

ACQUISITION PLAN FOR (XXXXXXXXXXXXXX)

SAGIX
PARMA OHIO 44130

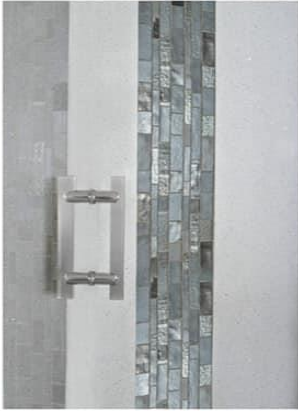


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Executive Summary

Objective: To purchase (XXXXXXXXXXXXX), an existing, profitable business that has been in operation for over 15 years.

Business Overview: (XXXXXXXXXXXXX) is a part of a leading franchise that does kitchen and bathroom remodeling. The business creates custom countertops and cabinet refacing, fabrication, and serves as a one-stop shop for kitchen renovations. The company has six full-time employees and operates in a large seven-county territory. The business leases a 6629sqft facility with two high doors and a commercial dock. Existing equipment is valued over \$30k and includes (2) vans, (1) truck, (1) forklift, and (3) industrial saws. The business has over 50k in inventory in stock. Granit Transformations generates over \$855k in revenue with 404k gross profit. The owner's discretionary income is \$154,638. The business is listed for sale at \$575,900.

Industry Overview: The Home Improvement Market size surpassed \$762.9 billion in 2020 and is estimated to exhibit a CAGR of over 4.3% from 2021 to 2027. The shifting preferences of homeowners for luxurious, energy-efficient living spaces are significantly contributing to the industry expansion. The projected growth in the industry illustrates a growing demand for renovation which provides a positive outlook for (XXXXXXXXXXXXX).

Opportunity: (XXXXXXXXXXXXX) is priced to sell. The acquisition provides an opportunity to enter the home renovation space with a proprietary product at a low cost. There is strong support from an existing franchise structure with a low franchise fee. The application of this product in the commercial market has not been explored. The business is not currently listed in any of the local major home renovation retailers (Home Depot/ Lowes/ Menards), which can significantly drive revenue. Furthermore, advanced marketing strategies can be employed to reach deeper into the seven-county territory. Numerous cost savings have been identified as well as opportunities to expand the product market to flooring, fireplaces, and backsplash.

Strategy and Projection: The strategy over the next 3 years includes streamlining operations, reducing discretionary spending, integrate commercial applications, and expanding the staff. Growth projections for the company is estimated at 5-15% annually.

Financing Proposal: The business is listed at \$575,900. An offer will be placed between \$535k and 550k. A down payment of 10-15% will be placed from the buyer's existing capital. I am seeking funding for the balance of approximately \$500k. The owner is not involved in the daily operations and checks on the business twice a week. The owner receives high compensation that will be used to paydown the acquisition cost. For example, a 10-year loan of \$500k at 10% has a monthly loan payment of \$6607 which is slightly over half of the owner's monthly earnings. I will be able to pay off the loan without disrupting business operations or profit, solely off a portion of the owner's salary.

Target Description

The Business

(XXXXXXXXXXXX), is a part of a leading franchise that does kitchen and bathroom remodeling. The business creates custom countertops and cabinet refacing, fabrication, and serves as a one-stop shop for kitchen renovations. The business provides a proprietary product, technology, process, moisture, heat, scratch, impact resistant, recessed and raised panel, pull out, Lazy Susan options, soft door/drawer options, and no mess installations. (XXXXXXXXXXXX) operates in a large, exclusive territory in the Northwest Ohio area, and currently has six full-time employees. The business leases a 6629sqft facility with two high doors and a commercial dock. Existing furniture and equipment are valued approximately at \$30k. The equipment list includes (2) vans, (1) truck, (1) forklift, and (3) industrial saws. The business generates over \$855k in revenue and is listed for sale at \$575,900.

