

DHG

DIXON HUGHES GOODMAN LLP

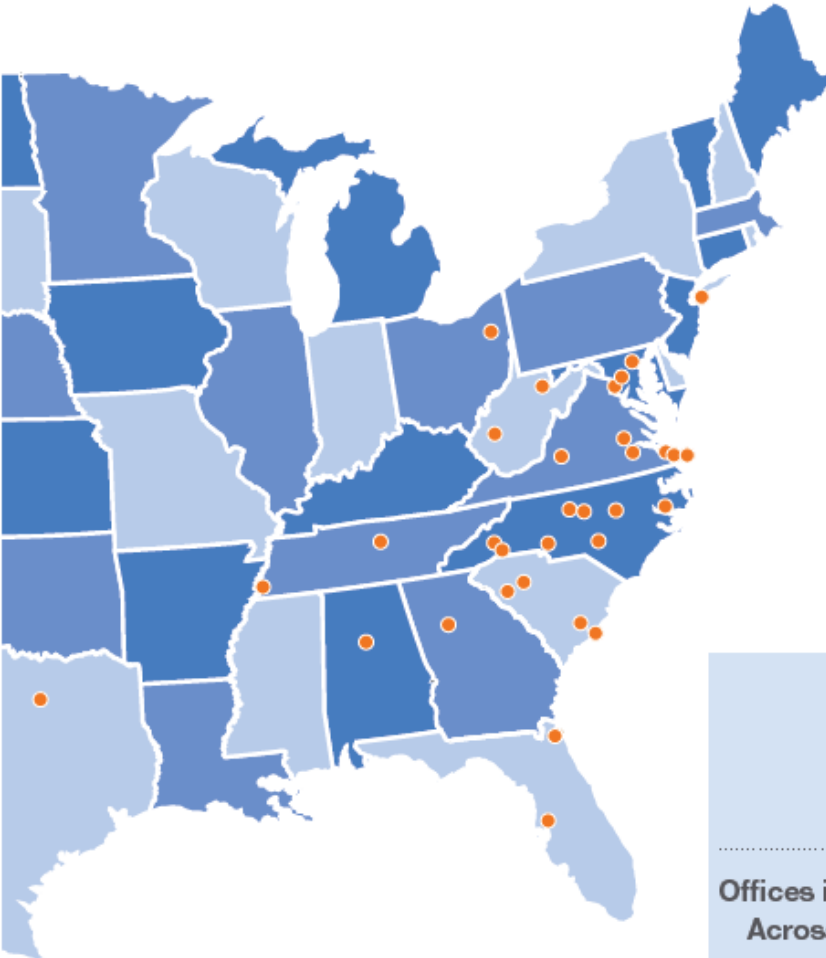
Unleashing Value for Portfolio Holdings: *Why Incentive Negotiations Matter*



Circular 230 Disclosure

To ensure compliance with requirements imposed by the IRS, we inform you that any tax advice contained in this communication is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code.

DHG Overview



<p>Top 20 Nationally</p>	<p>rankings</p>	<p>7th Globally</p>
<p>Offices in 12 States Serving Clients Across U.S. and Internationally</p>	<p>presence</p>	<p>103 Countries</p>
<p>2,000+</p>	<p>professionals</p>	<p>39,000+</p>

DHG Private Equity Overview

NAVIGATING COMPLICATED MARKET TRANSACTIONS

DHG Private Equity offers a dedicated group of professionals across multiple service lines to provide private equity firms and their portfolio companies a full array of services to meet their demanding needs in a challenging market.

