



Coventry League

Performance History	<ul style="list-style-type: none">• Through one economic cycle¹
Revenues	<ul style="list-style-type: none">• Greater than \$5 million
Operating Earnings	<ul style="list-style-type: none">• Greater than \$1 million (CPA compiled and unadjusted)²
Margins	<ul style="list-style-type: none">• Stable and fair return on capital required to operate business (minimum 10%)³
Segments	<ul style="list-style-type: none">• Niche segments with definable growth opportunities (with minimal capital outlay for staff or hard assets)
Capital Structure	<ul style="list-style-type: none">• Little or no use of debt
Industry Sectors	<ul style="list-style-type: none">• Flexible
Geography	<ul style="list-style-type: none">• Flexible, with Midwest (close to Ohio) and Dallas areas attractive, as well as regions that are easy to access
Approaches	<ul style="list-style-type: none">• Control• Ideally 60-80% of shares and balance purchased based on agreed upon formula and period
Management	<ul style="list-style-type: none">• Ideally in place (meaning owner is not operating)• If owner is operator, then solid general manager and other key managers in place; market rate replacement costs must be included
Structures	<ul style="list-style-type: none">• Prefer sellers willing to hold equity and subordinated note; doing so demonstrates belief in sector, company and growth opportunities
Valuations	<ul style="list-style-type: none">• We recognize companies such as Berkshire Hathaway pay 5.0x <u>unadjusted, CPA audited EBIT</u> and sometimes only buy 60% of equity at close. These companies have exhibited growth, deep management, size and leadership in sector.⁴

¹ On average, 5-7 years.

² Operating earnings are synonymous with EBIT (earnings before interest and taxes). Generally depreciation and its corresponding maintenance capital expenditures are equal. Add backs for excessive owner/manager compensation (i.e., well above market rate is reasonable). We don't recognize add backs for payroll taxes, health insurance, marketing, staff reductions, etc. If a seller will cheat the tax man, he or she will certainly cheat a prospective buyer. Accordingly, we don't conduct business with these types of sellers.

³ Return on capital is a financial measure that quantifies how well a company generates cash flow relative to the capital it has invested in its business. If a company and its industry sector require costly infrastructure (plant/equipment and real estate) to operate the business, yet generate returns on invested capital (ROIC) of less than 10%, then the company and industry dynamics probably won't be attractive to us.

⁴ Ask us for examples; there are plenty, and many are larger than \$100m (smaller companies command lower valuation multiples, all else equal).