



WELCOME

Manufacturing and Distribution M&A Market Update & Tax Update

- We will begin at the top of the hour
- Please have your computer speakers turned on
All audio is streamed directly through the console and heard through your computer speakers. There is not a dial-in number.
- For technical support, please use the Q&A window

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Manufacturing and Distribution M&A Market Update & Tax Update

Fall 2020

Presented by: James Rothenberger & Ryan Kuenzi

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Speakers



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James supports middle-market business owners with a range of corporate finance services in order to assist the owner in selling their company, make strategic acquisitions, or raise capital for growth. Prior to joining Moss Adams, he was an associate and a director at Montlake Capital, a middle-market private equity firm based in Seattle. James received an MBA from the University of Washington and is a Chartered Financial Analyst (CFA).



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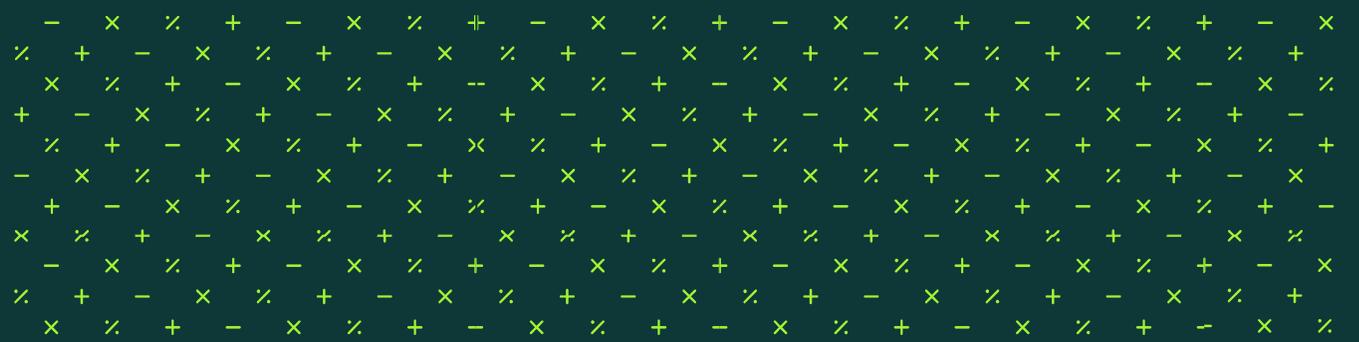
Ryan provides tax compliance, consulting, and planning services to family-owned businesses, closely held entities, cooperatives, and venture capital-owned businesses. He provides federal and state income tax services to companies operating in multistate and foreign jurisdictions; consultation in the areas of business succession and transition planning; choice of entity planning; business acquisitions and dispositions; and a variety of federal and state tax credits and incentives associated with research and development, domestic manufacturing, and export activities.



Agenda

- M&A Activity and Values
- Transaction Readiness Considerations
- Federal and State & Local Tax Updates





