Transit Team Case Study – Small Business Acquisition

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This case is intended for an undergraduate entrepreneurial finance course to illustrate how valuation and deal terms impact risk and reward potential. The case details the path of Mike Richter, who at the age of 27 is about to acquire an $18 million transportation company, where he has worked for the previous two years. Students are given details on an original and revised deal and asked to compare the two in terms of the risk to Mike in taking over the business.

INTRODUCTION

As he began to sign his name, 27-year-old Mike Richter felt his heart leap. The contract in front of him would make him the owner of an $18 million company with over 200 employees. It would also put him on the hook for paying $4.5 million to the current owner over the next three years and make him solely responsible for the transportation that thirty-thousand elderly and disabled citizens relied on in their daily lives. He had been through the numbers over and over, and although he was confident this was going to work, he also knew it would keep him up at night for some time to come.

MIKE'S BACKGROUND

Mike Richter graduated from the University of St. Thomas in December of 2005 with degrees in Finance and Entrepreneurship. After taking two months off to ski in Colorado and Utah, he started his job search and landed at Cherry Tree, a boutique investment banking firm, in May of 2006.

Mike recalled: "I spent about 30 or 45 days kind of blasting resumes to anything that sounded good. And when I saw this, the investment banking position with Cherry Tree, it was right up my alley. Company research, industry research, doing due diligence, doing financial modeling… this is the stuff I was the most excited about where you had to be analytical. You had to start from nothing, create a model and build it out, and kind of follow through. So, at that time, it was like, 'Oh, I get to transfer the stuff that I love the most about school and into a job?' It was a perfect fit."

One aspect of working at a small boutique firm is there were no layers of management between Mike and the top. Instead of reporting to a senior analyst who reported to an associate who reported to a principal who reported to the managing directors, Mike reported directly to two managing directors. Because of this, he was given a lot of decision-making responsibilities that are normally not given to entry-level analysts and he was thrown into the mix right away.

"I remember my first day. There's a business we've got a meeting with, and they told me, find out as much as you can about the company. Whatever you can find. Find out as much as you can about the industry. Do some comps. Some public comps about other companies that are in the industry so we can get a general idea of what the valuation is, or what a multiple of the earnings might be. You know, write up a little summary about the company, about the industry, so we've got something that we can present to the client."

Most of Cherry Tree's customers were mid-sized businesses ($10 million to $200 million in revenue) that hired Cherry Tree to help them find a buyer for their firm or to find other companies to acquire. In addition to research on these companies and their industries, Mike prepared proposals for prospective clients, managed the due diligence process for clients, negotiated agreements, and more. As Mike proved himself, the managing directors gave him more and more responsibility over the three years he was there.

As a start to his career, it was invaluable learning in terms of deal structure and company interaction experience. But as important, the long hours and attention to detail in investment banking taught Mike how to work. "In investment banking, it's not an acceptable culture to leave work before your boss, whether or not you actually have something productive to do," he said. "And you need to minimize mistakes. So, you know, re-reading things a million times, rechecking your numbers a million times to make sure you're not making mistakes, because every time you make a mistake it slows up the entire process for everything. And it makes you and your firm look silly."

He also learned from the deals that didn't go through. One in particular was a company that was extremely profitable on the books that was managing benefits for groups of independent workers. But every time a buyer got into due diligence, they would get back off. "Every single time I looked at it," Mike said, "and every single time I tried to explain it to buyers or other analysts, or associates on the other end, the more and more I started to think about how it just seemed like a shell. And I know that's likely the reason why we were never able to sell them, because people just couldn't get comfortable with the fact that where's all this profit coming from? Where is it coming from, why is it there, why are you doing things this way? For me, it gave me insight that if you want to successfully start, buy, run a business, and then sell it, it needs to be clean. You need to be able to show X, Y, and Z and have explanations for everything."

TRANSIT TEAM

In the fall of 2007, Cherry Tree was hired by Transit Team, Inc. to find a buyer for the company. The company was owned by a married couple, Joyce and Harlan, who were in their early sixties. They had owned the company for twenty-five years and were now looking to retire.

