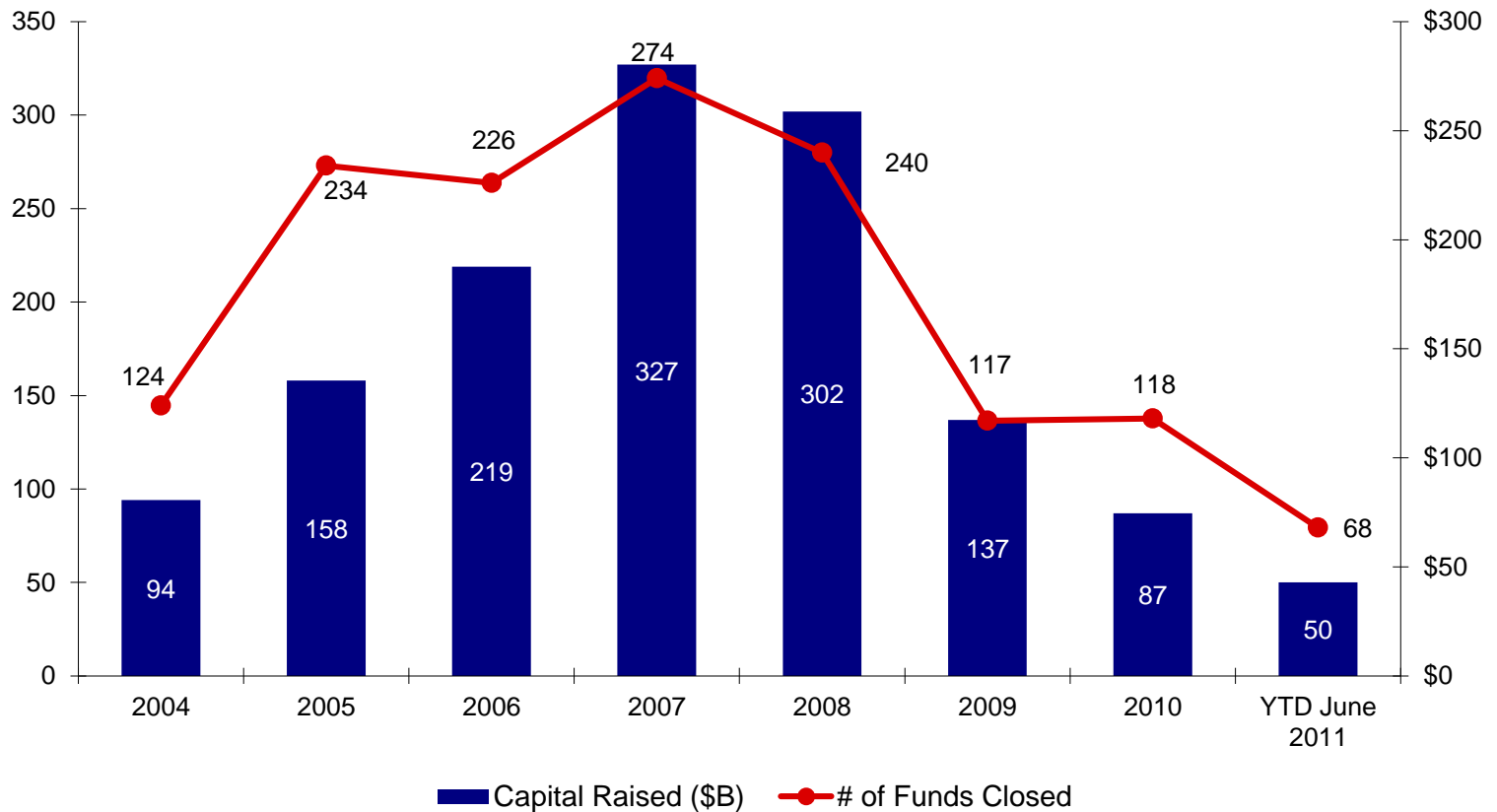
Credit Market Upheaval and Lower Valuations Significantly Reduced M&A Transaction Activity during 2009
2010 Activity Improved Due to a Strong 4th Quarter (159 Exits)



Source: Pitchbook 2011

Private Equity Fundraising by Year

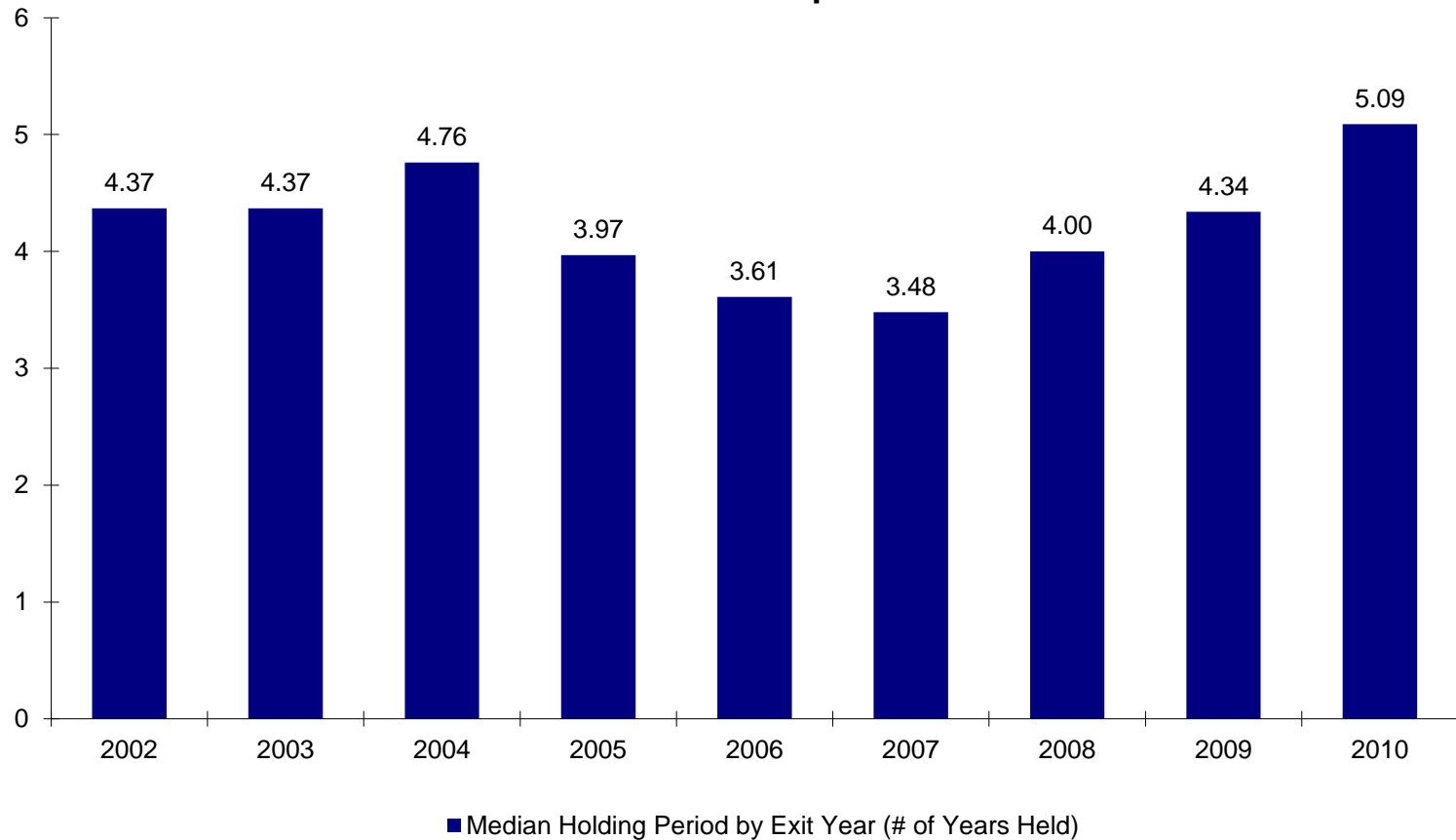
Private Equity Fundraising has Slowed Considerably due to the Capital Overhang (Estimated at \$466 Billion) Resulting From Reduced M&A Activity



Source: Pitchbook 2011

Median Holding Period of Private Equity Exits

The Median Holding Period Has Increased Due to Reduced Exits Resulting From The Turbulent Capital Markets



Source: Pitchbook 2011

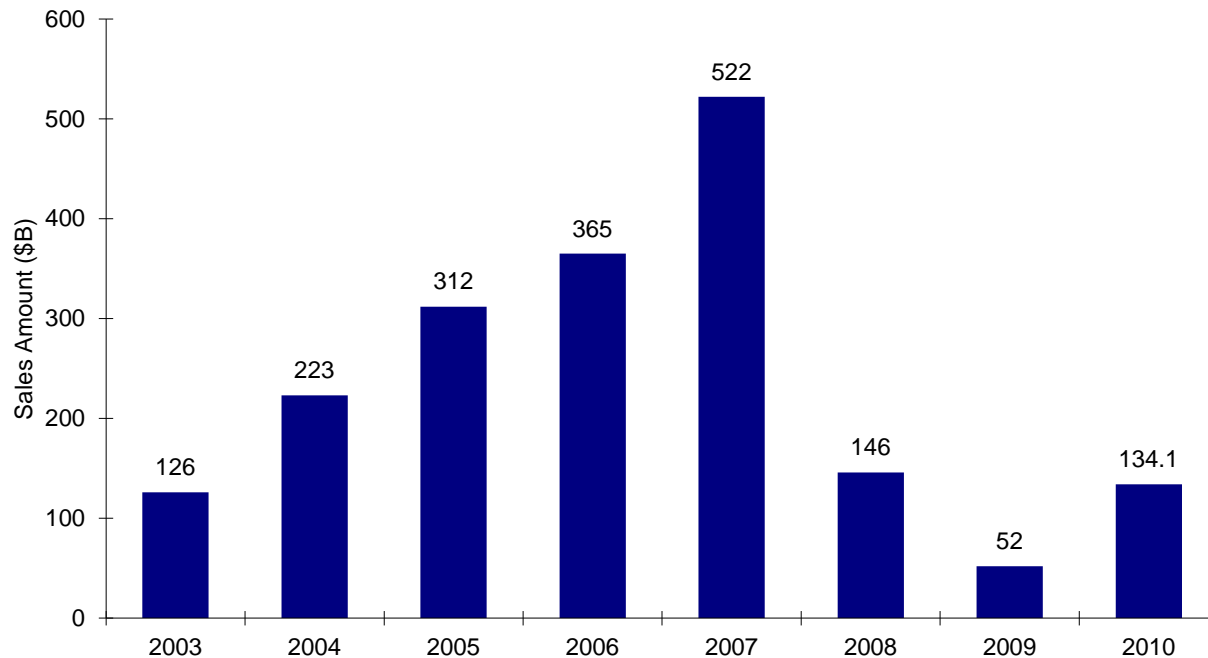
Current Assessment of Real Estate Market