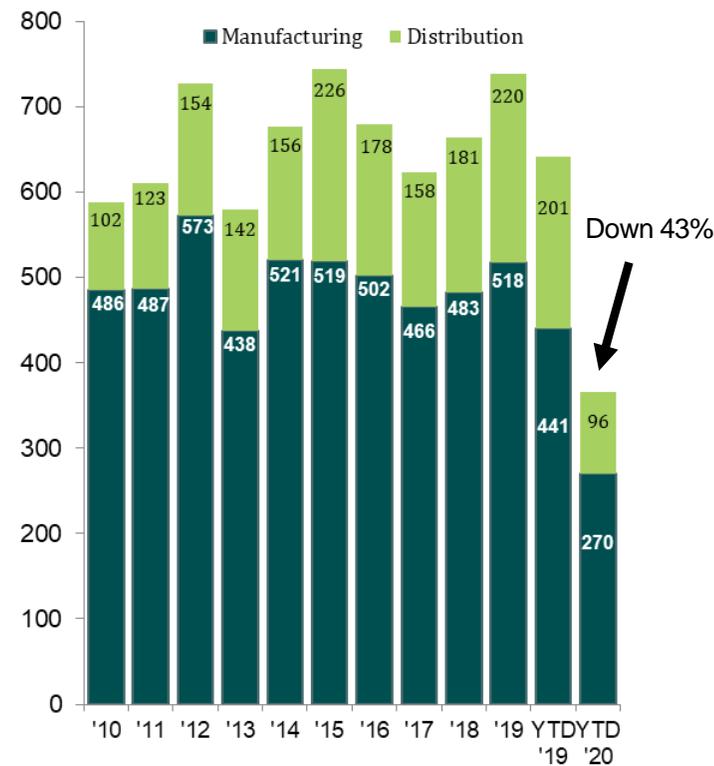
M&A Activity and Values

Manufacturing & Distribution and North America Middle-Market M&A Volume

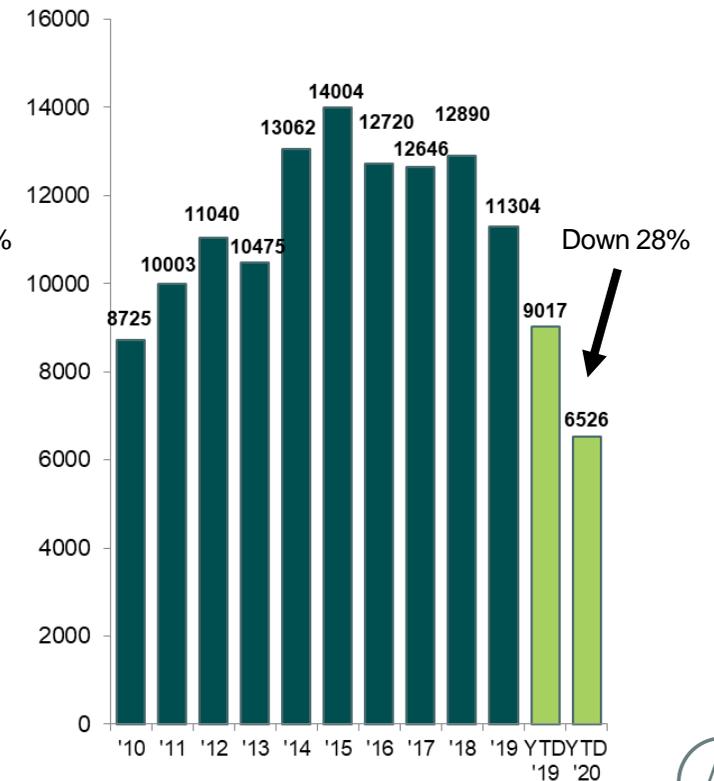
- M&A volume down YOY globally, nationally, and for manufacturing and distribution companies.
- Successfully completed M&A transactions for manufacturers and distributors completely dependent on product end markets.
- Bifurcated recovery creating two different M&A environments.

Note: YTD is as of November 10th. Source: CAPIQ.

Manufacturing & Distribution M&A



Total North America M&A



North America Middle-Market M&A Values

- Stable/increasing reported Enterprise Value EBITDA multiples in 2020.
- Representative of the stability of the target company going through the transaction.
- More “structured” transactions getting completed, with valuations holding elevated levels if strong product end markets.
- Challenging M&A environment and valuation multiples if products are selling into or exposed to troubled end markets.

Middle-Market Reported EBITDA Multiples

Enterprise Value	2003 - 2015	2016	2017	2018	2019	YTD 2020	Total
\$10 - 25M	5.6	5.8	6.3	5.9	6.1	5.9	5.7
\$25 - 50M	6.2	6.4	6.6	6.9	6.9	6.8	6.4
\$50 - 100M	6.8	7.2	8.2	8.8	7.5	8.3	7.3
\$100 - 250M	7.4	8.8	9.1	8.7	9.4	9.5	8.2
Total	6.2	6.7	7.2	7.2	7.1	7.4	6.5
Volume	2,361	243	267	288	301	113	

*Data through June 30th. Source: GF Data



Polling Question #1

I have a good understanding of the value of my business.

- True
- False
- Not sure



Overview of a Recently Closed M&D Transaction

Moss Adams Capital acted as the exclusive financial advisor to Rockmount Research & Alloys, Inc.