Transit Team operated the Metro Mobility buses in the west metro district of Minneapolis/St. Paul for the Metropolitan Council (see Exhibit 1). The Metro Mobility program run by the Met Council provided transportation at a discounted cost mainly to seniors and disabled citizens who qualified for the program (the American Disabilities Act required that metropolitan areas provide specialized transit services to people who are unable to use the fixed-route transit system). The program was set up on five-year contracts, with the state owning the vehicles and private companies like Transit Team managing the day-to-day operations.

Over the previous ten years, ridership in the Metro Mobility program had increased by 14% to over one million rides per year (Metropolitan Council, 2009). This growth was expected to continue, as the number of Minnesota residents over the age of 65 was projected to double over the next twenty years, and one-third of older adults in Minnesota had a disability (Minnesota Compass).

Despite the overall growth in Metro Mobility ridership and the fact that Transit Team was a profitable business with $2 million in annual cash flow, Cherry Tree had a difficult time getting interested buyers. Joyce and Harlan were looking for the high-end of a 3x to 5x multiple of EBITDA (a value of $10 million), but offers were coming in at about half that price.

"We got a lot of buyers interested," Mike said, "but it was hard to get them comfortable with the fact that there was only two years left on the contract with the state. And the fact that if they were going to sell, Joyce and Harlan were going to leave… And there really wasn't anybody here to run it. People who

are going to buy a business, they're investing in a team. Yeah, it needs to be a good business, but it's the people that make it run, it's not the business. Especially something like this that is service-related."

But a year later, in the fall of 2008, the Great Recession began. The lending market tightened up and buyers became more conservative, and none of the offers that came through for Transit Team was attractive. "We had a couple of LOIs. But the way the people were valuing the business, it just wasn't right. She could have literally pulled the cash out of the business and kept running it and made twice as much. It just wasn't worth it. It's not something you can bring to your client."

So, Mike and his managers gave Joyce and Harlan a few suggestions before ending their engagement with Transit Team: 1) Take the $4 million in cash out of the business as a distribution; 2) Find someone you can groom to run the business after you sell it; and 3) Get the next five-year contract, and then we can try again.

THE PROPOSITION

A few weeks after Cherry Tree ended its engagement with Transit Team, Mike received a phone call from Joyce. She asked if Mike was interested in becoming the general manager. She liked the fact that Mike was young and energetic, and she had been impressed with his work ethic.

At the time, Cherry Tree still had nine deals in the works, and since commissions on closing deals was lucrative, Mike didn't want to leave before those deals were complete. So, he turned Joyce down.

Still, he was intrigued. "A couple of times the managing directors said, 'Well, what if we bought Transit Team and had Mike run it?' We had that conversation a couple times. I think they were more or less joking, I'm not sure that they were in a position to do that financially, or with how late they were in their careers, but it's a cash cow business. You get those contracts and you're good to go. So, it was something that was always in the back of my mind. I said if I'm going to go work for Transit Team, I'm not just going to work there, I want to buy it. And after we had those conversations, I started thinking about it more and more."

Meanwhile, the recession started hitting credit markets even harder. As access to capital became almost impossible to get, demand for acquisitions went away. And, as a result, by early 2009 Cherry Tree had lost all but one of the nine deals, and Mike was sure they wouldn't be able to close that one either.

"I started not enjoying my job so much…it was all stress related. I wasn't enjoying the working relationship with one of my managing directors, who was leaving. That would have been fine, but I would have been at Cherry Tree and not had anything to do, and I'm sure at some point they're going to cut back, right? They're not going to keep me around if there's no business. So, I was on a ski trip, and I sent Joyce an email one morning when I woke up from my phone. And I just said, 'Are you still looking for a GM? I'd be happy to sit down and talk about it.' And when I got back we had lunch. She offered me the position, and I took it. And two weeks later I was at Transit Team. No operational experience before, and I'm going to come in and start running a company that has at the time 230 employees?"

OPERATIONS

The core business for Transit Team was providing Metro Mobility paratransit transport services. The vast majority of revenue came from its contract with the Metropolitan Council to provide specialized, demand-response transport services for persons who are unable to use regular, fixed-route bus services. Transit Team had performed these services since 1986 and was consistently ranked as the top performing Metro Mobility operator in measured service and performance categories.