Fund	Transaction Advisory	Portfolio Company	Exit Strategy
<ul style="list-style-type: none">• Fund Formation• Tax Planning & Structuring• Audit of Fund• Valuation Services	<ul style="list-style-type: none">• Financial/Accounting Due Diligence• Tax Due Diligence• IT Due Diligence• Operations & Human Resources Due Diligence	<ul style="list-style-type: none">• Annual Audit• Tax Planning & Compliance• IT Audits & Assessments• Valuation Services	<ul style="list-style-type: none">• Sell-Side Due Diligence• Initial Public Offering• Tax Structuring• Carve-Out Assistance
			

COMPREHENSIVE SERVICES

We provide comprehensive services tailored to meet the unique needs of our private equity portfolio company clients. Our breadth of services and resources give us great strength to address a wide variety of financial and operational issues for our private equity portfolio company clients. Our professionals have solid industry knowledge plus a multi-disciplined approach to financial, accounting and operational solutions by offering coordinated comprehensive services and strategies.

DEVELOPMENT ADVISORS INCORPORATED (DAI)

- A global provider of consultation and location analysis services
- Founded in 1996 by a former government economic development official
- To date, DAI has negotiated incentive packages on projects representing over \$9 billion in capital investment and 7,500 jobs
- DAI applies its expert location analysis and incentive negotiation services to increase project ROI and IRR



Location Analysis
& Selection

Incentive Analysis
& Negotiations

Real Estate Advisory

THE DHG/DAI STRATEGIC ALLIANCE

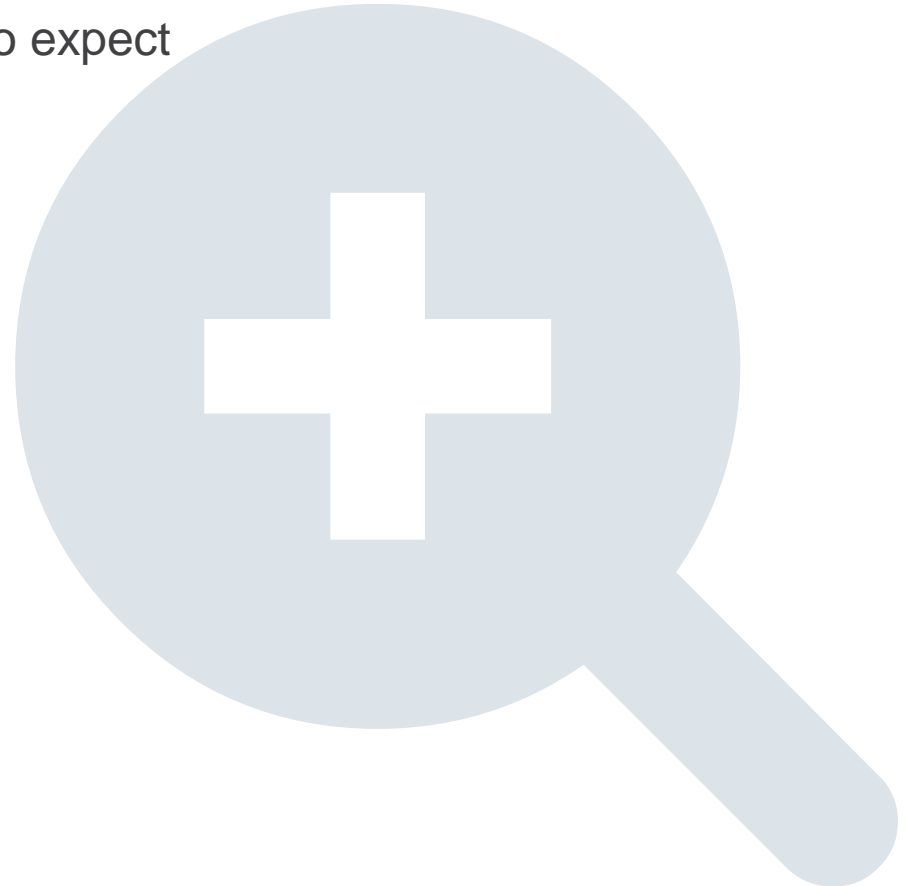
- Formalized in 2010, but the firms have worked together for more than 15 years
- Provides one knowledgeable resource to help private equity groups and portfolio companies navigate how to reduce capital costs by maximizing incentives and minimizing taxes at the Federal, State and local level
- Their collective value exceeds the sum of its parts and the results have been significant for clients across different industry and geographic segments