VISTA Private Equity Group

CRE Sales Activity during 2010 Gaining Momentum

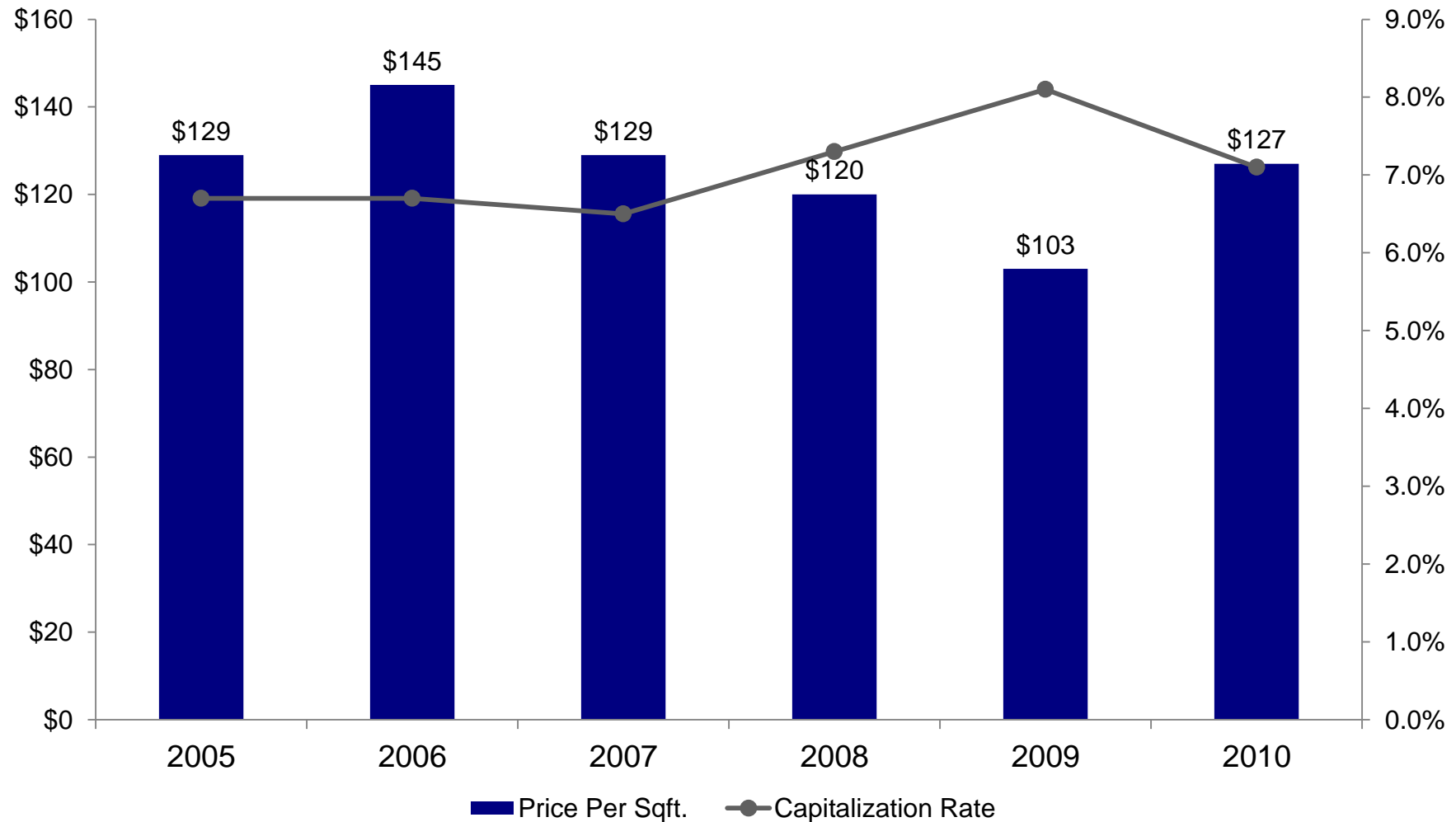
Commercial Real Estate Transactions Increased 158% from 2009 to 2010. December 2010 Sales of \$27.4 Billion Represented the Most Active Month since 2007