The Opportunity

There is major growth potential with application to hard surfaces which includes floors, exterior walkways, and bathrooms. The commercial side of this business is currently untapped. The current owner focuses on smaller residential applications. The business is not currently listed in any of the local major home renovation retailers (Home Depot/ Lowes/ Menards). The owner has turned down partnerships in the past because of high operation requirements a major retailer would require. Expanding specialized staff could aid in operations and significantly increase business revenue. The business operates in a seven-county territory that is far from saturation (Cuyahoga, Lake, Geauga, Portage, Summit, Medina, and Lorain)

The business is profitable and thrived throughout the pandemic. It has a relatively high revenue for the small scale of operations. The seller's discretionary earning is \$154,638 (pg4 of CBR). The business is backed by a strong global franchise that provides advertising, lead generation, training, support, and benchmarks for business owners. The franchise royalty fee is low at 3.5% of revenue. The franchise training and support, high revenue, and untapped growth potential makes this business a STRONG BUY.

Market Overview

The Home Improvement Market size surpassed \$762.9 billion in 2020 and is estimated to exhibit a CAGR of over 4.3% from 2021 to 2027. The shifting preferences of homeowners for luxurious, energy-efficient living spaces are significantly contributing to the industry expansion. Rapid urbanization along with government initiatives to provide incentives & tax credits on building construction has stimulated the market growth. The projected growth in the industry illustrates a growing demand for renovation which provides a positive outlook for (XXXXXXXXXXXX).

US Home Improvement Market Projections.

Home Improvement Market Report Coverage	
Report Coverage	Details
Base Year:	2020
Market Size in 2020:	762.91 Billion (USD)
Forecast Period:	2021 to 2027
Forecast Period 2021 to 2027 CAGR:	4.3%
2027 Value Projection:	1,009.93 Billion (USD)
Historical Data for:	2017 to 2020

(XXXXXXXXXXXX) operates in a seven-county territory with access to millions of customers and housing units in the hundreds of thousands (pg 48 CBR). (XXXXXXXXXXXX)s has serviced a small percentage of these housing units over the past decade which results in a largely underserved demand. While there are other competitors, none provides the quality and product available through (XXXXXXXXXXXX). The fabricated stone product is one of a kind product and patented by the franchise. There are various designs, colors, and models to suit the artistic needs of customers. The product is maintenance-free, anti-microbial, and has a lifetime warranty (XXXXXXXXXXXX website hidden).

Sales and Market

The pricing strategy is standardized based on franchise requirements. Product is bought from the corporate distributor and shipped to the warehouse in 10x8ft granite sheets. The company adds a 18% markup on the product and creates custom fit granite countertops for

clients. Annual sales usually surge past \$800k. (2018: \$883k, 2019: \$855k, 2020: \$712k shutdown for the initial months of the COVID outbreak). Sales volume in 2021 is on par with previous years as current 2021 projection is over \$800k. The owner keeps between 50-100k of inventory on-hand to satisfy incoming sales. The business mainly focuses on small residential sales averaging approximately \$5k. A focus on commercial applications and adjusting advertising will likely increase revenue no less than 10%.

Annual Revenue.

Caution: Include **only** trade or business income and expenses on lines 1a through 21. See the instructions for more information.

Income	1a	Gross receipts or sales	1a	855,265.		
	b	Returns and allowances	1b			
	c	Balance. Subtract line 1b from line 1a			1c	855,265.
	2	Cost of goods sold (attach Form 1125-A)			2	450,913.
	3	Gross profit. Subtract line 2 from line 1c			3	404,352.
	4	Net gain (loss) from Form 4797, line 17 (attach Form 4797)			4	
	5	Other income (loss) (see instructions—attach statement)			5	4,511.
	6	Total income (loss). Add lines 3 through 5			6	408,863.

(XXXXXXXXXXXX)s currently advertises via various methods. The company advertises through direct mail, brochures, paid customer referrals, and the internet through Google and the franchise corporate marketing team. The business spends approximately \$132k in advertising (pg 39 in CBR). The owner does not focus heavily on advertising when compared to other businesses in the franchise. I would increase internet marketing via google and social media advertisements. I would also limit the direct mail advertising due to the high cost and lower return. Specifically, I would send direct mail to screened leads and incentivize leaders in places of gathering such as community center, churches, and recreational areas to generate leads. I would also partner with the large home renovation retailers (Home Depot/ Lowes/ Menard) to have displays at their store sites to drive lead generation. Marketing has been under applied in some areas which could drive much high revenue when a strong strategy is adopted.