Under the terms of the Metro Mobility contract, the Metropolitan Council owned the transportation vehicles and paid for all fuel usage. Transit Team provided the management of the Metro Mobility service for the western half of the seven-country metro-Minneapolis area (see Exhibit 2). This included:

- Housing and servicing the 155 Metro Mobility vehicles;
- Staffing of all drivers and other service personnel;
- All dispatch and transportation services, 24 hours per day and 365 days per year.

According to the contract with the Met Council, Transit Team was paid an hourly rate for the service they provided based on an expected number of hours of service set by the Met Council. Fares collected from riders offset the monthly billing to the Met Council. Because revenue was more or less fixed, profitability was determined to a large extent by how efficient they were in managing their three biggest costs: 1) Labor, 2) Insurance (Health and Vehicle), and 3) Vehicle Maintenance (Transit Team put 80,000 to 90,000 miles on each vehicle per year). Efficiency in operating routes was key, and the winter weather in Minneapolis created many headaches, as demand for rides and time per ride both increased.

THE ORIGINAL DEAL

Transit Team's five-year contract with the Metropolitan Council was set to expire in July of 2010, and Transit Team would need to prepare a proposal for the next five-year contract at the end of 2009. Mike had been clear about his interest in buying the company, so the plan was to get Mike comfortable in his new role for six months, secure the next contract, and then work on transitioning the company to Mike.

In September of 2009, Joyce recruited Mike's girlfriend, Stacie (who later became his wife), into the business. "Joyce was a smart, savvy lady," Mike said. "She knew what she was doing. She recruited Stacie and got her involved in the business, and said, 'You can come here, come work for us. When you're not busy you can search for all the jobs you want. All the news, PR jobs you want, just come and work for us, make some more money.' She knew once she got here, it would be a different story."

Transit Team was awarded the new contract in early March 2010, and talks about acquisition numbers began. Because of the valuations Cherry Tree had done, Joyce was set on an asking price of 5x EBITDA, or $10 million. To put the money together, Mike approached Stacie's father, who had sold his own business a few years earlier and was looking to make some investments. In addition, he met with the lender for Transit Team, Northeast Bank, asking for a $5 million loan.

But, a combination of the economy and Mike's young age (he was 27 at the time) made Northwest uncomfortable with the deal. And Mike wasn't comfortable enough with it himself to convince them: all of the financial modeling he had learned at Cherry Tree made him question whether he would have enough money to service approximately $1.2 million in debt repayment each year (see Exhibits 3 and 4 for financial statements). So, Mike told Joyce that he couldn't do the deal.

COMING BACK TO THE TABLE

Joyce had been very upset when the original deal fell through, and they didn't talk about it for quite a while afterward. "I can remember that day," said Mike. "She was ready to be done. And she thought that it was, that this was going to happen." According to Mike, they still had a great relationship, but neither knew quite where it would lead. For Mike, it was wondering how long he wanted to work for someone else. For Joyce, it was wondering how she would find someone to take over her company.

That fall, Mike started investigating other opportunities. One that he and Stacie were very serious about was a frozen custard operation that was started in Stacie's hometown in Ohio. Mike and Stacie visited the company's headquarters and were negotiating exclusive rights to franchise Minnesota.

But before they were able to complete the deal, Joyce hit her tipping point with Transit Team. "I remember it very clearly," Mike said. "We had a passenger who was very upset with us because he disagreed with one of our safety policies. And he called me on my phone, and I was talking to him. And he said, 'Is Harlan Peterson there?' Because people always asked for Harlan, because Harlan would just do whatever it takes to get people off the phone. Harlan wasn't in, so the guy started just ripping my ear apart. And finally, I think Joyce just heard me getting frustrated and comes in, and so I put him on hold and I said this is what's going on. This is who I have, he's asking for the owner Harlan, which ticks Joyce off because Joyce was the sole shareholder. But everybody asks for Harlan because Harlan did the operations. So, she comes in, she picks up the phone and starts handling it. And same thing, he's just ripping into her and you can tell she's getting upset. I've never heard her so angry yelling at this client. 'If you don't like it, then don't use our service.' You know, stuff like that. She hung up the phone, goes

into her office. Maybe ten minutes later, you can always tell when she's upset, she's leaving, she's going to go do what she does when she needs to relieve stress.