Commercial Real Estate Sales Transactions



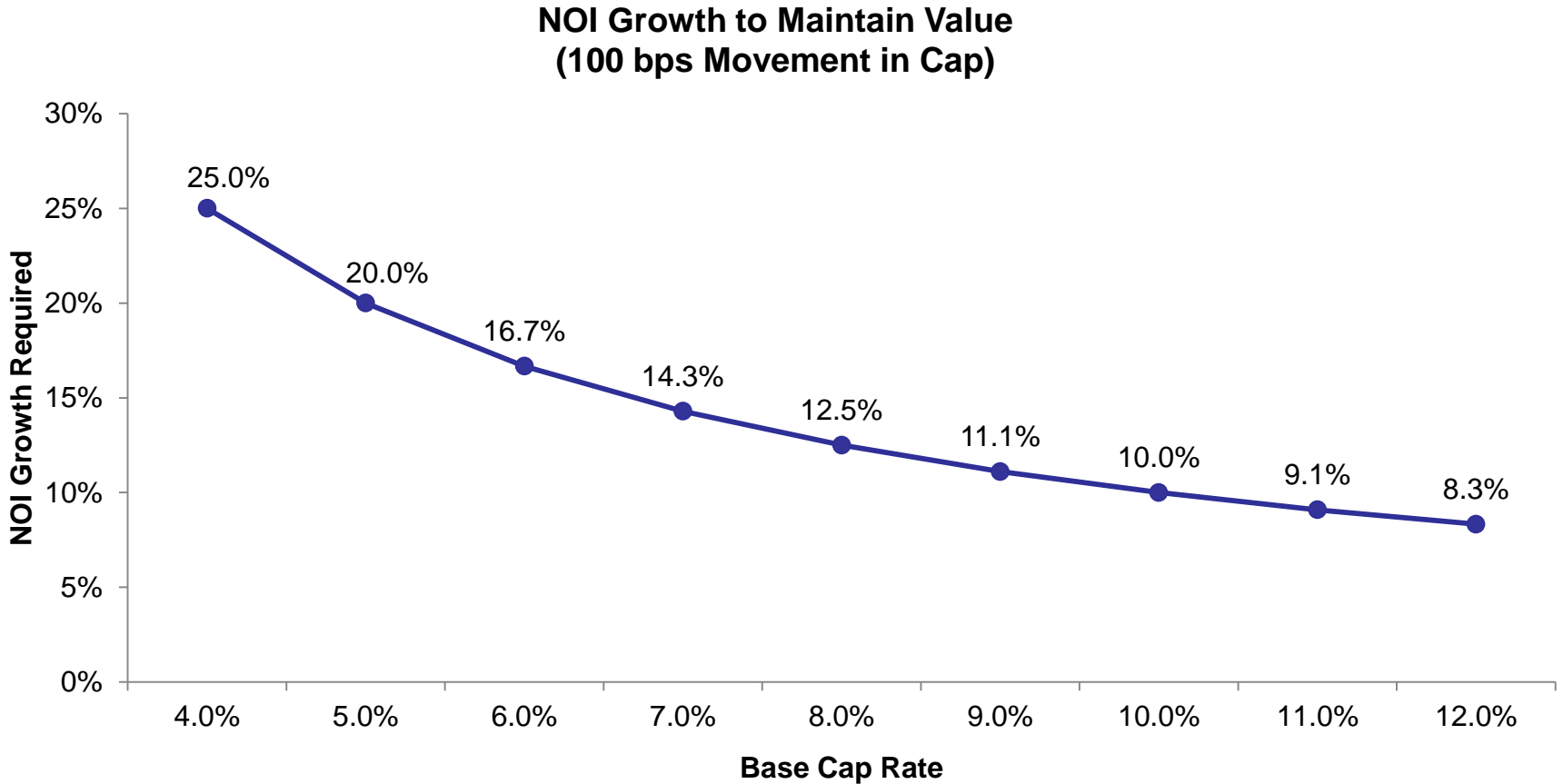
Source: Real Capital Analytics

Quarterly Sales Prices of Larger Commercial Properties



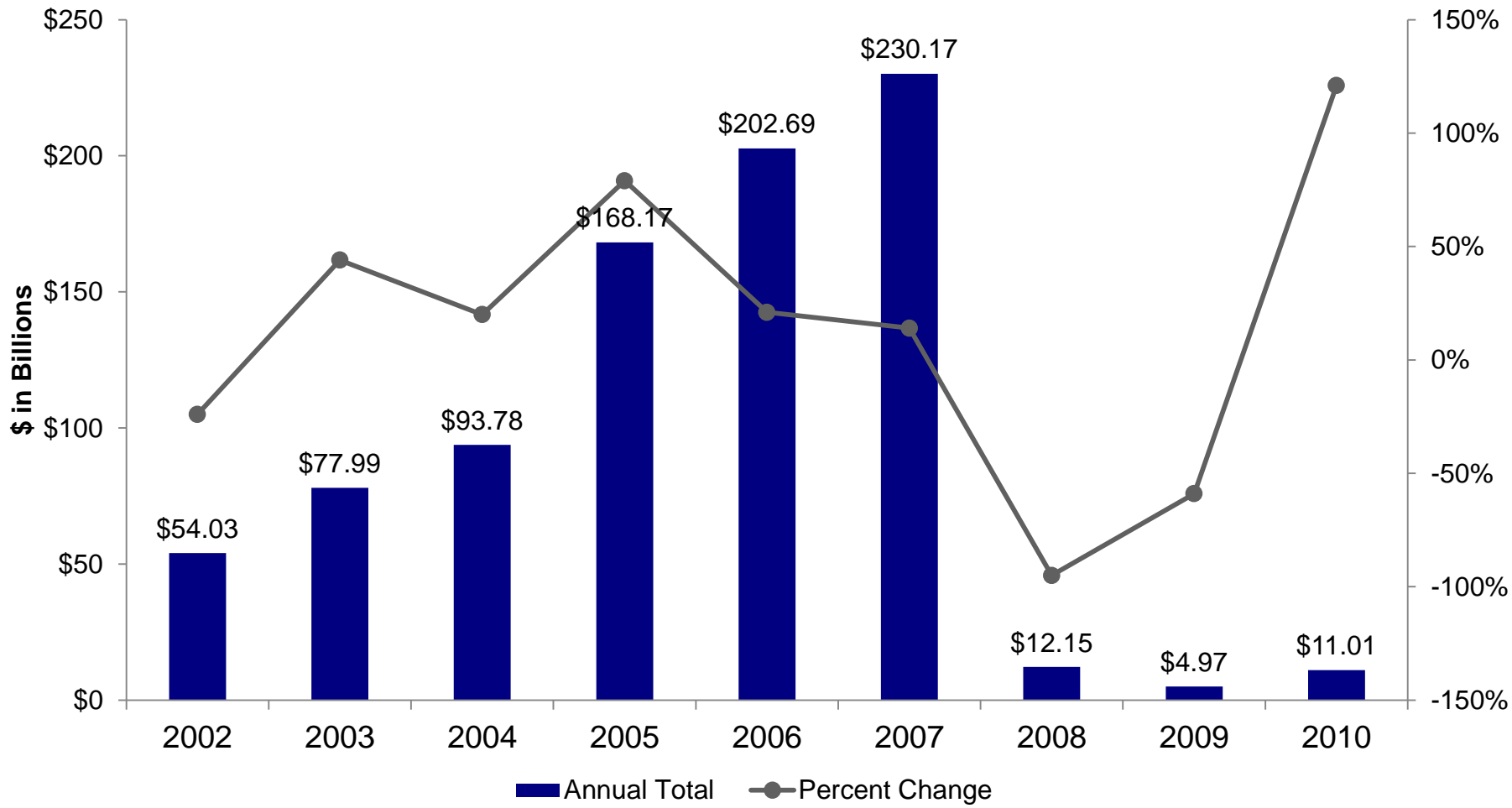
Source: Real Capital Analytics

Net Operating Income Sensitivity to Cap Rate



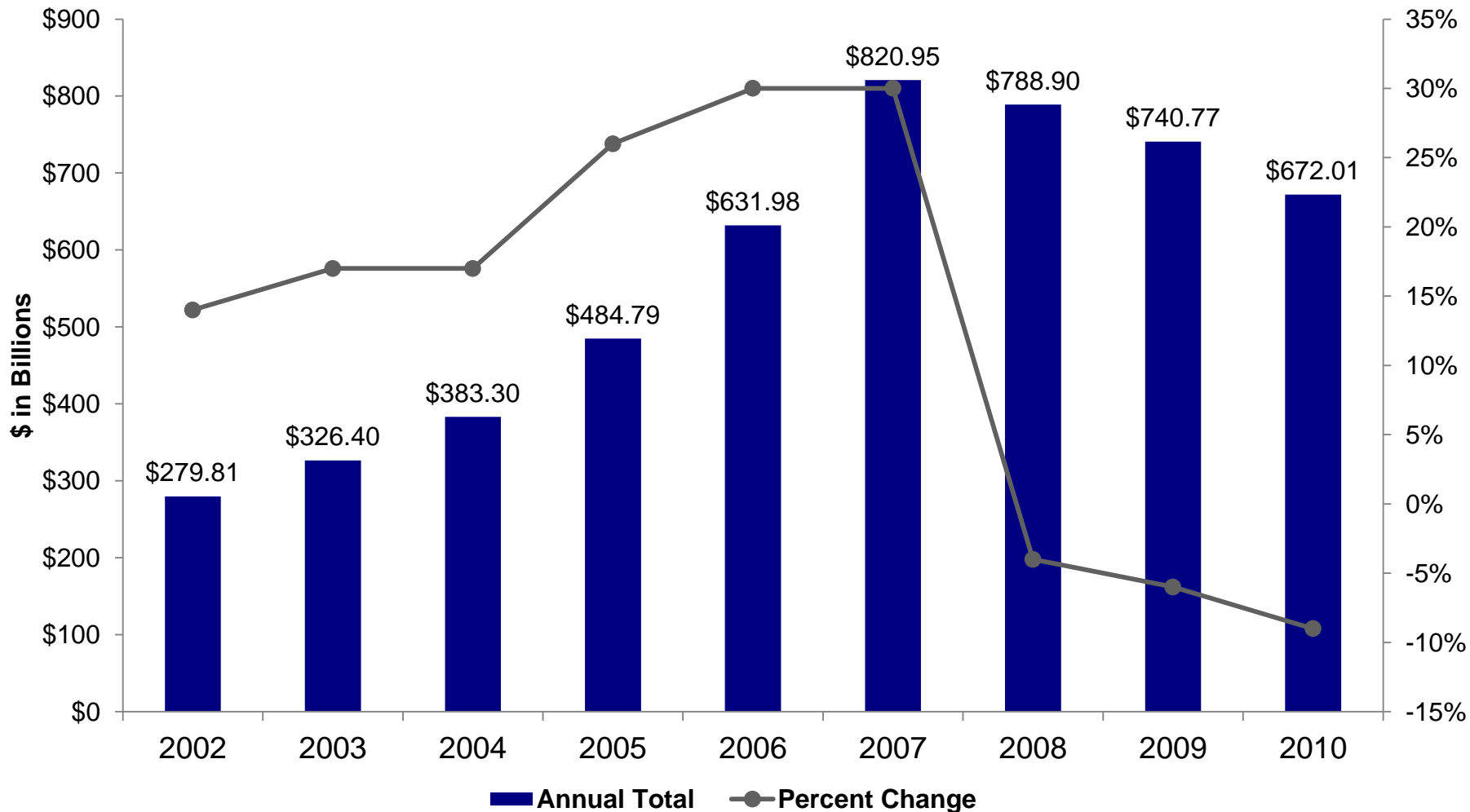
**When a 7% Cap Increases to a 8% Cap
NOI Must Increase 14.29% to Maintain Value**

Commercial Mortgaged Backed Securities (CMBS) Issuance



Note: \$9.6 Billion of CMBS has been issued through May 20, 2011 (Source: Trepp LLC); 2011 Forecast is \$40-50 Billion
 Source: Commercial Real Estate Direct (Mortgage Bankers Association)

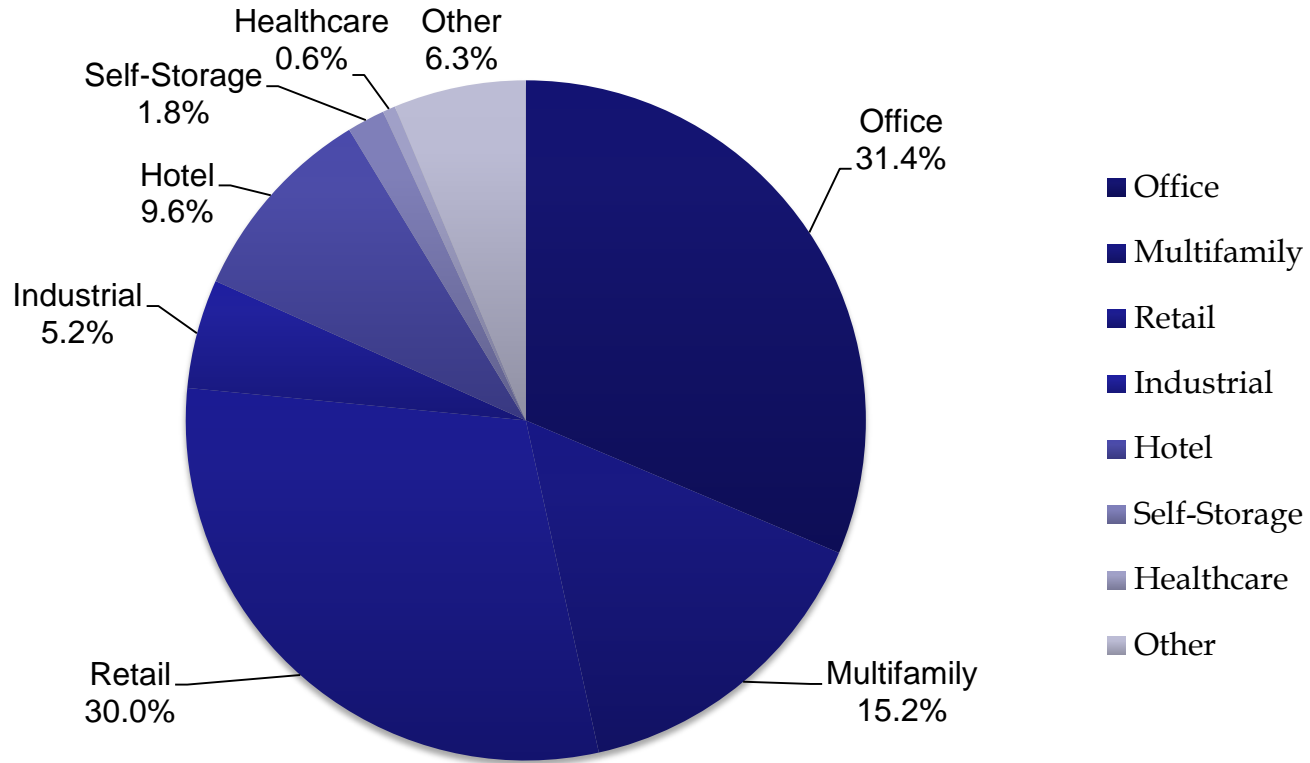
Commercial Mortgaged Backed Securities Outstanding



Source: Wachovia Capital Markets, LLC, and Intex Solutions, Inc.

Commercial Mortgaged Backed Securities

Composition of CMBS Outstanding as of December 31, 2010:

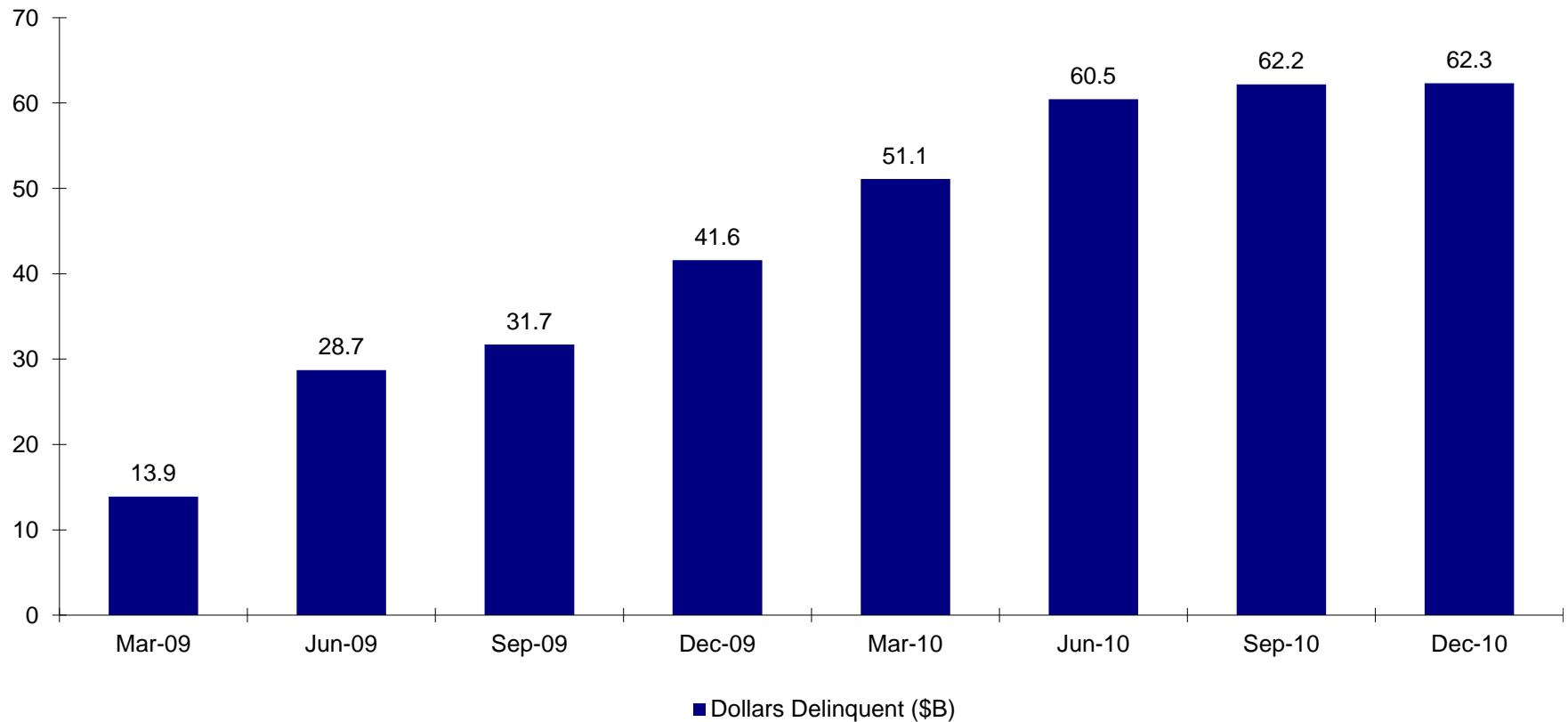


Total CMBS Outstanding \$672.0 Billion

Source: Wachovia Capital Markets, LLC, and Intex Solutions, Inc.