**Rockmount Research
and Alloys, Inc.**

has been acquired by

Tricor Pacific Capital



TRICOR PACIFIC CAPITAL
A FAMILY OFFICE

*Moss Adams Capital acted as exclusive
financial advisor to Rockmount Research
and Alloys, Inc. in this transaction.*

Closed March 15, 2019

- **Rockmount Research & Alloys, Inc. (Rockmount)** out of Portland, OR, announced they have completed a transaction to sell the operations to **Tricor Pacific Capital (Tricor)**. Rockmount is a leading developer, manufacturer and distributor of its own branded, consumable, industrial welding-alloy products and accessories.
- Rockmount has 14 individual trademarked product lines and distributes a total of approximately 55 welding-related products, which are widely respected for their superior quality. The Company sells products to a highly diversified customer base in the United States and Canada, including customers in construction and engineering, agriculture, oil and gas, and metals and mining.
- Tricor was attracted by Rockmount's superior product quality, expansive product line, and the Company's growing brand recognition. This combination is expected to yield organic growth through expansion into new sales territories, especially in the Eastern United States and throughout Canada.
- Moss Adams Capital was hired by ownership and the Company to help evaluate transition alternatives for the business. After preparing the Company for a transaction process, Moss Adams Capital also took the Company to market and assisted with successfully negotiating and closing a transaction that addressed the objectives of ownership. As a hallmark of Moss Adams Capital transactions, the Moss Adams Portland office played a critical role in optimizing the tax structure and estate planning outcomes of the transaction.



Investment Banking & Advisory: Select Recent M&D Transactions



Rockmount Research and Alloys, Inc.

has been acquired by

Tricor Pacific Capital



TRICOR PACIFIC CAPITAL
A FAMILY OFFICE

Moss Adams Capital acted as exclusive financial advisor to Rockmount Research and Alloys, Inc. in this transaction.



Woodburn Fertilizer, Inc.

acquired by

Wilbur-Ellis Company



WILBURELLIS

Moss Adams Capital acted as financial advisor to Woodburn Fertilizer, Inc. in this transaction.



Northwest Aerospace Technologies, Inc.

acquired by

Zodiac Aerospace



ZODIAC AEROSPACE

Moss Adams Capital acted as financial advisor to Northwest Aerospace Technologies, Inc. in this transaction.



Bellingham Cold Storage

acquired by

Joshua Green Corporation



JGC | Joshua Green CORPORATION

Moss Adams Capital acted as financial advisor to Bellingham Cold Storage in this transaction.



Tacoma Electric Supply, LLC

acquired by

Thompson Street Capital Partners



THOMPSON STREET CAPITAL PARTNERS

Moss Adams Capital acted as financial advisor to Tacoma Electric Supply, LLC in this transaction.



Diablo Valley Packaging

acquired by

Berlin Packaging



berlin
PACKAGING

Moss Adams Capital acted as financial advisor to Diablo Valley Packaging in this transaction.



Northwest Building Components, Inc.

has been acquired by

Kodiak Building Partners



KODIAK
BUILDING PARTNERS

Moss Adams Capital acted as the exclusive financial advisor to Northwest Building Components, Inc. in this transaction



FALMAT
CUSTOM CABLE TECHNOLOGIES

has been acquired by

Winchester Interconnect



APTIV



Moss Adams Capital acted as financial advisor to Falmat, Inc. in this transaction



Greenpoint Technologies Inc.

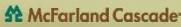
has been acquired by

Zodiac Aerospace



ZODIAC AEROSPACE

Moss Adams Capital acted as financial advisor Greenpoint Technologies, Inc. in this transaction



McFarland Cascade

acquired by

Stella-Jones



Stella-JoneS

Moss Adams Capital acted as financial advisor to McFarland Cascade in this transaction.



Moss Adams Capital

provided investment banking services for

Mary's River Lumber Co.



Red Dot Corporation

has acquired

JBAR A/C, Inc.



JBAR A/C, INC.

Moss Adams Capital acted as financial advisor to Red Dot Corporation in this transaction.



