

A modern office interior with a blue overlay. The background shows a hallway with glass-walled offices and a large abstract artwork on the wall. The foreground is dominated by a blue geometric shape that contains the text.

MERCER CAPITAL

Financial Advisory Services for Financial Sponsors

MERCER CAPITAL

Mercer Capital is a national valuation and financial advisory firm. Our clients include private and public companies, financial institutions, high-net worth families, private equity funds, and other financial sponsors.

Mercer Capital provides financial and advisory services to help our clients minimize risk and maximize value.

For financial sponsors providing debt and equity capital to the middle market, Mercer Capital provides a comprehensive suite of financial advisory services.

- Quality of Earnings Assessments
- Solvency Opinions
- Fairness Opinions
- Portfolio Valuation
- Purchase Price Allocations
- Goodwill Impairment
- Equity Compensation / 409(A)
- Buy-Sell Agreement Valuations



QUALITY OF EARNINGS ASSESSMENTS

Mercer Capital assists financial sponsors performing due diligence on potential acquisitions. Our focused approach to quality of earnings analysis generates insights that matter to potential acquirers. Leveraging our valuation experience, our quality of earnings analyses identify and focus on the cash flow, growth and risk factors that impact value.

Collaborating with clients, our senior staff identify the most important areas for analysis, allowing us to provide cost effective support and deliver qualified, objective, and supportable findings. Our goal is to understand the drivers of historical performance and the key risk and growth factors supporting future expectations. Our methods and experience provide our clients with a fresh and independent perspective on the quality, stability and predictability of future cash flows.

Mercer Capital Experience :: Representative Engagements

- Provided acquisition due diligence services and buy side negotiating assistance for a strategic buyer in the commercial architecture and engineering industry for a \$30 million client.
- Provided acquisition due diligence services and buy side advisory assistance for a strategic buyer in the commercial equipment dealership industry on a \$100 million target company.
- Provided valuation consulting services to assist a client secure funding for the acquisition of a business in the healthcare industry.

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SOLVENCY OPINIONS

Mercer Capital provides solvency opinions on behalf of the boards of sponsor-backed companies in conjunction with transactions such as dividend recaps, leveraged buy-outs, and large share repurchases that significantly increase a portfolio company's leverage.

Lenders in leveraged transactions often require solvency opinions in addition to the company's solvency certificate as a condition to close.

The opinion typically entails three elements: (a) does the fair value of the company's assets exceed its liabilities? (b) is the company left with unreasonably small capital? and (c) can the company pay its debts as they come due?

Each opinion is backed by Mercer Capital's rigorous valuation and credit analyses, which have been honed through three decades of experience in providing valuation and financial advisory services.

Mercer Capital Experience :: Representative Engagements

- Provided a solvency opinion for a mineral extraction company related to a \$1.3 billion refinancing and dividend recapitalization transaction.
- Provided a solvency opinion for a pharmacy service provider related to an \$88 million refinancing and dividend recapitalization transaction.
- Provided a solvency opinion for a specialty drink manufacturer related to a \$16 million refinancing transaction.

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FAIRNESS OPINIONS

Financial sponsors and their portfolio companies frequently contemplate transactions for which an independent assessment of fairness is prudent. Mercer Capital has provided fairness opinions for middle market transactions since 1982.

Fairness opinions are provided to board of directors to determine if a contemplated transaction is fair to the subject's shareholders from a financial point of view. The opinion and supporting analyses help document that the board carried out its fiduciary duty in acting in an informed manner in engaging in a transaction.

Fairness opinions are usually viewed as having more merit when rendered by a financial advisor who does not have an incentive to close a transaction, such as an investment banker whose compensation is tied to a success fee.

Mercer Capital has a diverse financial advisory practice that serves a broad range of companies and industries.

Mercer Capital Experience :: Representative Engagements

- Provided a fairness opinion on behalf of a home healthcare company ESOP in the sale of a subsidiary to a diabetic supply company.
- Provided a fairness opinion on behalf of the CenterBank, Inc. ESOP in connection with the sale of a controlling interest to a new investor.
- Provided a fairness opinion on behalf of Ohio County Bancshares in its acquisition by Porter Bancorp, Inc.

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PORTFOLIO VALUATION

Financial sponsors face increasing scrutiny regarding fair value marks on portfolio investments. Mercer Capital provides portfolio valuation services for private equity firms, business development companies, and other financial sponsors.

Independent estimates of the fair value of portfolio holdings enhance the confidence of investors and regulators in the reasonableness and credibility of reported financial results.

Mercer Capital routinely works with Big 4 and other audit firms, and we monitor and understand the latest developments in fair value measurement so you don't have to. Mercer Capital understands your reporting cycle and we have the depth of resources necessary to meet deadlines.

Our procedures include the verification of analytics, financial analysis, independent analysis of public guideline or comparable companies and private transactions, discounted cash flow analysis, tests of internal consistency in valuation, and other techniques based on our years of experience in valuing illiquid, alternative investments.

Mercer Capital Experience :: Representative Engagements

- Provide positive assurance opinions regarding the carrying value of certain private equity investments held by funds advised by a global alternative asset manager with over \$100 billion in AUM.
- Measure the fair value of a portfolio of trust preferred securities on a semi-annual basis for a bank holding company with over \$25 billion in assets.
- Provide semi-annual fair value calculations for a portfolio of equity positions in early stage companies on behalf of a venture capital fund manager with over \$400 million in AUM.

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PURCHASE PRICE ALLOCATION

Accounting for business combinations can be a distraction for management of sponsor-backed companies. Mercer Capital provides independent valuation opinions regarding the fair value of identifiable intangible assets.