DAI Results YTD

- Total Investment: \$972M
- Total Discretionary Incentives Secured: \$156M
- Average Project Size: \$19M
- Discretionary Incentives Secured to Investment Ratio: 16%
- Average Discretionary Incentives per Project: \$3M

Objective For Today

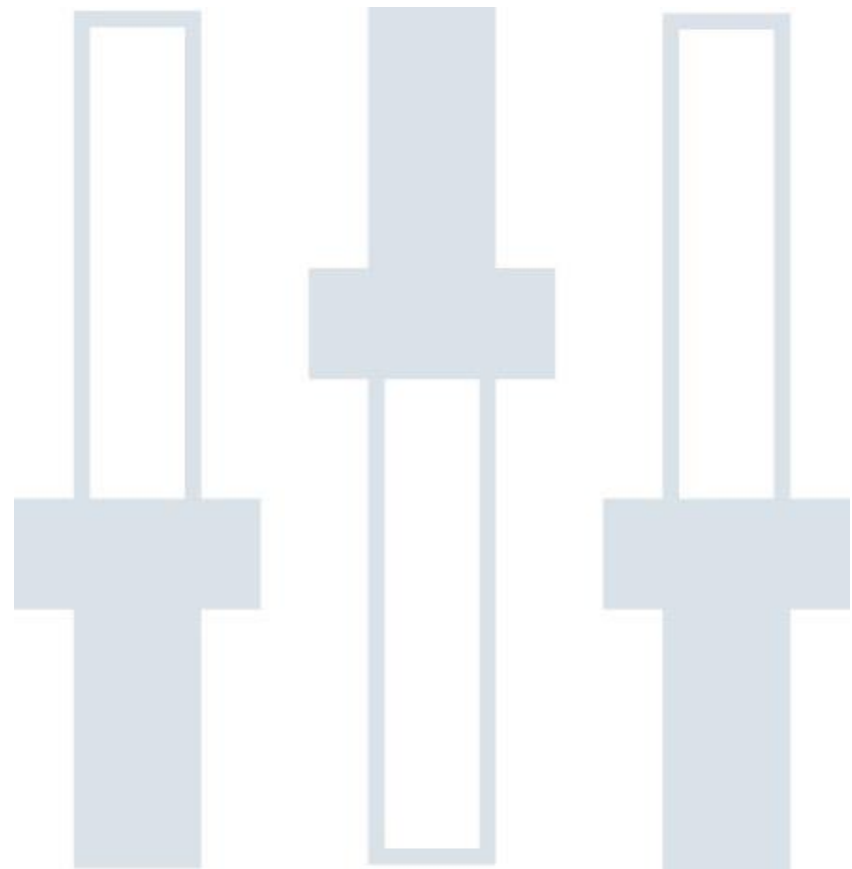
1. Highlight the more common types of incentive negotiations
2. Review real life applications/case studies
3. Clarify the process and what to expect



Poll the Audience

WHAT DO YOU KNOW ABOUT INCENTIVE NEGOTIATIONS?

1. I don't know anything about incentive negotiations
2. I'm somewhat familiar
3. I'm extremely familiar



Why This Matters to Private Equity

- Incentives further enhance the EBITDA and multiples for a portfolio company
- Negotiated and discretionary incentives move the needle on ROI and operational costs
- There are only so many levers to pull in finding additional value in portfolio holdings
- Expert representation during complex incentive negotiations maximizes value and allows you to focus on your core business
- Private Equity has historically not looked at incentives as value drivers

AMONG SERVICES OFFERED:

- Site selection strategy consultation
- Comprehensive community cost analysis
- Impact incentive assessment
- Reduction of upfront capital and ongoing operational costs
- Comparative analysis of state & local taxes including income, franchise, sales & use and property taxes
- Post-incentive capital investment planning and review of accounting methods and tax credits