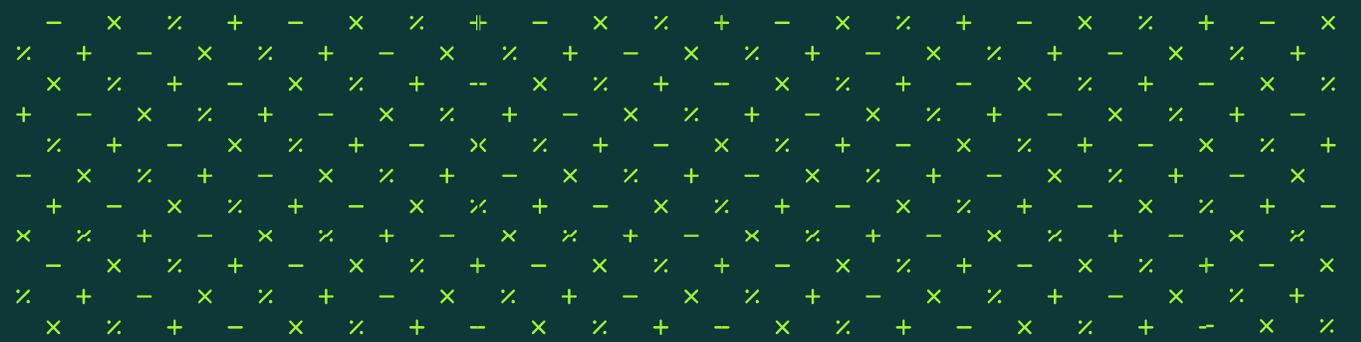
Polling Question #2

Could a financial investor be helpful to your business? (Select any that apply)

- Yes, in assisting with the capital requirements of my business
- Yes, in providing advice on strategy, demand generation, supply surety, or recruiting
- Yes, other reason

- No, they don't understand my business
- No, I get strategic advice or capital from other sources
- No, other reason

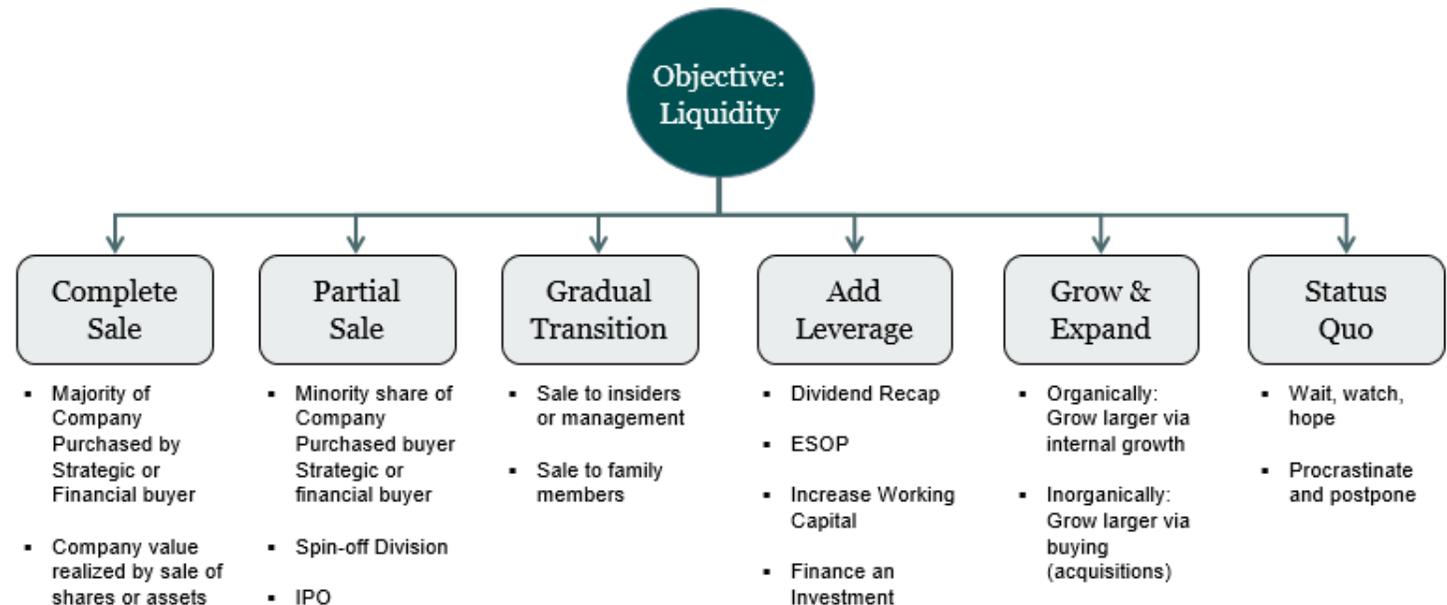




Transaction Readiness Considerations

Evaluating Transition Readiness: Ownership Considerations

- What are the goals and objectives of the transition?
- Is the potential transaction focused on the Company, the shareholder(s), or both?
- What transaction structure facilitates the goals/objectives of the beneficiaries?
- What are the personal goals and risk tolerances of the Company's ownership?
- What is the appropriate timing?