"She comes back the next morning and she said, 'You still want to do the deal?' And I said, 'Yeah, but I'm not getting the 10. It's just, it's not going to happen.' She said, 'I don't care. We need to do a deal. We need to get it done.' So, I think that that phone call was the tipping point. She was tired of having to deal with it. I mean it's a lot, especially with some of our clientele, it's difficult to talk logically with some of them, given their disabilities. And so, she was ready. And I could tell from that point, it was just whatever it took, to kind of work a deal that was fair to everybody."

Joyce told Mike that all she wanted was what she and Harlan were taking out of the business in compensation along with rent (she and Harlan owned the building) and insurance for the next three years. This came out to a little over one million dollars per year (see Exhibit 5).

Mike immediately met with Northeast to talk about loan options so he could do some financial modeling. The response he got was that Northeast was receptive to doing a deal and wanted to keep Transit Team as a customer. But they were worried about whether Mike would have enough cushion after taxes to repay $1 million of his loan plus interest each year.

So, Mike leaned on his M&A experience with Cherry Tree. "You don't just take the first deal that comes. The most successful deals were those where you had a willing buyer and a willing seller. It's adversarial, until a certain point. And then at some point everybody says, 'Well, we're just going to do whatever it takes to get this done.'"

He thought about different ways Cherry Tree had structured deals and used some of those strategies to shift a portion of the payment to expenses in the form of a consulting agreement and non-compete agreement rather than loans. The problem was that Joyce would then have to claim that money as ordinary income on her taxes, rather than capital gains, so her taxes would be higher. Therefore, Mike needed to increase the total amount he paid her to make up the difference.

His accountant recommended that he pay $1 million for the business and then document why the business was worth that much along with why Joyce was getting a consulting agreement and non-compete agreement in addition. As part of the deal, Joyce would also take $2.4 million in cash out of the business, leaving Mike with $1.6 million for working capital. The final deal ended up as follows:

- $2.4 million in cash taken out of the business
- $1 million seller note at 0.24% annual interest (the federally-mandated minimum amount that must be charged on a personal loan), to be paid monthly over three years
- $3.25 million in a consulting agreement, paid over three years
- $250,000 non-compete agreement, paid over three years

In addition, Mike negotiated a $1 million line of credit with Northeast Bank. "Since they weren't going to do any of the senior debt now, it was a lot easier to go to them and say hey, I want this. Not that I'm going to need it, but I just want this million bucks here just in case. You just never know."

CONCLUSION

It was now July of 2012, which they had targeted for a closing date to give Mike exactly three years left on the contract. Mike finished signing his name and slid the contract across the table to Joyce. It was going to be an interesting few years.

REFERENCES

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Stevenson, H., & Roberts, M. (2002). New Venture Financing. Harvard Business School Publishing, Note 802-131.

APPENDIX

EXHIBIT 1
METRO MOBILITY PROGRAM OVERVIEW

WHO WE ARE

Metro Mobility is a transit service for people who, at times, cannot use regular-route transit because of the symptoms of a health condition or disability. We provide door-through-door service for people qualifying for Metro Mobility service.

The Metro Mobility Service Center determines eligibility of applicants for Metro Mobility service, ensures compliance with state and federal rules, sets operating rules, responds to feedback from customers, and oversees the private companies (service contractors) that deliver the service.