Whether for a platform transaction or bolt-on acquisitions, Mercer Capital has the expertise and experience required to perform credible purchase price allocations. Clients rely on Mercer Capital to produce an independent determination of the fair value of assets and liabilities for tax and/or financial reporting purposes when preparing for or closing an acquisition.

Our professionals offer in-depth understanding of valuation requirements, as well as qualified insights into key issues of concern to regulatory bodies. We assist with identifying recognizable intangible assets and amortization, and assign intangible assets and residual purchase price to reporting units.

Mercer Capital Experience :: Representative Clients

- Publicly traded full-service brokerage and investment banking firm
- Publicly traded national insurance broker
- Publicly traded global medical device manufacturer

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GOODWILL IMPAIRMENT

For acquisitive portfolio companies, performing and documenting periodic impairment tests is a critical financial control. Mercer Capital provides independent valuation services to help portfolio companies test and measure impairment of tangible and intangible assets, including goodwill.

Mercer Capital professionals are not just valuation experts – we know the latest accounting guidance setting the rules for impairment testing.

Our services include Step 1 and Step 2 goodwill impairment testing, allocation of purchase price to goodwill, re-living and impairment testing for other intangible assets, allocation of existing goodwill and intangibles across reporting units, and analysis of pro forma earnings per share for future acquisitions.

Our impairment testing services (both quantitative and qualitative) are routinely reviewed by Big 4 and other audit firms.

Mercer Capital Experience :: Representative Client Industries

- Broker / Dealers
- Business Services
- Distribution
- Insurance (Brokerage)
- Insurance (Underwriting)
- Financial Institutions
- Manufacturing
- Retail

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EQUITY-BASED COMPENSATION

Financial sponsors routinely use equity-based compensation to motivate and retain quality management teams. This gives rise to a host of accounting- and tax-related valuation issues.

Mercer Capital provides independent valuation of stock options, restricted stock units, stock appreciation rights and other equity-based compensation awarded to employees.

Valuation of equity-based employee compensation is also necessary in the context of tax compliance. Stock options and stock appreciation rights may be part of non-qualified deferred compensation plans regulated by Section 409(A) of the Internal Revenue Code. Compliance with Section 409(A) requires “a reasonable application of a reasonable valuation method” to determine the fair market value of the stock of a company that awards equity-based employee compensation.

Regardless of the structure of the instrument, Mercer Capital has the institutional capability to tackle even the most uncommon or complex valuation issues.

Mercer Capital Experience :: Representative Engagements

- Provided a valuation of the common stock of a sponsor-backed maintenance products distributor for purposes of an issuance of equity, including the sale of shares and the award of stock options, to certain employees to comply with Section 409(A).
- Provided a valuation of stock appreciation rights of a specialty consumer finance company.
- Provided a valuation of restricted shares and option on the common stock of a sponsor-backed pharmaceutical products manufacturer for purposes of compliance with ASC 718.
- Provided a valuation of the common shares of a sponsor-backed global specialty property and casualty insurance company for purposes of compliance with ASC 718.

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BUY-SELL AGREEMENT VALUATION

Disputes are a fact of life. Whether executed with portfolio company management or other investors, financial sponsors are often parties to buy-sell agreements.

Mercer Capital is the leading provider of buy-sell agreement valuation services in the nation. We provide valuations both on a recurring basis for agreement administration and in the event of disputes.

Long-standing valuation relationships with leading middle market companies confirm our ability to apply rigorous analytics in a consistent manner amid changing circumstances.

In addition, Mercer Capital has published numerous books on the topic of buy-sell agreements, including *Buy-Sell Agreements for Closely Held and Family Business Owners*, authored by Mercer Capital's CEO, Z. Christopher Mercer, FASA, CFA, ABAR.

Mercer Capital Experience :: Representative Relationships

- Provides an annual valuation of the common stock of a heavy equipment dealership group for the purpose of the establishment of the fair market value of the Company's stock pursuant to the Company's Stockholder's Agreement.
- Provides an annual valuation of the common stock of an agribusiness company for the purpose of the establishment of the fair market value of the Company's stock pursuant to the Company's Shareholder Agreement.
- Provides an annual valuation of the common stock of a full-service barge line for the purpose of the establishment of the fair market value of the Company's stock pursuant to the Company's Shareholder Agreement.

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THOUGHT LEADERSHIP

Memberships & Credentials

- Member, Appraisal Issues Task Force
- Member, The Appraisal Foundation
- American Society of Appraisers (ASA)
- The CFA Institute (CFA)
- American Institute of Certified Public Accountants (ABV)

Key Publications

- Mercer Capital's *Portfolio Valuation: Private Equity Marks & Trends* (Quarterly Newsletter)
- Mercer Capital's *Market Participant Perspectives* (2016)
- *Best Practices for Fair Value Measurement* (2013)
- *Buy-Sell Agreements for Closely Held and Family Business Owners*, (Peabody Publishing, LP), 2010
- *Valuation For Impairment Testing, Second Edition*, (Peabody Publishing, LP), 2010
- *Business Valuation: An Integrated Theory, Second Edition*, (John Wiley & Sons, Inc.), 2008

Key Presentations

- "Leverage Lending and Solvency Opinions," Association for Corporate Growth, Memphis, Tennessee,
- "Basel III Capital Rules Finally Final—What Does It Mean?," Webinar sponsored by Mercer Capital and Jones Day
- "Evaluating Macro Trends when Investing in Financials," Analyst Training in the Banking Sector, sponsored by SNL Financial at the University Of Virginia Darden School Of Business
- "Capital Management: Alternatives and Uncertainties," Acquire or Be Acquired Conference sponsored by Bank Director, Scottsdale, Arizona
- "Valuation's Dirty Little Secret: Financial Projections and the Income Approach," 2012 AICPA Fraud & Business Valuation Conference, Orlando, Florida



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