Evaluating Transition Readiness: Company Considerations

- Preparedness facilitates control over the transaction process and transaction momentum.
- The considerations and activities below take time to prepare.
- The following key considerations need to be considered and planned for:

MANAGEMENT TEAM	FINANCIAL & BUSINESS ANALYSIS	ACCOUNTING	LEGAL
<ul style="list-style-type: none"> ■ Shareholder goals and objectives aligned ■ Management team accessibility and availability ■ Build a Bench (“QOM”) ■ Legal advisors ■ Tax advisors 	<ul style="list-style-type: none"> ■ Historical and projected operating business analysis ■ Pro-forma historical and projected financial model: <ul style="list-style-type: none"> ■ Detail by product, service, end-market, customer etc. ■ Articulate growth strategy ■ Identify earnings adjustments and add-backs ■ Assessment of financial reporting capabilities 	<ul style="list-style-type: none"> ■ Quality of Earnings (“QOE”) <ul style="list-style-type: none"> – “Clean-up” balance sheet – “Manage” net working capital – Aged inventory, receivables, etc. – Debt instruments ■ GAAP compliant, reviewed or audited (preferred) financial statements ■ Tax returns 	<ul style="list-style-type: none"> ■ Corporate records and documents in order ■ Potential liabilities (i.e. litigation, employment, environmental, etc.) ■ IP/Trademarks ■ Contracts ■ Leases ■ Employment agreements

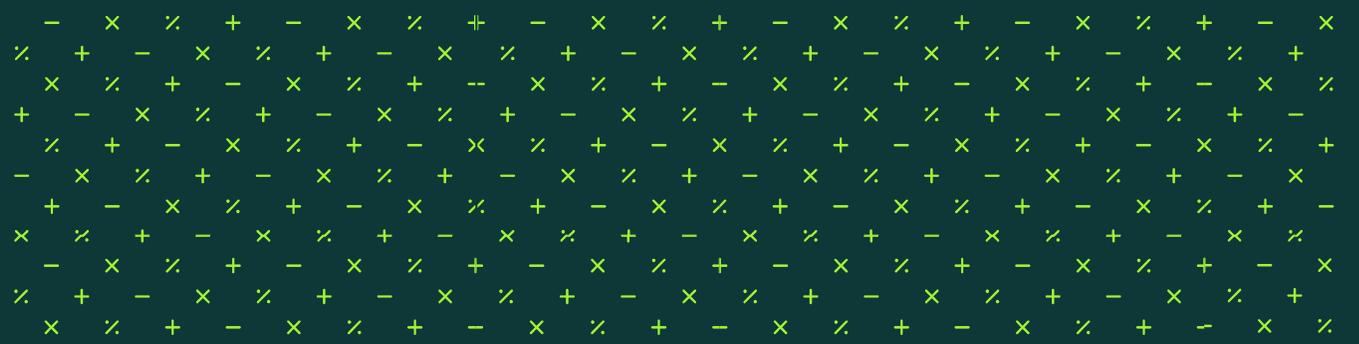


Polling Question #3

What areas in your business have potential diligence issues investors and buyers might find?
(Select any that apply)

- Financials
- Record keeping
- Management team / succession planning
- Legal / litigation / contracts
- Environmental
- Other
- None





Tax Update



Federal Tax Policy Update

Polling Question #4

What is going to be the make up of the Senate after the Georgia run-off elections?

- 50/50 – Tie goes to the Democrats
- 52/48 – Republicans retain control
- Can this be over now?!



34 US Senators Up for Re-election in 2022

DEMOCRATIC PARTY

Colorado Washington
Connecticut Hawaii
Nevada New York
Illinois Maryland
California Oregon
Louisiana New Hampshire
Vermont

REPUBLICAN PARTY

Missouri Oklahoma Kentucky
Arkansas Utah Ohio
North Carolina Georgia Florida
Idaho Arizona South Carolina
Iowa Kansas Alabama
North Dakota Alaska Pennsylvania
Wisconsin South Dakota Indiana



Polling Question #5

How is your primary business structured?