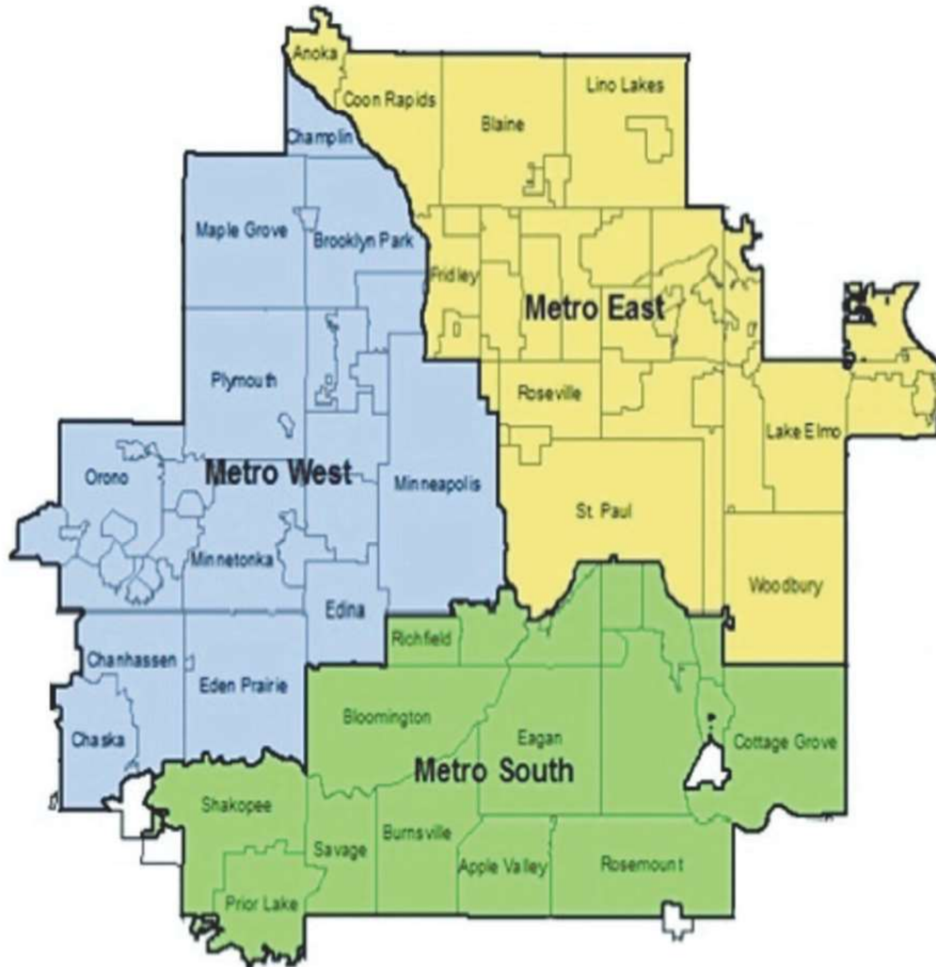
The service contractors are responsible for all aspects of service delivery. They hire and train the drivers, dispatchers, reservationists, and schedulers. The service contractors are responsible for booking and routing trips and for maintaining, cleaning, and insuring the Metro Mobility vehicles.

If you have questions about qualifying for Metro Mobility service, please see our brochure *Metro Mobility Eligibility Guidelines*, which is available online at www.metromobility.org or by contacting the Service Center.

1

Source: Metro Mobility Service Guide

EXHIBIT 2
METRO MOBILITY MAP



Source: Metro Mobility Website

EXHIBIT 3
TRANSIT TEAM ADJUSTED INCOME STATEMENT

(in $000)	Fiscal Years Ending June 30,					TTM Feb. 28, 2010
	2005	2006	2007	2008	2009	
Total Sales	**13,239**	**12,214**	**12,847**	**15,561**	**16,563**	**17,247**
Cost of Sales	9,001	7,868	7,894	10,780	11,658	11,619
Gross Profit	**4,238**	**4,346**	**4,953**	**4,781**	**4,905**	**5,628**
% of Sales	*32%*	*36%*	*39%*	*31%*	*30%*	*33%*
Operating Expenses	3,556	3,700	4,257	4,117	4,825	4,822
Operating Income	**682**	**646**	**696**	**664**	**80**	**806**
Adjustments:						
Depreciation	183	243	237	457	335	252
Owner Comp.	816	697	1,220	519	1,017	1,017
Reduced Lease Rate	72	72	72	72	72	72
Replacement GM	(250)	(250)	(250)	(250)	(250)	(250)
Adjusted EBITDA (Pre-Tax Cash Flow)	**1,503**	**1,407**	**1,974**	**1,462**	**1,253**	**1,897**