Monthly CMBS Delinquency – 2009 Through December 2010

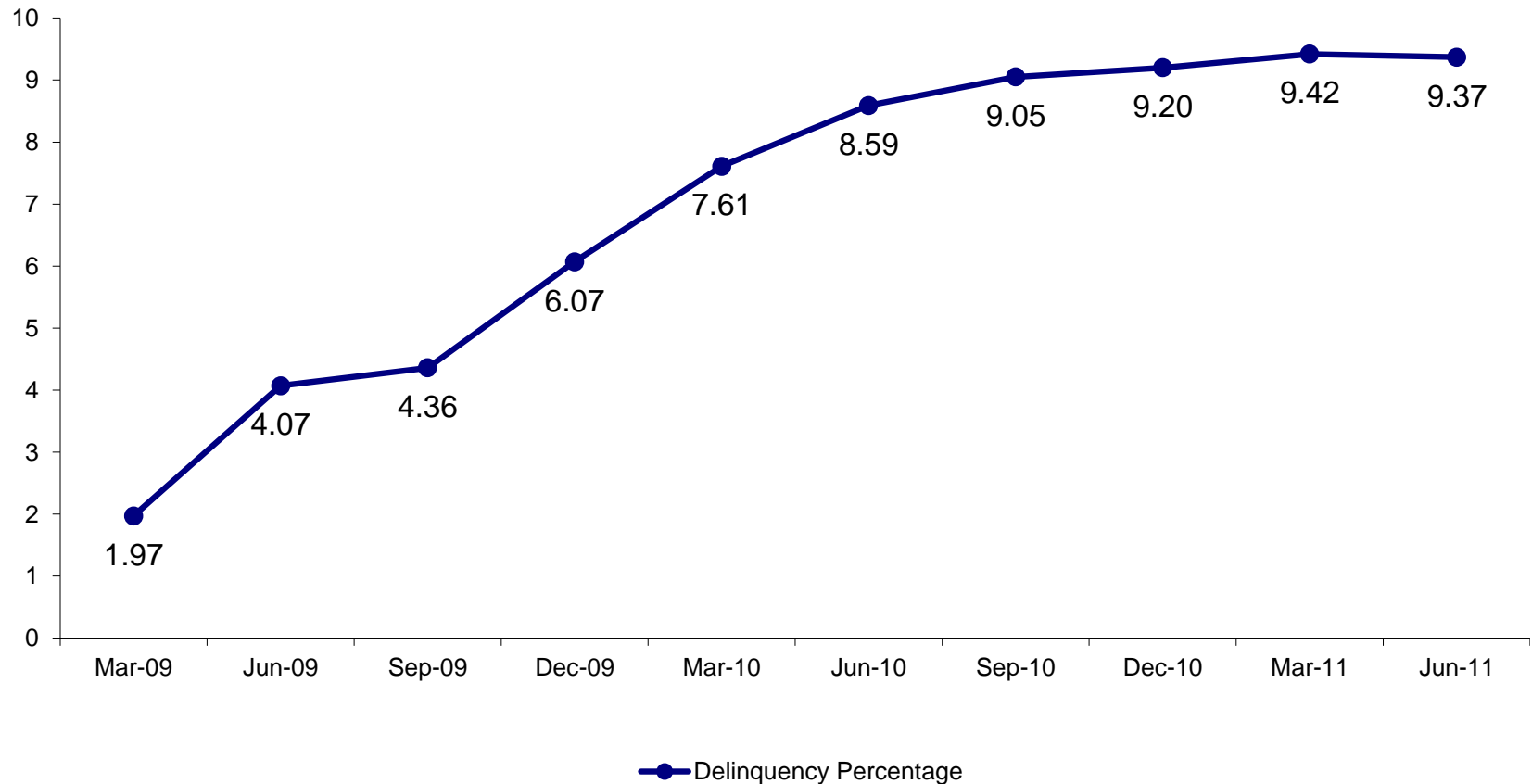
Over \$670 Billion of CMBS Loans are Outstanding with a Large Percentage Maturing Through 2017



Source: RealPoint Research January 2011

Commercial Mortgage Backed Securities Delinquency Rates

RealPoint Research Projects the Delinquency Percentage to Exceed 10% during 2011



Source: Treppwire

Major Property Types Trend Weaker

- Multifamily rate up 27Bps from March 2011---rate stabilized around 16.5%
- Hotel delinquencies down 210Bps from March 2011---down from mid-2010 highs
- Industrial rate climbs to over 11%---up 143Bps from March 2011
- Office delinquencies surpass 7%---up 22Bps from March 2011
- Retail delinquencies up 10Bps from March 2011---but stabilizing

Property Types - % 30 Days +										
	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
Industrial	1.43	2.12	2.97	3.98	5.39	5.48	6.48	8.97	10.25	11.68
Lodging	2.19	4.24	6.72	13.87	16.89	19.01	19.33	14.31	15.97	13.87
Multifamily	3.86	5.40	7.05	9.27	13.19	14.09	14.43	16.48	16.21	16.48
Office	1.27	1.91	2.70	3.42	4.73	6.04	6.62	6.93	7.13	7.35
Retail	2.11	5.86	4.41	5.50	6.03	6.68	7.13	7.86	7.72	7.82

Source: Treppwire

From a Historical Perspective

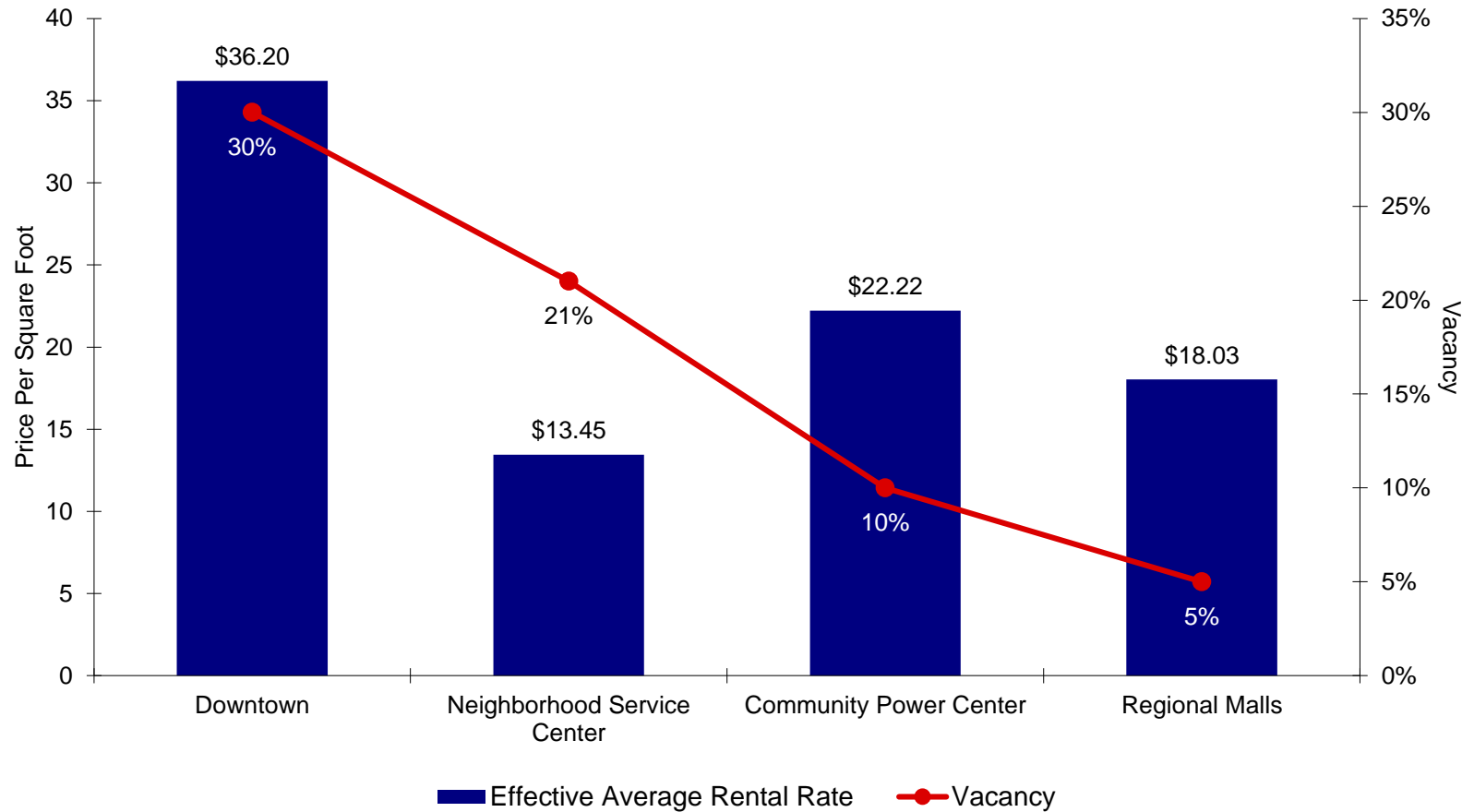
- Since December 2009, CMBS delinquency rate up almost 55%
- The delinquency rate for commercial real estate loans began to moderate in June. Since September 2010, the rate has remained between 9.0% and 9.7%
- The Delinquency Rate has Stabilized Partly Due to Increased Loan Liquidations, Modifications, Extensions and Resolutions and New CMBS Lending
- April 2011 CMBS delinquency rate of 9.65% was the highest ever recorded

Source: Treppwire

What is Driving the CMBS Delinquencies?

- Falling Commercial Real Estate Values
 - Lower Rental Rates
 - Higher Vacancies
 - Appraisals Beginning to Reflect Reduced Valuations
- Buyers Paid Too Much—Oversupply of Capital
- Excess Supply of Properties
- Loans Maturing
- Limited Refinancing Opportunities (Improving But Still an Issue)
- Owners “Underwater” and Walk
- Impact of Non-Recourse Financing

Houston Retail Market - 2010



Source: NAI Houston, October 2010

Houston Office Market - 2010

Summary of Office Market Indicators, All Space Year-End 2010

Submarket	Total Bldgs.	Total Rentable SF All Bldgs.*	SF Avail. Immediately All Bldgs.**	Direct Vacancy Rate (in Percent)	SF Under Constr. Or Renovation	Net Absorption (SF)
Downtown	216	53,468,308	5,362,032	10.0	1,817,237	-144,000
FM 1960	223	11,223,862	1,843,936	16.9	156,000	162,000
Greenspoint/North Belt	117	13,386,691	1,720,408	12.9	100,000	-5,000
Greenway Plaza	98	12,138,902	1,395,974	11.5	23,030	-12,000
Gulf Freeway/Pasadena	109	4,572,000	534,924	11.7	-	106,000
Katy Freeway/Energy Corridor	273	28,620,119	3,559,667	12.4	-	439,000
Kingwood/Humble	49	2,385,306	200,366	8.4	-	17,000
NASA/Clear Lake	155	8,689,845	651,738	7.5	100,000	104,000
Northeast	46	2,067,508	219,156	10.6	-	82,000
Northwest	190	14,910,520	2,843,489	19.1	-	19,000
South Main/Medical Center	87	10,173,247	712,127	7.0	-	-71,000
Southwest Freeway/Sugar Land	307	21,305,791	3,863,686	18.1	140,004	-557,000
West Loop	242	35,139,286	3,237,205	9.2	56,013	381,000
Westchase	108	15,513,952	1,970,272	12.7	-	-62,000
Woodlands/Conroe	167	10,873,927	1,033,823	9.5	123,530	256,000
Total-Houston	2,387	244,469,264	29,148,803	11.8	2,515,814	715,000

*Includes buildings 15,000 SF RBA and greater. Does not include buildings under construction or buildings owned by the government.