Why This Matters to Private Equity *(continued)*

- Increased competition among private equity groups + an increased level of sophistication and professionalism to the marketplace
 - Newcomers such as fundless sponsors, family offices and high net worth individuals are also competing for deals
- Economic uptick & election year
- Expansions are picking up
- State & local municipalities competing to win “corporate location bids”
- Increased federal tax emphasis on “green” and “energy”
- Fragmented approach has companies leaving money on the table

What Clients Can Expect

**DAI typically secures an incentive package
of at least 10-20% of Capital Investment**

**DAI routinely negotiates packages that are
2-3x client expectations**

Types of Incentives

STATUTORY

“By Right”

- Incentives provided to companies by matter of law
- Typically provided via state income tax credits

“Negotiated”

- Incentives provided by statute, however, the value is negotiated on a case-by-case basis
- Examples:
 - Training Grants
 - Property Tax Reductions
 - Payroll Tax Reimbursements

DISCRETIONARY

- Incentives that are only offered when negotiated in conjunction with a competitive project
- Examples:
 - Land/Property Donations
 - Cash Grants
 - Site Preparation Grants
 - Utility Rate Reductions
 - Infrastructure Upgrades
 - Railway Extensions
 - Port Fee Reductions
 - Fee Waivers

How This Works

WHAT QUALIFIES?

- Investment: \$5-7M over 3-5 year period
- Job Growth: 15+ jobs over 3-5 year period
- Investment and jobs are mutually exclusive
 - Investment ties to local incentives
 - Jobs tie to state incentives
- Qualifying Investment Includes:
 - Changing out/upgrading old production lines
 - Adding new lines
 - Upgrading office space, lighting, HVAC, utilities, etc.
- Utility intensive operations create additional incentive opportunities

GRANTING ENTITIES

- Federal, State, Local, Public and Private

TRIGGERING EVENTS

- Routine Capex
- Market Entry/Expansion
- Relocations/Consolidation
- Mergers & Acquisitions

How This Works *(continued)*

PROCESS OVERVIEW:

1. Determine the project scope and key factors
2. Provide a detailed assessment that identifies and evaluates all incentive programs
3. Package the project and present it properly to government officials and all entities with funds to support the project
4. Maximize incentives through negotiations and identify project costs that can be directly offset by incentives
5. Secure government approvals and negotiate performance agreements
6. Announce the project with government officials
7. Document compliance requirements to ensure incentives are received



Poll the Audience

WHICH TYPE OF “TRIGGERING EVENTS” ARE YOU MOST INTERESTED IN DISCUSSING?

- Routine Capex
- Market Entry/Expansion
- Relocations/Consolidations
- Mergers & Acquisitions

Case Study #1

CLIENT:

- Schaeffler Group

PROJECT SCOPE:

- Routine Capex of \$40M in 3 locations. No brick and mortar expansion
- \$164M
- 430 Jobs

CHALLENGES:

- 30 day negotiation timeline
- Client historically negotiated their own incentives
- Renegotiation of Utility Rates Required

RESULTS:

- Over \$31M in negotiated incentives secured
- \$16M in discretionary incentives not previously received by client
- ~19% of capital investment offset through negotiated incentives

Case Study #2

CLIENT:

- Coroplast

PROJECT SCOPE:

- Multi-state search for manufacturing location
- \$14M
- 153 Jobs

CHALLENGES:

- Required site that would allow for significant expansion
- 3 State search area

RESULTS:

- Over \$4M in negotiated incentives secured
- \$1M of incentives received in Year 1
- 23% of capital investment offset through incentives

Case Study #3

CLIENT:

- The Villages at Cramerton Mills

PROJECT SCOPE:

- Mixed-use development
- \$100M investment with \$18M in infrastructure needs

CHALLENGES:

- Introduced to developer 45 days away from groundbreaking ceremony
- Very little leverage and time for negotiation
- Developer had already purchased and rezoned property

RESULTS:

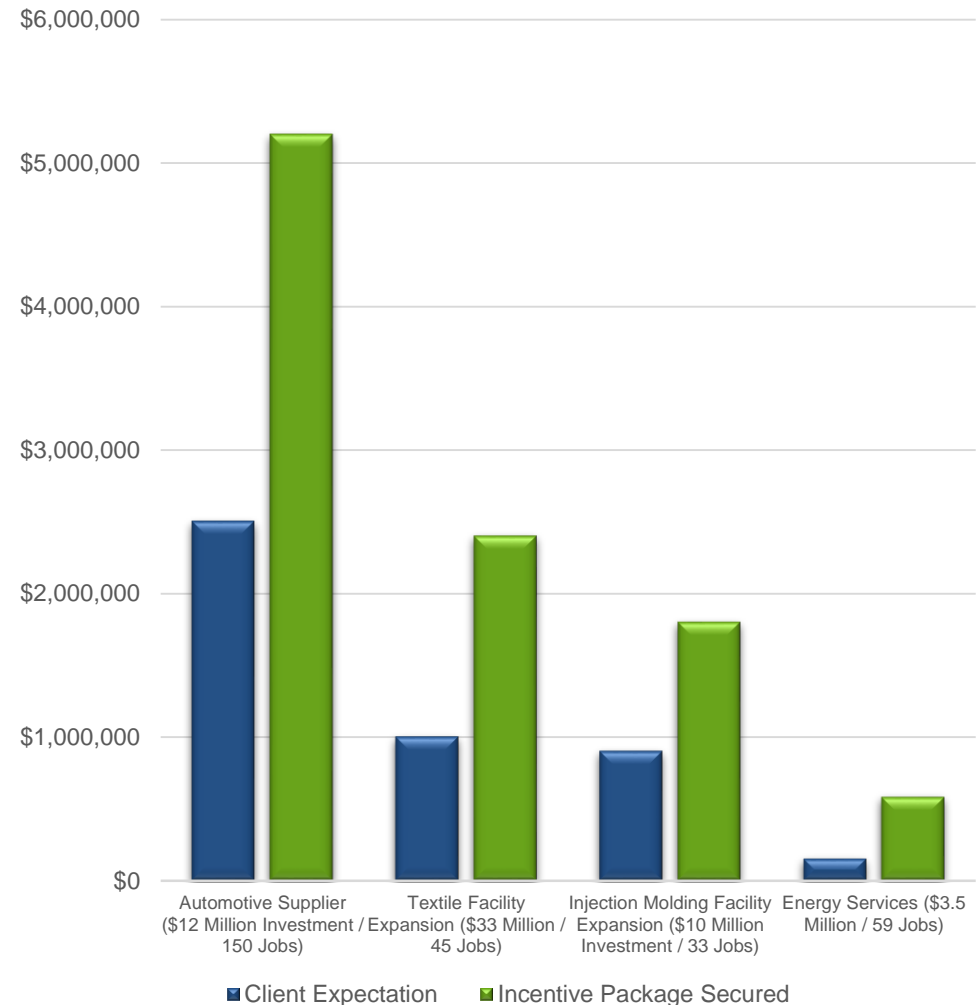
- Over \$5M in incentives for infrastructure and roadway improvements
- Incentives in the form of cash reimbursements to the client

Why Experience Matters

COMMON MISTAKES

- Failure to utilize qualifying investment in negotiations
- Failure to identify incentive programs that can directly offset project costs (Discretionary Incentives)
- Announcing early
- Improper valuation of incentive programs
- Disclosing too much information
- Companies think they “have it covered”

DAI Value Added



Frequently Asked Questions

- In what states do you offer this service?
- When is the best time to pull in your team?
- How long does the process take?
- What is the cost?
- What do you need from me?
- Can you send me some additional information?