Source: Company Documents

EXHIBIT 4
TRANSIT TEAM BALANCE SHEETS

(in $000)	As of June 30,				
	2005	**2006**	**2007**	**2008**	**2009**
Cash	2,774	2,640	2,946	2,549	2,459
Accounts Receivable	664	1,017	1,052	1,927	2,358
Other	24	-	-	-	-
Total Current Assets	3,462	3,657	3,998	4,476	4,817
Net Property & Equipment	372	355	285	307	182
Other Assets	374	453	365	36	273
Total Assets	**4,208**	**4,465**	**4,648**	**4,818**	**5,272**
Accounts Payable	218	239	93	137	142
Accrued Wages	704	136	218	306	346
Accrued Payroll Taxes	26	276	440	133	484
Accrued Income Tax	248	34	33	6	-
Other Current Liabilities	20	372	1	-	-
Total Current Liabilities	1,216	1,057	786	582	973
Long-Term Liabilities	-	-	-	-	-
Common Stock	35	35	35	35	35
Additional Paid-In Capital	59	59	59	59	59
Retained Earnings	2,899	3,315	3,768	4,142	4,206
Total Equity	2,992	3,409	3,862	4,236	4,299
Total Liabilities and Equity	**4,208**	**4,465**	**4,648**	**4,818**	**5,272**

Source: Company Documents

EXHIBIT 5
MIKE'S DEAL NOTES (FALL 2010)

Salary & Rent/month as is

$326,208 Rent 27,100
$390,000K +$126,100
$641,000 12/10 ?
$549,02495 Net Income 2010

STAY ON INSURANCE (BOTH)

Reese $90K
Svoboda $50K

$
6

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2. a Q @ closing
b. $1,000,000
ST 36 payments of 27,777.78
.256
C. Employment Agreement
$3,250,000
36 payments of $90,277.78
D. In addition, 250K non-compete
$6,944.44

Source: Mike Richter

TEACHING NOTE

CASE PURPOSE:

This case is intended for an undergraduate entrepreneurial finance course to illustrate how valuation and deal terms impact risk and reward potential. It can be used during modules on pro forma development, layers of financing, and/or deal structure, and can be covered in a 75-to-90-minute class period. The case details the path of Mike Richter, who at the age of 27 is about to acquire an $18 million transportation company, where he has worked for the previous two years. Students are asked to project cash flows for the acquired business for multiple deal scenarios with different mixes of debt and equity and terms of seller financing. Through this analysis, students will observe three key points: 1) Debt financing is less expensive than equity financing, 2) Deal terms matter more than valuation, and 3) Deal structure can significantly reduce risk.

A secondary purpose of this case study is to illustrate a path that students might take toward business ownership. Most undergraduate students will not have considered business acquisition as a possible career path or how to put themselves in a position to acquire a business. This case is an example of how they might develop their careers to see acquisition opportunities and that it is possible to do this at a relatively young age.

RELEVANT READINGS:

It is useful to have students read Stevenson and Roberts (2002) to help frame the case discussion around debt vs. equity financing as well as bank debt vs. seller debt. In the case, Mike has three main options for buying Transit Team: raising money from investors in exchange for equity, getting a loan from a bank, or using seller financing (or some combination of these). The discussion can be framed around the advantages and risks of using debt in general along with the advantages of seller financing, and then hone in on how Mike was creative with seller financing to structure a deal that created value for himself and the seller.

CASE QUESTIONS:

1. What are the main risks to Mike if he goes through with the acquisition? How has he mitigated those risks?
2. Analyze the original $10 million asking price. What would the financial picture look like if Mike purchased Transit Team at that price using half debt and half equity?
3. Project income statements that compare the two new deals (if Mike borrowed $3 million to buy the business vs. the final deal that was structured). How much cushion did he create by expensing a portion of the deal?