**Does not include sublet space

Source: Delta Associates

Houston Industrial Market - 2010

Summary of Industrial Market Indicators, All Space Year-End 2010

Submarket	Total Rentable SF All Bldgs.*	SF Avail. Immediately All Bldgs.**	Direct Vacancy Rate (in Percent)	Vacancy Rate w/Sublet (in Percent)	SF Under Constr. Or Renovation	Net Absorption (SF)
Central Business District	35,690,658	1,898,689	5.3	5.3	-	-348,000
East-Southeast Far	47,640,669	5,038,303	10.6	10.7	-	21,000
North Far	54,106,750	3,492,902	6.5	6.8	75,200	880,000
North Near	18,647,693	870,113	4.7	4.7	-	-30,000
Northeast Far	1,403,382	5,947	0.4	0.4	-	4,000
Northeast Near	31,033,815	1,275,586	4.1	4.3	-	-392,000
Northwest Far	56,471,711	2,849,109	5.0	5.1	334,125	1,686,000
Northwest Near	100,751,672	5,292,255	5.3	5.5	-	590,000
South Far	31,957,704	1,413,356	4.4	4.4	-	7,000
South Near	14,576,380	369,233	2.5	2.6	-	217,000
Southeast Near	37,039,691	926,762	2.5	2.7	-	-75,000
Southwest Far	11,227,551	539,989	4.8	4.9	20,000	119,000
Southwest Near	52,453,567	2,717,013	5.2	5.4	186,595	773,000
Sugar Land	18,855,282	1,183,051	6.3	6.4	52,000	876,000
Total-Houston	511,856,525	27,872,308	5.4	5.6	667,920	4,328,000

*Does not include buildings under construction or buildings owned by the government.

**Does not include sublet space

Source: Delta Associates

Real Estate Summary

- A Strong Finish to 2010 Set the Stage For a Continued Rebound in 2011. The Second Half of 2010 Gains in Sales Volume and Declines in Cap Rates Have Been Steeper Than any Other Period Over the Decade.
- The Return of Larger Deals—Portfolios and Large Individual Asset Sales—is partly responsible for the increased sales activity during 2010.
- CMBS Issuance was \$11 Billion in 2010—\$40-50 Billion expected in 2011
- Commercial Banks Continue to Reduce Their Exposure to Commercial Real Estate
 - The Smaller the Bank, the Greater Concentration in Real Estate Lending
- Increased Availability of Debt Capital During 2010, Especially CMBS, Insurance Companies and New Lenders
- Increased CMBS and Other Commercial Real Estate Defaults (“Tsunami of Debt Defaults”)
 - Future Projected Bank and CMBS Losses on the \$3.0 Trillion of Real Estate Debt Outstanding will be 10%-15% or \$300-\$450 Billion.
 - Over \$1 Trillion in Commercial Mortgages Mature in Next Four Years

Real Estate Summary (continued)

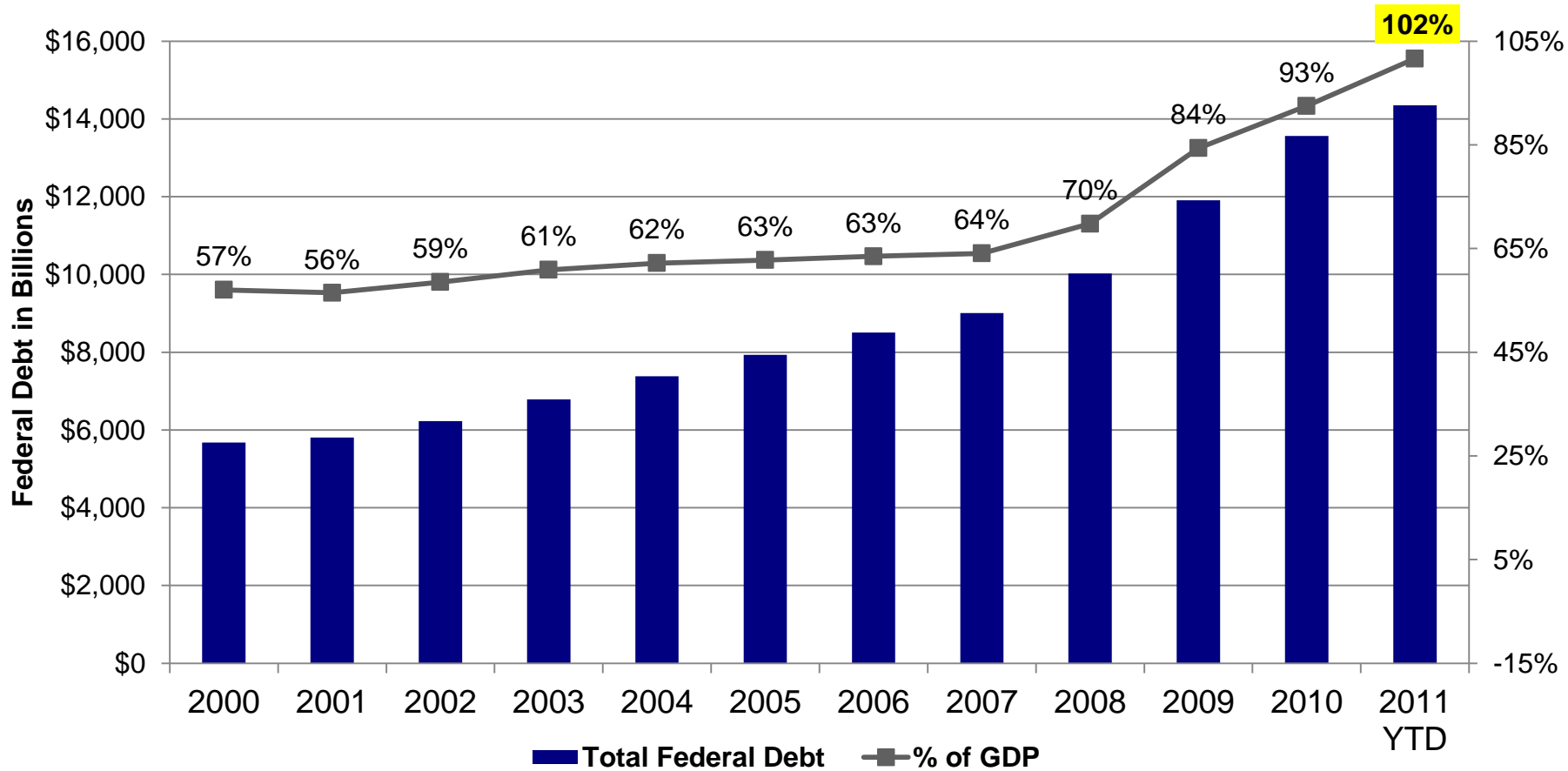
- “Cash is King”.....Eventually
 - Cash Buyer’s can buy Quality Assets at Discount to Replacement Cost with Good Positive Cash Flow after Debt Service
 - Distressed Assets Require Cash Buyers to Move Quickly
- New Construction of almost any Type, with the Exception of Multifamily, has Slowed Significantly and Will Eventually Result in Increased Rents and Absorption
- Cap Rates Declined Significantly After Steep Increases Over the last Two Years----- Expect Future Increases in Cap Rates as Interest Rates Move up
- Job Growth and Credit Availability Very Important to Continued Real Estate Market Improvement
- “Extend and Pretend” Lender Mentality Resulting in Limited Investment Opportunity for Hard Real Estate Assets—Significant REIT and Private Equity Cash on the Sidelines

Outlook for the Economy

VISTA Private Equity Group

Total Federal Debt in Proportion to GDP is Rising Fast

The National Debt has continued to increase an average of **\$4.00 billion per day** since late 2007

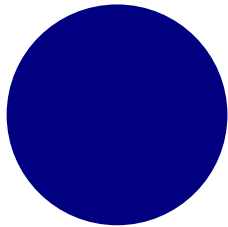


Source: Bureau of Economic Analysis (www.bea.gov) and Treasury Direct (www.treasurydirect.gov)

USA Balance Sheet Liabilities (NPV)

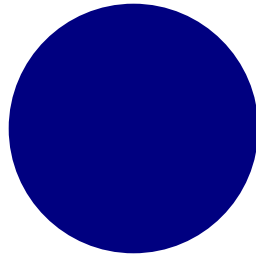
**Unfunded
Social Security**

\$7.9 Trillion



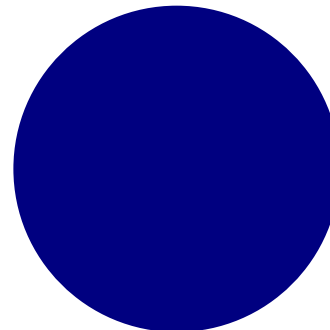
Federal Debt

\$14.4 Trillion
(\$46K Per Citizen)