- C corporation
- S corporation
- LLC/partnership
- Sole proprietorship
- Other



Business

	CURRENT LAW	JOE BIDEN
CORPORATE TAX RATE	21%	<ul style="list-style-type: none"> • 28% corporate tax rate. • For corporations reporting more than \$100 million of annual book income, enact a 15% “minimum tax” on book profits, reduced by any foreign taxes paid or loss carryovers allowed.
QUALIFIED BUSINESS INCOME (QBI) DEDUCTION	Taxpayers other than C corporations are allowed a 20% deduction of QBI from pass-through entities or qualified real estate investment trust (REIT) income, with some limitations. Set to expire December 31, 2025.	<ul style="list-style-type: none"> • Phase out the deduction for taxpayers earning more than \$400,000.
ACCELERATED BONUS DEPRECIATION	100% bonus for eligible property through 2022 with phase-out starting in 2023.	<ul style="list-style-type: none"> • No specific plan announced, but generally supports reversing 2017 TCJA provisions that benefit corporations.



Business *(continued)*

	CURRENT LAW	JOE BIDEN
PENALTY FOR BUSINESS OPERATIONS MOVED OVERSEAS	N/A	<ul style="list-style-type: none"> 10% penalty surtax on the profit from any production by US businesses overseas for sale in the United States.
CREDIT JOBS IN THE UNITED STATES	N/A	<ul style="list-style-type: none"> 10% Made in America tax credit for companies that create jobs for American workers or that increase manufacturing wages above the pre-COVID-19 baseline.
MANUFACTURING CREDIT	N/A	<ul style="list-style-type: none"> Enact a Manufacturing Communities Credit that promotes revitalizing, renovating, and modernizing existing (or recently close) facilities, requiring strong labor standards and a prevailing wage for workers.
WORK OPPORTUNITY TAX CREDIT (WOTC)	Businesses can have a nonrefundable tax credit for a portion of wages paid to certain new employees who qualify as members of disadvantaged groups.	<ul style="list-style-type: none"> Expand the WOTC to include military spouses.



Business *(continued)*

	CURRENT LAW	JOE BIDEN
COMMUNITY DEVELOPMENT	New markets tax credit (NMTC) is available for taxpayers who hold a qualified equity investment in low-income communities. The NMTC limitation for 2020 is \$5 billion. No allocation for after 2020.	<ul style="list-style-type: none"> Expand make the NMTC program permanent.
FOSSIL FUELS AND RENEWABLE ENERGY	Several deductions exit for businesses that invest in fossil fuels, including a deduction for intangible drilling costs paid or incurred by operators of oil and gas wells and a deduction for the depletion of minerals and oil and gas extraction.	<ul style="list-style-type: none"> End fossil fuel subsidies. Reinstate or expand various tax credits designed to reduce carbon emissions, such as deductions for emissions-reducing investments in residential and commercial buildings, the solar investment tax credit, and credits for the purchase of electric vehicles.
REAL ESTATE	<ul style="list-style-type: none"> Taxes on gains of real property are deferred if the property exchanged is “like-kind.” Owners of certain residential property occupied by low-income tenants may claim a tax credit that’s a percentage of the qualified basis of the property over a 10-year period. 	<ul style="list-style-type: none"> Remove like-kind exchange deferral. Expand the low-income housing tax credit. Create \$15,000 tax credit for first-time home buyers. Create renter’s tax credit to help low-income families.



International

	CURRENT LAW	JOE BIDEN
GLOBAL INTANGIBLE LOW-TAXED INCOME (GILTI) AND BASE EROSION AND ANTI-ABUSE TAX (BEAT)	GILTI taxes 10.5% of US shareholder's income from controlled foreign corporations (CFCs) with a deduction of 37.5% for foreign-derived intangible income (FDII) plus 50% of the GILTI. Minimum BEAT for certain taxpayers is 10% and 12.5% for tax years beginning after 2025.	<ul style="list-style-type: none"> • Raise GILTI rate to 21%.
REPATRIATION	Several deductions exist for businesses that invest in fossil fuels, including a deduction for intangible drilling costs paid or incurred by operators of oil and gas wells and a deduction for the depletion of minerals and oil and gas extraction.	<ul style="list-style-type: none"> • Supports a claw-back provision to force companies to return public investments and tax benefits when they close down jobs in the United States and send them overseas.



