

Summary - Due Diligence Financial Focus Areas (8/5/18)

1 - Sales Analysis

Summary:

- Average length of customers with over \$100k revenue in a year in years '09 thru '16 is 25 months
- 82% of 2018 June YTD revenue is from customers with 1st revenue in 2017
- 4 largest 2018 customers had 1st revenue in 2017 and make up 76% of YTD revenue

Recommended Due Diligence:

- Discuss with Owner
 - Departure reason for customers who left since 2015 with annual sales >\$100k (exhibit 1a)
 - Reason for low revenue associated with customers who started in 2015 and 2016 years
 - Satisfaction of Top 4 2018 current customers who began in 2017

2 - Owner expenses diligence

Summary:

- ~\$200k placeholder figure on potential ongoing expenses included in 2017 owner expenses.
- Placeholder figure meant only to focus discussion with Owner—realistic estimate after conversation

Recommended Due Diligence:

- Discuss with Owner which Owner expenses may appear on expense reports going forward (exhibits 2)
 - Meals & Entertainment for clients & employees
 - Gift cards?
 - Charitable contributions (are any business related)
 - Travel
 - Office and PC expenses
 - Phones
 - Home office facility expenses
- Does husband perform functions for business that would require expense

3 - P&L changes 18 vs. 17

Summary:

- YTD June 18 P&L annualized trend
- Sales of \$5.1M, increase of \$1.2M vs 2017
- Expenses of \$3.5M increase of \$843k vs 2017, with
 - Personnel \$427k increase
 - Contract labor \$379k increase
- Ongoing EBITDA of \$1.5M, increase of \$358k
- Expenses increased \$175k in Q2 vs Q1 (see #4 cash flow exhibit for details)
 - \$106k contract labor increase
 - \$50k support labor increase

Recommended Due Diligence:

- Request Owner puts employee start dates onto DropBox file "ERS Employees 7.2018.XLSX"
- Discuss with Owner
 - Added employees roles/functions
 - Any personnel needs currently known that need to be added
 - Increase in contract labor expenses

4 - Cash forecast 1st 12 months

Summary:

- Forecast EBITDA refined to show \$1.2M of EBITDA for 1st 12 months, approx. \$150k better than previous
- Lowered contract labor and marketing expense forecasts
- Forecast revenue remains at June YTD trend of \$5.46M

Recommended Due Diligence:

- Refine the go forward estimates:
 - Revenue
 - Support Labor
 - Contract labor
 - Consulting
 - Any expenses classified as owner expenses that will be ongoing
 - Taxes (should we factor anything)

Other Quick discussion items for Owner call

Other discussion items

- Bank accounts
 - Was there a switch during 2017 in regards to use of bank accounts
- Rent & owner facility expenses
 - Confirm there will no owner facility expenses after acquisition
- Taxes
 - Relatively small differences in tax filings net income vs QuickBooks, some differences
 - 2016 taxes shows \$33k more income than QuickBooks
 - 2015 taxes shows \$232k more income than QuickBooks