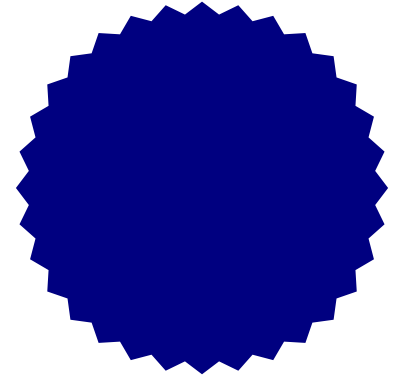
**Unfunded
Medicare**

\$22.8 Trillion



**Unfunded
Medicaid**

\$35.3 Trillion



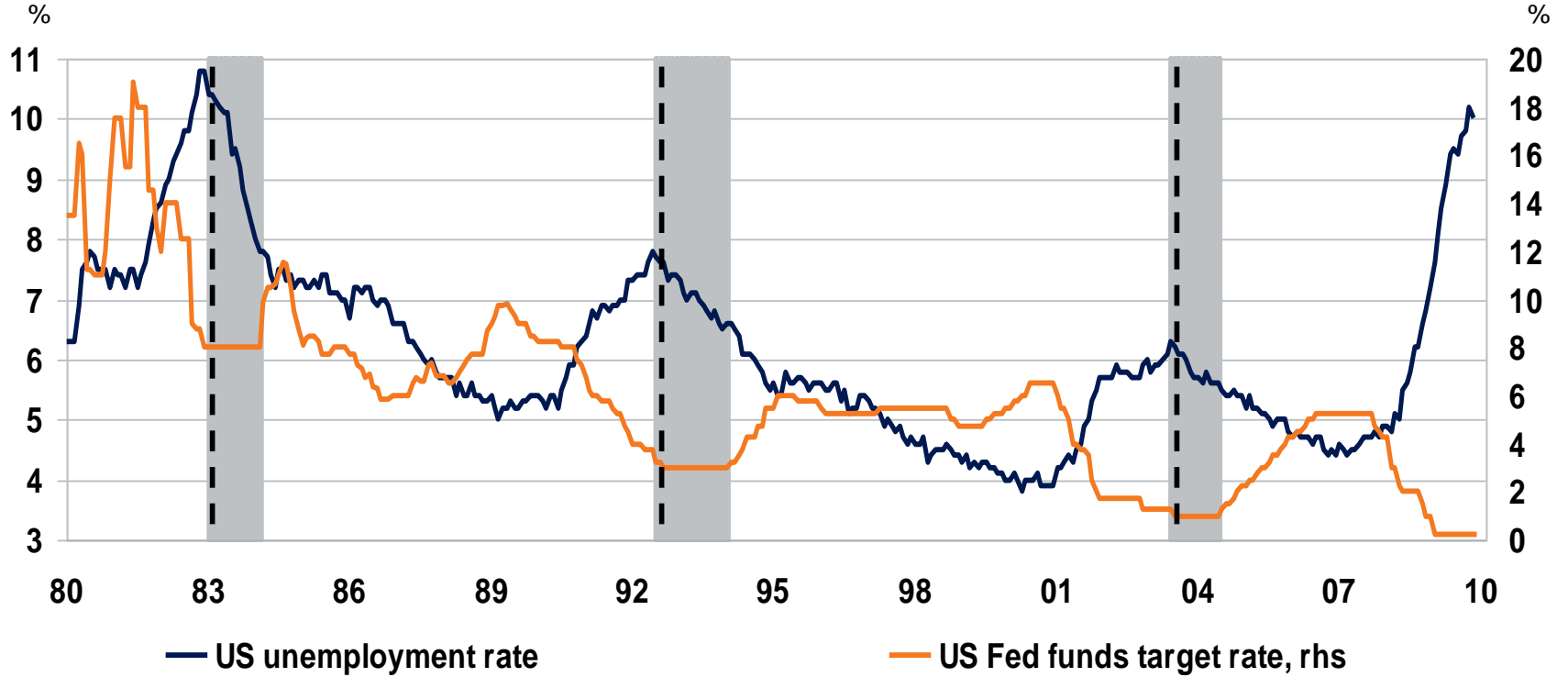
Source: A Basic Summary of America's Financial Statements, USA Inc., Mary Meeker (PIMCO April 2011 Investment Outlook)

USA Balance Sheet Liabilities (Cont.)

- \$65 trillion of entitlement liabilities shown above are not some estimate of **future** spending, they are the discounted net present value of **current** spending should it continue at the projected demographic rate.
- The \$14.4 trillion federal debt that constitutes the next-to-tiniest ball in our chart is nothing compared to unfunded Medicaid and Medicare
- The interest expense on the \$80 trillion total unfunded obligations would equal \$2.8 trillion, quite close to the current level of entitlement spending for Social Security, Medicare, and Medicaid.

When Will Interest Rates Rise?

Rates normally rise after the peak in unemployment



Vertical dotted lines indicate peak in unemployment rate

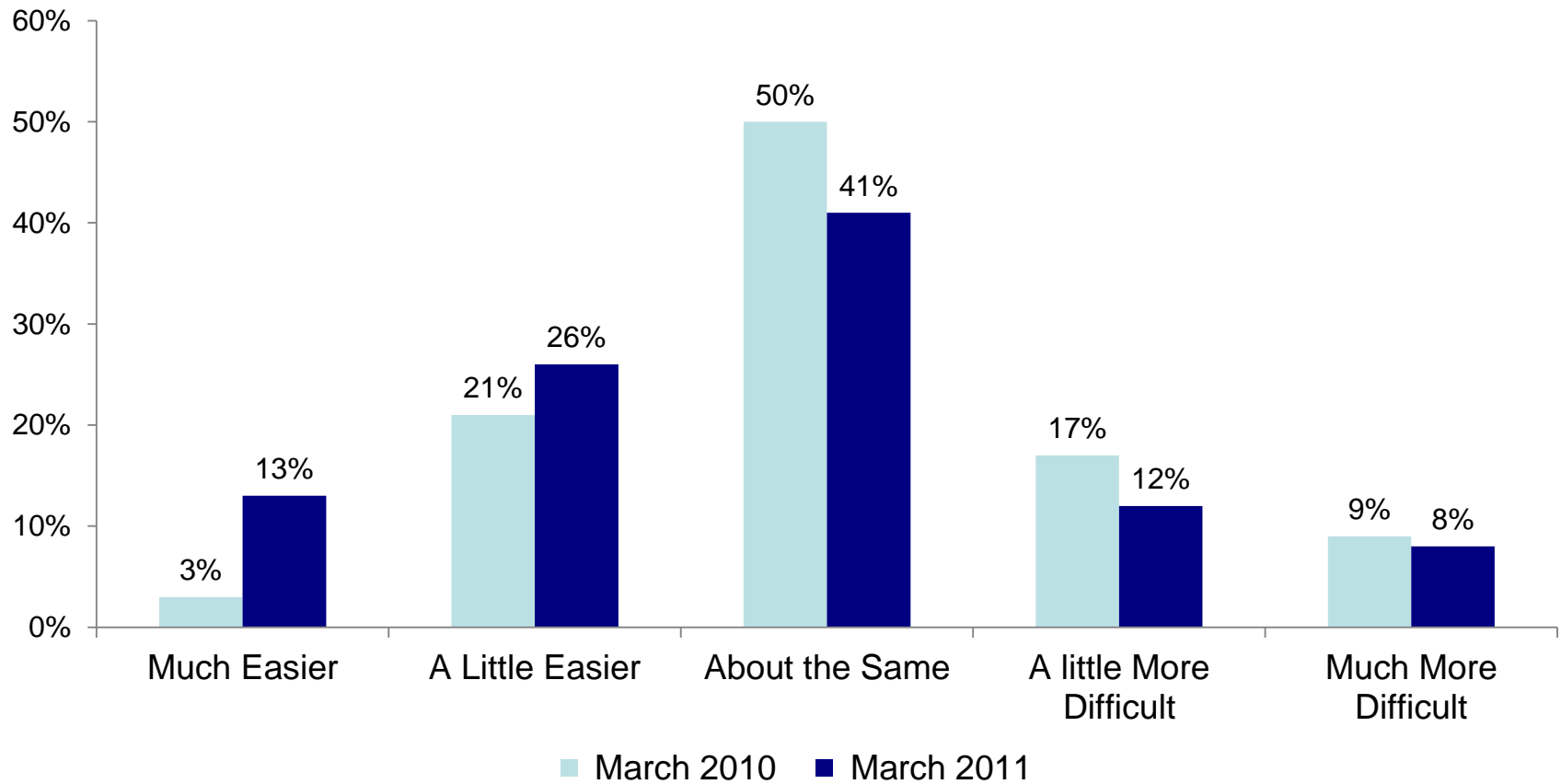
Source: Thomson Datastream, January 6, 2010.

Shaded areas show the period between the peak in the unemployment rate and the first interest rates rise. Chart is shown for illustrative purposes.

The opinions stated include some forecasted views. We believe that we are basing our expectations and beliefs on reasonable assumptions within the bounds of what we currently know. However, there is no guarantee that any forecasts or opinions will be realized.

Easier Credit

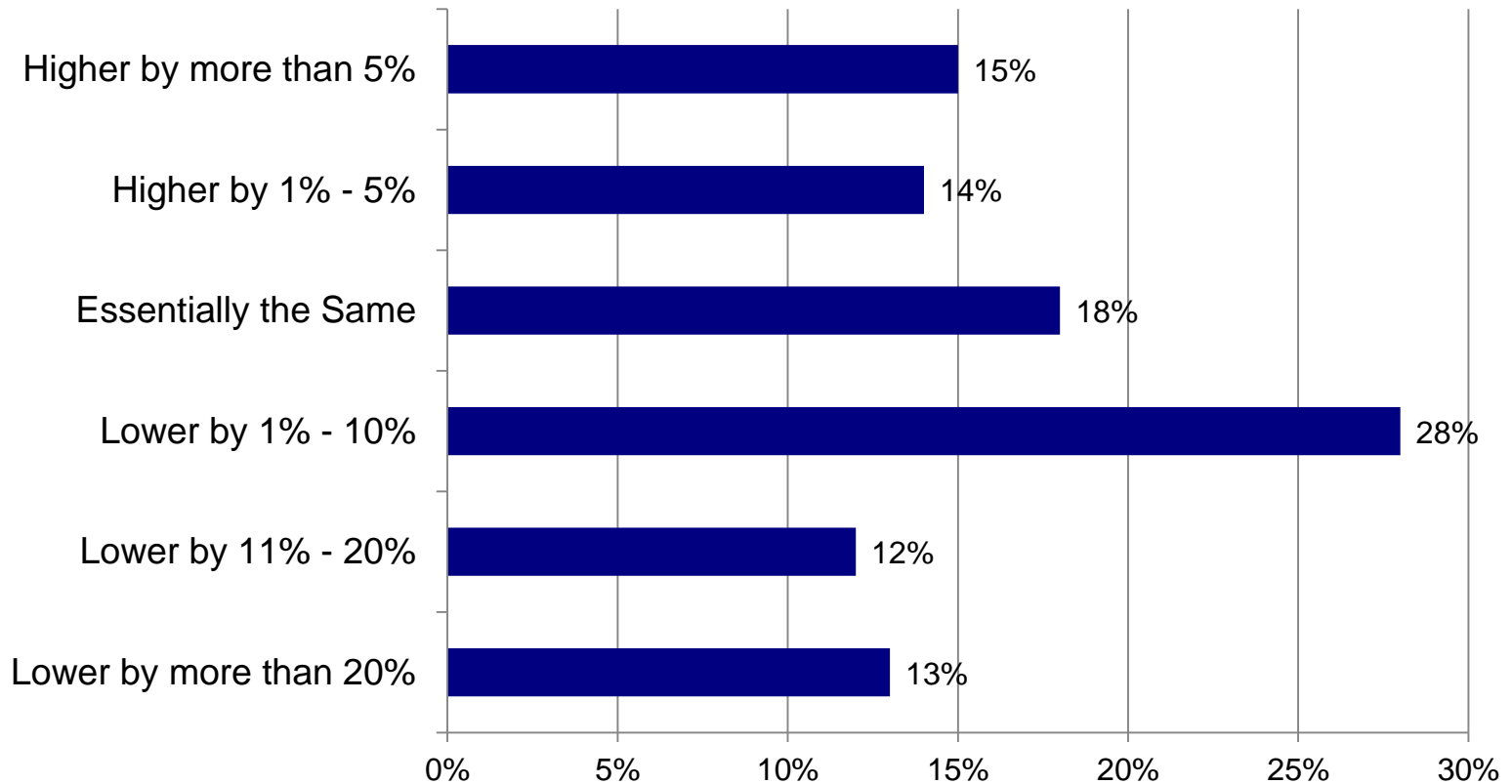
Compared with Spring 2010, does your company now find borrowing:



Source: Duke University/CFO Magazine Global Business Outlook Survey of 854 CFOs – 512 from the US, 126 from Europe, 132 from Asia (not including China), and 84 from China (April 2011 CFO Magazine)