Individuals

	CURRENT LAW	JOE BIDEN
INDIVIDUAL TAX RATE	Top rate is 37%, expiring after 2025.	<ul style="list-style-type: none"> • Raise top marginal tax rate to pre-TCJA rate of 39.6% for income over \$400,000.
CAPITAL GAIN RATE	Top rate is 20%. Additionally, 3.8% net investment income tax (NIIT) for income over \$200,000 (single) and \$250,000 (married filing jointly).	<ul style="list-style-type: none"> • Supports a claw-back provision to force companies to return public investments and tax benefits when they close down jobs in the United States and send them overseas.
DEDUCTIONS	Standard deduction for married filing jointly is \$24,800, expiring after 2025. Itemized deduction for state and local taxes is capped at \$10,000. TCJA suspended the personal exemption and most itemized deductions through 2025.	<ul style="list-style-type: none"> • Would limit itemized deductions at 28% of value for taxpayers in a marginal tax bracket that exceeds 28% and restore overall itemized deduction limitation, also known as the Pease limitation. Generally supports eliminating the cap on the state and local tax deduction.
ESTATE TAXES	For 2020, estate and gift tax exemption is \$11.58 million. This is scheduled to revert to a pre-TCJA index amount of \$5 million (indexed for inflation) after 2025. Transfers of appreciated property at death get a stepped-up basis.	<ul style="list-style-type: none"> • Eliminate step-up basis on assets inherited at death.



Individuals *(continued)*

	CURRENT LAW	JOE BIDEN
QUALIFIED OPPORTUNITY FUND (QOF)	Taxpayers may elect to defer recognition of, and avoid recognition of future appreciation related to, capital gain from certain sales or exchanges of property by investing the gain in a QOF.	<ul style="list-style-type: none"> Reform QOF rules to focus on creating jobs and development in low-income communities, partnering with not-for-profit and community organizations, and provide transparency on investments.
CHILDCARE AND DEPENDENT CARE TAX CREDIT	<ul style="list-style-type: none"> Nonrefundable credit to partially offset expenses related to caring for children under age 13 or a disabled dependent living in a household. Credit is worth up to 35% of up to \$3,000 of expenses or \$6,000 for multiple dependents. Phased down to 20% for higher incomes. 	<ul style="list-style-type: none"> Increase dependent care credit to \$8,000. Increase refundable credit to 50% for childcare expenses up to \$8,000 for more than one child for families making less than \$125,000 a year. Phase out credit for families making \$125,000-\$400,000 a year. Investigate ways to make credit advanced.
STUDENT LOANS AND EDUCATION	Loan forgiveness is typically included in income unless an exception applies, typically because an individual worked for a certain period of time in certain professions.	<ul style="list-style-type: none"> Student loans could be cancelled tax-free, after borrowers are enrolled in the income-based repayment plan for 20 years. Offer \$10,000 of undergraduate or graduate student debt relief for every year of national or community service, up to five years.



Other Tax Provisions

	CURRENT LAW	JOE BIDEN
PAYROLL TAX	12.4% payroll tax is applied on workers' wages up to \$137,000 for 2020, with tax split between employer and employee.	<ul style="list-style-type: none"> Impose payroll tax on those earning more than \$400,000. Wages between \$137,700 and \$400,000 wouldn't be subject to payroll tax.
RETIREMENT INCENTIVES	<ul style="list-style-type: none"> Most workers can contribute up to \$19,500 a year to a 401(k) account (\$6,500 if age 50 or higher). The deferred salary isn't included in taxable income until withdrawn. Not all employers offer qualified retirement plans. Minimum distributions are required when a taxpayer turns 72. 	<ul style="list-style-type: none"> Help small businesses cover the costs of setting up "automatic 401(k)" plans for workers without access to pensions or 401(k) plans. Allow caregivers not earning wages to make catch-up contributions to retirement accounts.



Other Tax Provisions *(continued)*

	CURRENT LAW	JOE BIDEN
HEALTHCARE AND LONG-TERM CARE	<ul style="list-style-type: none">• Low-income taxpayers may be able to claim a tax credit to help pay premiums for purchasing health insurance under the Affordable Care Act (400% income cap).• Long-term care insurance premiums are eligible medical care expenses for purposes of the medical deduction.	<ul style="list-style-type: none">• Eliminate the 400% income cap on tax credit eligibility and lower the cost of coverage from 9.86% of income to 8.5%. Middle-class families would receive a premium tax credit to help pay for coverage.• Impose a tax penalty on drug manufacturers that abuse product pricing and limit price increases to inflation. Terminate pharmaceutical corporations' tax break for advertisement spending. Create \$5,000 tax credit for informal caregivers.