Advertising Costs. (pg 39)

Expense	
61000 Advertising	
61003 Television	1,620.00
61004 Magazine	3,875.00
61005 Shows	6,727.91
61007 Direct Mail	72,873.33
61009 Internet	41,580.61
61011 Promotions	3,466.36
61013 Brochures	620.86
Customer Referrals	1,700.00
	<hr/>
Total 61000 Advertising	132,464.07

Financial History & Projections

(XXXXXXXXXXXXXX) has a solid financial history over the past decade. The business has generated profit for its owners every year and performed well despite being down for months in 2020 due to the mandatory lock-down periods. The owner has a discretionary income of \$155k, maximizes all deductions, and still closes each year with profit. The business financial history can be seen via the tax documents and the P&L (pg 40-44 CBR).

The focus on commercial applications can significantly boost revenue but may reduce cashflow due to longer payment period. Residential customers pay 50% before a project and pay the rest upon completion. Commercial clients are likely to pay net+30/60. The strategy is to slowly phase-in commercial clients into the existing business structure and adjust inventory as needed.

As the owner, I will cut back on unnecessary spending that does not directly lead to sales. For example, I will cut the budget for meals and entertainment if it's not directly associated with closing a sale. I will reduce direct mail and shift more funds to online marketing. I will likely select a more cost-effective payroll service rather than having an internal employee manage payroll. Small adjustment such as these can have a significant expense reduction in addition to applying LEAN-SIX principles.

Discretionary Expenses. (pg40)

69000 Travel	
69001 Hotel	1,698.30
69002 Meals and Entertainment	7,486.44
69005 Car Rental	399.14
Parking/ Tolls	14.10
	<hr/>
Total 69000 Travel	9,597.98

The franchise fee is relatively small in comparison to other franchises at only 3.5%. The owner also utilizes the Corporate Franchise tools for marketing which is an added expense. Synergies can be created by utilizing existing staff in ad creations and SEO optimizing. The current Office Manager handles payroll and scheduling. Payroll will be outsourced, while some marketing operations will be directed internal for cost saving. A future replacement for the Office Manager will be a Marketer who is adept at sales and market research.

Royalty fees. (pg 39)

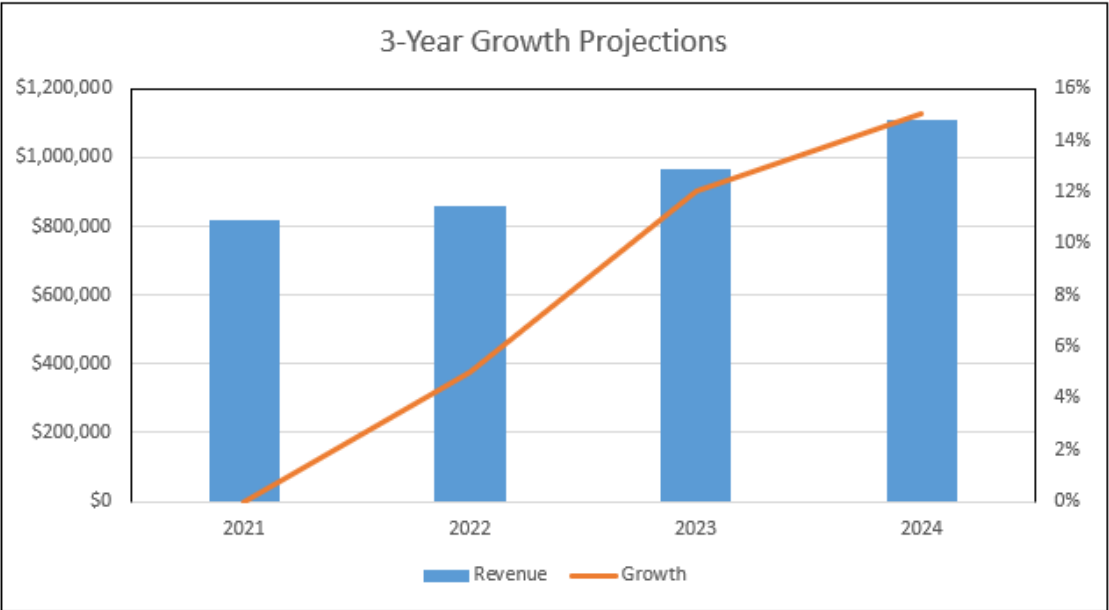
51009 Commissions	27,173.88
53001 GT Advt Fund	14,796.00
53002 GT Royalty	19,730.00
Other Job Related Costs	5,484.35
Subcontractors Expense	2,975.41
	<hr/>