Employment Status

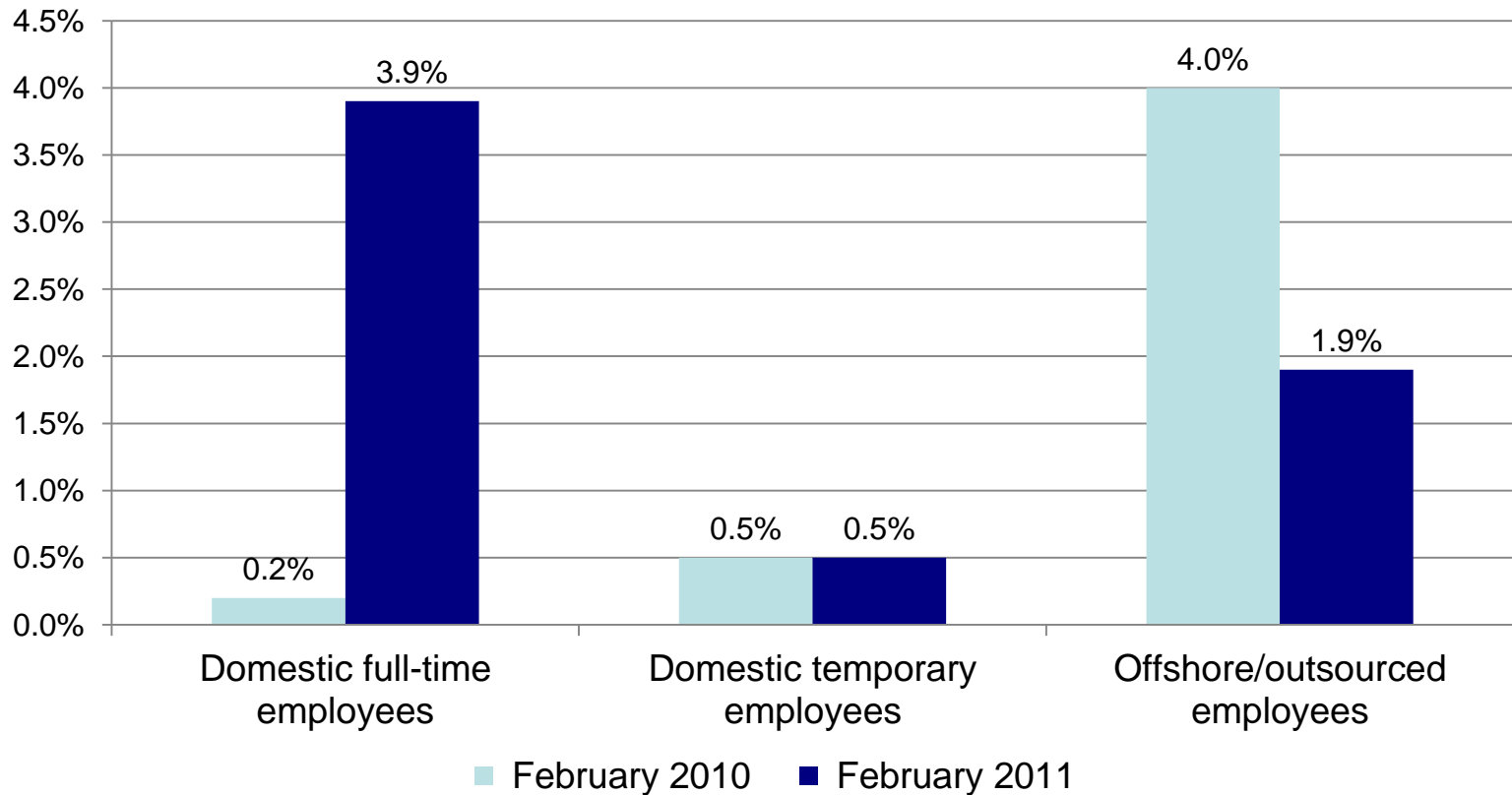
How does the number of full-time employees at your company today compare with the pre-recession figure circa mid-2008:



Source: Duke University /CFO Magazine January 2011 survey of 418 senior finance executives (March 2011 CFO Magazine)

Employment Outlook

What will be your company's percentage change over the next 12 months regarding:



Source: Duke University /CFO Magazine January 2011 survey of 418 senior finance executives (March 2011 CFO Magazine)

Top Concerns of CFOs

About the Macro Economy:

- 1 • Consumer Demand
- 2 • Federal Government agenda/policies
• Price pressure from competitors
- 3 • Credit market/interest rates
• Cost of fuel
• Cost of nonfuel commodities
• Federal budget deficit
• State or local government budget deficits
- 4 • National employment outlook
• Global financial instability
- 5 • Financial regulation
• Foreign competition

Source: Duke University/CFO Magazine Global Business Outlook Survey of 854 CFOs – 512 from the US, 126 from Europe, 132 from Asia (not including China), and 84 from China (April 2011 CFO Magazine)

Top Concerns of CFOs

About Their Own Companies:

- 1 • Ability to maintain margins
- 2 • Ability to forecast results
• Cost of healthcare
• Maintaining morale/productivity
- 3 • Attracting/retaining qualified employees
• Working capital management
- 4 • Supply chain risk
- 5 • Balance sheet weakness

Source: Duke University/CFO Magazine Global Business Outlook Survey of 854 CFOs – 512 from the US, 126 from Europe, 132 from Asia (not including China), and 84 from China (April 2011 CFO Magazine)

Cost of Living in Houston

In Houston, your dollar has a much higher buying power than virtually any other major metropolitan area in the country

- The Third Quarter 2010 ACCRA Cost of Living Index shows that Houston's overall after-taxes living costs are 9% below the nationwide average, largely due to housing costs that are 21% below the average.
- In the context of the 27 participating metropolitan areas with more than 2 million residents, Houston's cost-of-living advantage is even more pronounced. Houston's housing costs are 38% below the average for the large metro areas, and its overall costs are 19% below the average for this group.

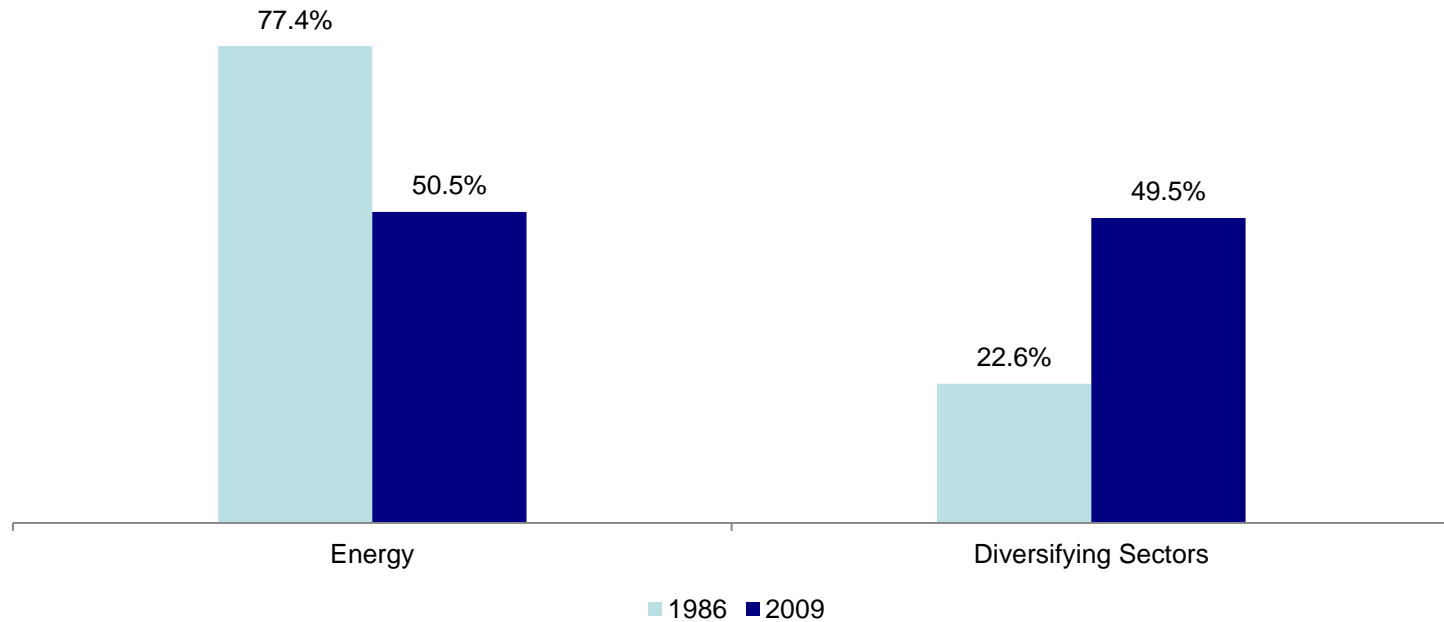
Metropolitan Statistical Area	Composite	Groceries	Housing	Utilities	Transportation	Health Care	Misc Goods & Services
New York-Newark-Edison NY-NJ-PA	154.4	124	231.2	149.2	106.7	114.1	121.8
Los Angeles-Long Beach-Santa Ana CA	141.3	107.3	220.8	106.1	116.8	110.9	107.2
Washington-Arlington-Alexandria DC-VA-MD-WV	135.1	109.3	205.1	110.8	105.8	103.9	104.6
Boston-Cambridge-Quincy MA-NH	132.4	113.3	156.1	140.2	103.6	122.2	128.4
Minneapolis-St. Paul-Bloomington MN-WI	111.9	110.8	118	108.2	101.9	106.5	112.5
Miami-Fort Lauderdale-Miami Beach FL	110.5	115.1	122.2	94.2	106.8	104.9	105.4
Chicago-Naperville-Joliet IL-IN-WI	107.4	104.9	118.4	102	107.7	108.2	99.8
Denver-Aurora CO	103.9	104.1	111.3	98.5	95.6	108.1	101.4
Atlanta-Sandy Springs-Marietta GA	94.7	96.4	88.1	88.5	99.2	107.9	98.4
Houston-Sugar Land-Baytown TX	91	87.6	79	96.2	95.2	97.2	99.3

Source: Council for Community and Economic Research, ACCRA Cost of Living Index, Third Quarter 2010

Economic Base Diversification

Houston's economic base has diversified, sharply decreasing its dependence on energy