Other Items

	2019 REPORTING	2020 REPORTING
PARTNERSHIP K-1 CAPITAL REPORTING	Taxpayers are allowed to report their capital on form K-1 a number of ways (GAAP, Tax Basis, 704(b) Basis, etc.)	Taxpayers will be required to use Tax Basis for capital reporting.

CARES ACT: PAYCHECK PROTECTION PROGRAM	<p>Notice 2020-32</p> <p>This notice clarifies that no deduction is allowed under the Internal Revenue Code for an expense that is otherwise deductible if the payment of the expense results in forgiveness of a covered loan pursuant to section 1106(b) of the CARES Act and the income associated with the forgiveness is excluded from gross income for purposes of the Code pursuant to section 1106(i) of the CARES Act.</p> <ul style="list-style-type: none"> • To the extent the loan forgiveness is excluded from gross income, it is considered a class of exempt income • No deduction for expenses incurred for the purpose of earning or otherwise producing tax-exempt income • Consistent with the purpose of section 265, this treatment prevents a double tax benefit
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State and Local Tax Updates

Polling Question #6

Do you have business operations in:

- Tri-county area of Multnomah, Washington, or Clackamas counties?
- Elsewhere in Oregon



Tax

TAX	TAXING JURISDICTION	TAXPAYERS	TAX BASE	TOP MARGINAL RATE
TAXES IN EFFECT AS OF JANUARY 1, 2020				
<i>Corporate Income Tax</i>	State	Corporations taxable under Subchapter C of the Internal Revenue Code	Net income	7.6% of net income with a minimum tax up to \$100,000
<i>Corporate Activity Tax</i>	State	All business activity	Gross receipts with a limited subtraction for cost of goods sold (COGS) or labor cost	0.57%
<i>Personal Income Tax</i>	State	Individuals	Taxable income	9.9%
<i>Transit Tax</i>	State	Wage earners	All wages of Oregon residents; Oregon-source wages of nonresidents	0.1%



Tax (continued)

TAX	TAXING JURISDICTION	TAXPAYERS	TAX BASE	TOP MARGINAL RATE
TAXES IN EFFECT AS OF JANUARY 1, 2020				
<i>Lane County Transit Tax</i>	Lane County Transit District	Employers	Wages paid for services performed in district	0.75%
<i>TriMet Transit Tax</i>	Regional government	Employers and self-employed individuals	Wages paid for services performed in TriMet district	0.7737%
<i>Business Income Tax</i>	Multnomah County	Business entities including corporations, S corporations, partnerships, and limited liability companies	Net income earned within the county	2%
<i>Business License Tax</i>	City of Portland	Business entities including corporations, S corporations, partnerships, and limited liability companies	Net income earned within the city	2.6%



Tax (continued)

TAX	TAXING JURISDICTION	TAXPAYERS	TAX BASE	TOP MARGINAL RATE
ADDITIONAL TAX EFFECTIVE JANUARY 1, 2021				
<i>Supportive Housing Services Tax</i>	Portland Metro regional government	Business entities and individuals; both residents and nonresidents	Business entities and nonresidents – net income derives from sources within the Metro district Residents – Oregon taxable income	1%
<i>NEW: Preschool for All Tax</i>	Multnomah County	Individuals (<i>residents and nonresidents</i>)	Nonresidents – net income derived from sources within Multnomah County Resident – Oregon taxable income	3%
ADDITIONAL TAX EFFECTIVE JANUARY 1, 2022				
<i>Paid Family Medical Leave Tax</i>	State	Tax paid 60% by employees and 40% by employers	Wages paid for services performed entirely in Oregon or partially in Oregon if non-Oregon service is incidental	1% on wages up to \$132,900



Oregon – Local Taxes in 2020 & 2021

Oregon Local Taxes

- Portland Metro supportive services tax—1% income tax on individuals with >\$125K (>\$200K joint); 1% business tax on businesses with more than \$5 million of gross receipts
- Multnomah county preschool for all tax– measure 26-214 (passed)
 - 1.5% income tax (>125K, >\$200K joint)
 - 3.0% income tax (>250K, >\$400K joint)
- Both taxes are in addition to the Portland/Multnomah County income taxes on pass-through entities. The Metro tax as written double-taxes PTE income—Metro has stated it doesn't intend to double-tax this income, but the workaround hasn't been published.



➤ Questions?



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