3 Year Strategy & Forecast:

The three-year strategy involves growth through the gradual increase in staffing, improved target marketing, and focused commercial applications. The strategy for the first year is to reduce the high discretionary spending and streamline operations. The marketing strategy will be adjusted to include commercial applications. There will be at least a 5% growth and reduction in expenses. The second year will have increase operations due to commercial applications. The growth in operations will demand a larger staff. The goal is to add at least one Operations Manager to manage the installation teams. Based on growth, the business should be able support an additional Sales Representative. The Sales Representative will drive additional revenue with the increased leads generated from targeting

advertising. The growth projections should be 10-15% in a stable environment. The strategy in the third year involves expansion of commercial element. The owner will actively work to get the product into new stores and advertise additional applications of the product to include backsplash, fireplaces, and flooring. Growth is projected to be 10-20%. The strategy will be revised at this point to strengthen operations or expand through further growth opportunities.

Year	Revenue	Growth
2021	\$820,000	0%
2022	\$861,000	5%
2023	\$964,320	12%
2024	\$1,108,968	15%



Business Acquisition Analysis

(XXXXXXXXXXXX) is listed for \$575,900. This is a fair price based on the revenue/profit ratio and the owner’s earnings. I will offer between \$535,000 and \$550,000. The seller is willing to do owner financing at 20%, which would only require additional funding of \$440,000 (At the highest offer point of \$550,000). I prefer to have funding from one source if possible.

I can fund between 10-15% of the asking price based on available capital. The remaining \$500,000 will be funded through a traditional lender. The current owner is not involved in the daily operations and checks on the business twice a week. The owner receives very high compensation that will be used to paydown the acquisition cost. The owner’s earnings cost the business \$12,916 monthly. A

\$500,000 loan at 6% interest for 10 years is less than half the owner’s monthly earnings. At 10% interest, the loan is slightly over half the owner’s monthly earnings. I can pay off the \$500, 000 loan without disrupting business operations, solely off a portion of the owner’s salary.

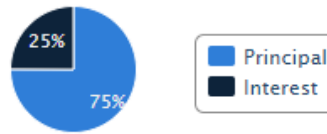
Loan Payoff

Loan Amount	<input type="text" value="\$500000"/>
Loan Term	<input type="text" value="10"/> years <input type="text" value="0"/> months
Interest Rate	<input type="text" value="6"/> %
Compound	<input type="text" value="Monthly (APR)"/>
Pay Back	<input type="text" value="Every Month"/>
Calculate	

Results:

Payment Every Month **\$5,551.03**
 Total of 120 Payments **\$666,123.01**
 Total Interest **\$166,123.01**

[View Amortization Table](#)



Monthly Loan Payments:	6% = \$5551	8% = \$6066	10% = \$6607
Monthly Business Revenue:	Low month = \$67,000	High month = \$74,000	
Monthly Owner Earning =	\$12,916		

Transition Plan

All business equipment, inventory, contracts, and staff will be transferred upon sale. Franchise transfer documents will be sent to the corporate office. All fees and obligations will be paid in full. No debt outside of the business acquisition cost will be incurred to the buyer. The buyer and seller will work closely for 30 day to ensure a seamless transfer of assets and procedures. The buyer will not disrupt operations or make any significant change to procedures within 60 days. Franchise training and support will be available via the corporate on-boarding team.

Supporting Document List

1: Comprehensive Business Review (CBR)- Includes 2019 Tax Return, 2019-2021 P&L

2: Balance Sheet

3: 2020 Tax Return