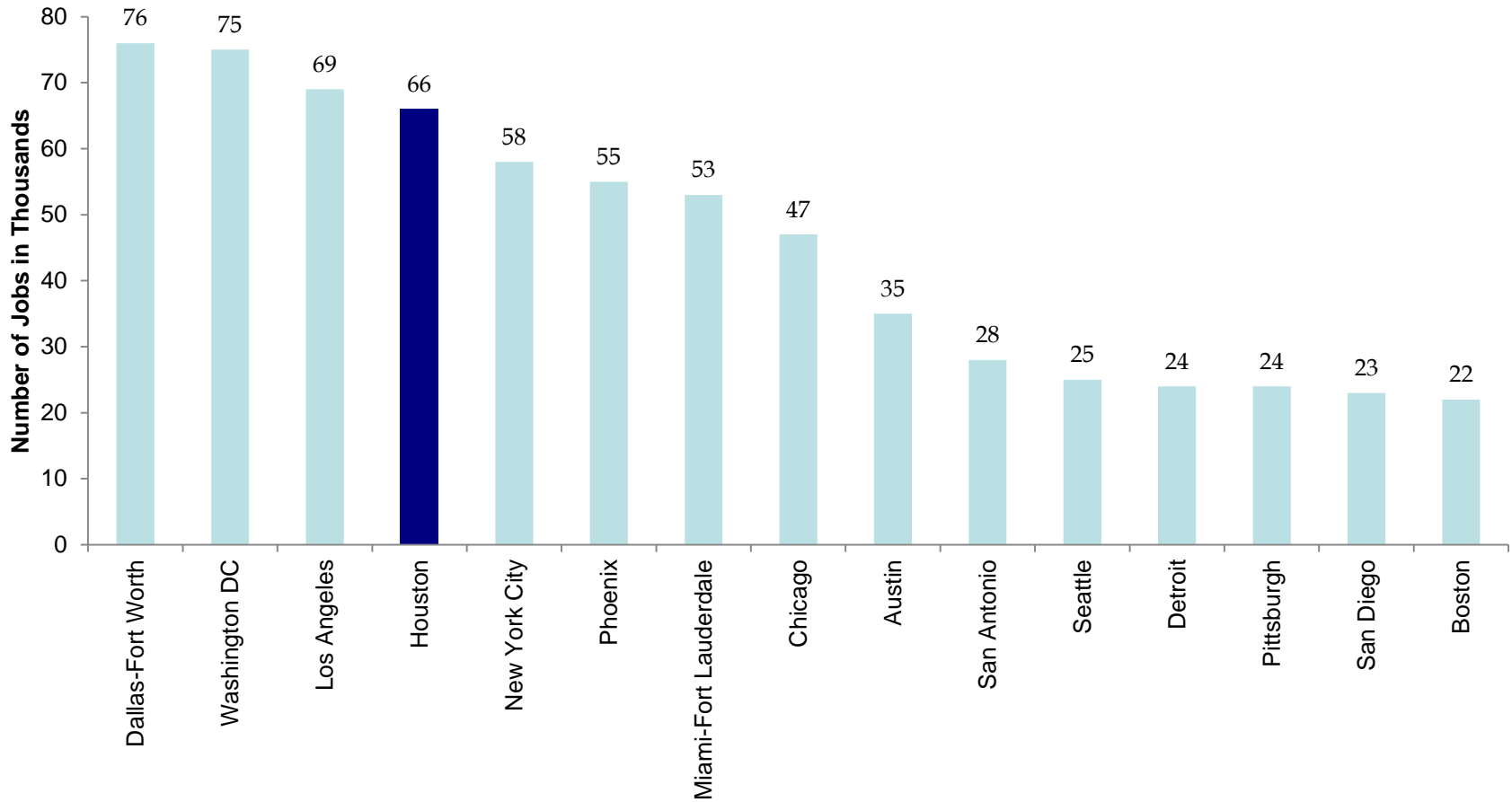
Houston MSA Economic Base Employment



Source: Institute for Regional Forecasting, University of Houston, Feb 2010

Adding Jobs Back Fast

Number of Jobs Created Since Troughing in Employment (000s)



Source: Bureau of Labor Statistics

Population Growth Projections

Ranked by Resident Growth 2009 to 2014		
<u>Rank</u>	<u>MSA</u>	<u>Change</u>
1	Houston-Baytown TX	626,200
2	Atlanta-Sandy Springs GA	602,800
3	Phoenix-Mesa-Scottsdale AZ	591,900
4	Los Angeles-Long Beach CA	505,800
5	Dallas-Plano TX	472,500
6	Washington-Arlington DC-VA-MD-WV	270,400
7	Austin-Round Rock TX	250,900
8	Fort Worth-Arlington TX	238,900
9	Chicago-Naperville IL	238,000
10	San Antonio TX	227,000

Source: Moody's (December 2010)

Employment Growth Projections

Ranked by Job Growth 2009 to 2014		
<u>Rank</u>	<u>MSA</u>	<u>Change</u>
1	New York-Wayne NY-JN	381,700
2	Houston-Baytown TX	336,100
3	Atlanta-Sandy Springs GA	288,500
4	Dallas-Plano TX	264,800
5	Washington-Arlington DC-VA-MD-WV	239,700
6	Los Angeles-Long Beach CA	224,000
7	Chicago-Naperville IL	192,600
8	Minneapolis-St. Paul MN-WI	173,400
9	Phoenix-Mesa-Scottsdale AZ	139,700
10	Austin-Round Rock TX	127,900

Source: Moody's (December 2010)

Near-Term Trends / Risks

- National Debt Increasing to Unsustainable Levels, and Ongoing Concerns About Global “Debt” Shocks to the System (e.g. Greece)
- Potential effects of a U.S. technical default (defined as any delay in interest or principle payment on the U.S. Treasury) or rating downgrade
 - In the event of a rating downgrade, treasury yields are expected to rise 50-100Bps in the long term
 - We believe that the debate will go to the brink, and that Congress will raise the debt ceiling just before the recess begins on August 6th with only modest progress being made on long-term deficit reduction
- Interest Rates Heading Higher (Potentially MUCH Higher)
- Inflation Pressure Due to Growth in Money Supply to Fund Deficit
- Job Growth and Credit Availability Will Continue to Improve—But it Will be Slower than Anticipated
- Tax Rates are Heading Higher—Bush Tax Cuts Rescinded After 2012 and Higher Capital Gains Rates
- National Value-Added Tax (“VAT”)—Don’t be Surprised!
- Increased State and Local Bond Defaults/Bankruptcy Risk---Less Federal Funds Available for State/Local Governments
- Unfunded Pension Liabilities Impacting State Budgets/Deficits

Planning for the Exit Strategy

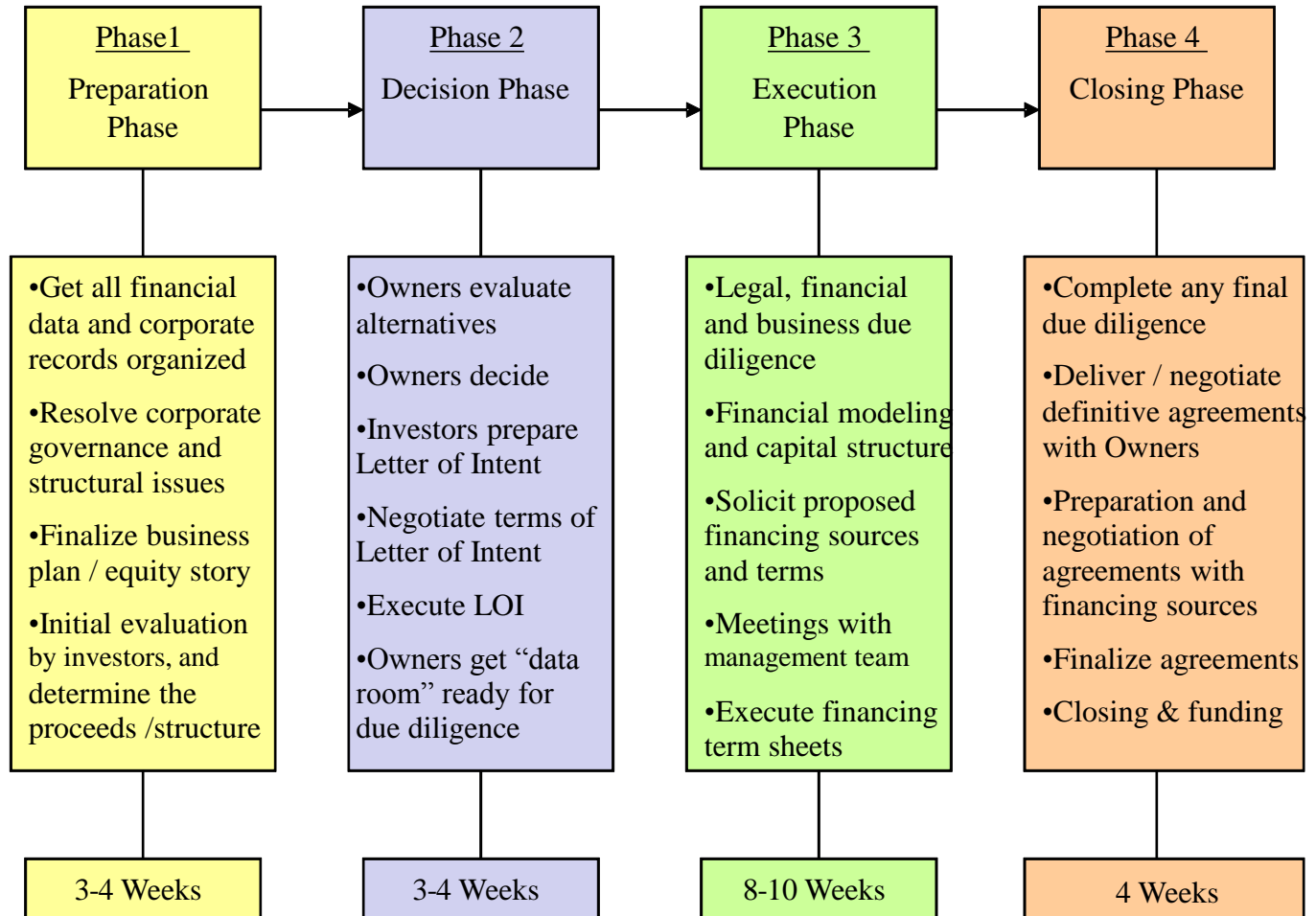
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Prelude

- The transaction process can be very time-intensive
- A well-orchestrated transaction process requires good planning and good partners / resources to:
 - Allow management to run the daily business; and
 - Conduct the transaction process effectively
- Continual delays in the transaction process can often lead to substantial excess costs and frustrations for the Company as well as its advisors / attorneys

Typical Transaction Timeline⁽¹⁾

- Four main phases of Transaction process
- Process typically takes 4-5 months to complete (in total)
- Once owners have prepared and made decisions, process should generally only take 3-4 months



(1) After receiving initial buyer inquiry

General Comments

- The biggest variables in timing normally depend upon: (i) the general state of preparedness by the Company for diligence, and (ii) the time required by the Owners to make initial decisions
- Generally require 3-4 months following Owner decision to Transact
- Efficiency of each phase depends on execution of prior phases
- Owners/Company should plan to identify and select an experienced M&A attorney, tax advisor, and estate planning expert

Exit Strategy: Proactive or Reactive?

- Start Thinking About Your Exit Strategy When You Write the Business Plan
 - Exit Strategy is Different for each Person Depending on Circumstances
 - Pass Business to Children
 - Sell Business to Employees
 - Sell to a Third Party and Pocket the Cash

- Consider a Sell-Side Due Diligence Review Prior to A Sale
 - Allows Current Management to Focus on Day-to-Day Operations While Outside Professionals Review the Business for Operational and Accounting Issues
 - Allows for Clean-up and Formatting of the Financial Statements to Ensure a Buyer can Quickly Understand Key Financial Information
 - Transparency is the Key to Sell-Side Due Diligence
 - Uncover Issues that need to be Corrected Prior to a Sale Process or Communicated to the Buyer Early in the Process---NO SURPRISES
 - Sell-Side Due Diligence is Cost Effective and Will Result in a Higher Sales Price

Exit Strategy: Proactive or Reactive? (cont.)

- Key Areas of Focus in a Sell-Side Due Diligence Review
 - Trailing Twelve Months Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”)
 - Identification and Presentation of Non-Recurring Items (“Addbacks”)
 - Personal Expenses Not Associated with the Business
 - Insurance Settlement/Litigation/Environmental Cleanup/Excess Compensation
 - Large Inventory or Receivable Write-offs
 - Quality of Earnings
 - Gross Margins
 - Profitability by Product/Customer
 - Customer Concentration Issues
 - Management Succession Planning Issues
 - Outstanding Litigation
 - Environmental Exposure

Exit Strategy: Proactive or Reactive? (cont.)

- A Proactive, Highly Managed Exit Will Result in:
 - Less Disruptive Impact to the Business
 - Clearer Understanding of Value Expectations
 - Knowledge of the Business Issues and Ability to Respond Prior to Buyer Raising Concerns
 - Quicker Close

ULTIMATELY
MAXIMIZING THE SALES PRICE

Questions

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