CLASSROOM STRATEGY:

1. Start with overall discussion about the attractiveness of acquisitions as a path to business ownership versus starting a business. Points here include not having to come up with an idea, sellers are often motivated and willing to sell for less than market value (as in the case study), existing businesses may have cash flow to pay a salary to the owner and to pay for the acquisition (as in the case study). It is helpful here to show some examples from a business acquisition website like www.BizBuySell.com and run through a few numbers.
2. Discuss Mike's path to acquisition. You can ask students why Mike's position with Cherry Tree was so important. The autonomy and mentoring he received were certainly key, as was his honing of skills around financial modeling and understanding numbers/deals. It is important to emphasize that a

student's first job puts them on a path, and that a position like Mike's (financial analyst for a small investment bank) is an excellent fit for someone who is interested in acquiring a business.

3. Work through the case questions.

   1) *What are the main risks to Mike if he goes through with the acquisition? How has he mitigated those risks?*

   There are three main risks:

   - Mike will not be able to service the debt. Mike was able to mitigate this risk by borrowing from the seller (who is likely to be more flexible than a bank) and by structuring the payments as before-tax expenses to give him more of a cash cushion.
   - The Metro Mobility contract isn't renewed at the end of this period. Mike mitigated this risk by locking Joyce in as a consultant (Joyce's experience with bidding the contracts gave him confidence that the contract would be renewed) and by structuring the debt payoff to Joyce to coincide with the current contract. If the contract did not get renewed, Mike could walk away from the business with no financial loss.
   - Mike is "stuck" with the business once he acquires it; what if he doesn't like it or isn't good at running it? Mike was able to mitigate this risk by working in the business prior and getting to know business inside and out. He was buying a business he enjoyed and took pride in because of the service it provided to people with transportation needs. See Bhide (1996) as a classic reference for this discussion.

   2) *Analyze the original $10 million asking price. What would the financial picture look like if Mike purchased Transit Team at that price using half debt and half equity? Assume a five-year payoff and 8% interest rate on the debt.*

Lead students through this analysis on the whiteboard, using TN-1 and TN-2 as guides. Take Exhibit 3 and project after-tax cash flows: at a 40% tax rate, the after-tax CF is less than $1 million. This would almost cover Mike's loan obligations but leave no room for error (and payoff would extend into the next contract). Also, the equity investor's returns would be completely reliant on getting the next contract five years down the road; this is a big risk for an investor and Mike would likely have to give up a lot of equity in return.

   3) *Project income statements that compare the two new deals (if Mike borrowed $3 million to buy the business vs. the final deal that was structured). How much cushion did he create by expensing the deal?*

Now ask students to take a shot at doing the projections on their own, using TN-3 as a worksheet guide. After, you can lead them through the analysis using TN-4. You can emphasize two key points here: 1) Negotiating terms rather than price can create value (Mike can afford to pay Joyce $4.5 million instead of $3 million and still end up with a greater cash cushion), and 2) Financing with debt is less expensive in the long-run; (assuming the contract is renewed after three years, Mike's pre-tax income from the business will then be the entire $1.9 million in EBITDA; if he had an equity partner, he would have to split this).

4. Ask a Few Final Questions

   - How much risk did Mike *really* have? The answer is not much, assuming that he can maintain the same level of operation for the next three years. Keeping Joyce on as a consultant and buying her out over that period gives her a vested interest in making sure that happens. If it does, Mike can simply walk away after three years with no financial loss. The upside is that if the contract is renewed, all net cash flows become his.
   - Was the $2.4 million in cash Joyce's (i.e., was Mike paying her with her own money)? The answer is arguably yes, although it doesn't always work that way in acquisitions. The keys are that Joyce was happy with that distribution plus another three years of her current income and that it was cash readily available for Mike to use in the acquisition.
   - Why was the business growing and why might you expect it to continue to grow? What concerns? There isn't much data in the case relative to these questions, but what is in the case

points to an aging population that should continue to drive growth. However, the services are dependent on public money and support for the program could change drastically if new public officials are elected.

EPILOGUE:

Mike closed the acquisition in July of 2012 for the agreed deal. Transit Team's revenue grew significantly over the next three years due to increased ridership and the assumption of routes that competitors could not handle. To support the increase, the company grew from 220 employees to 307 employees and from 155 vehicles to 215 vehicles. To accommodate the growth, Mike found new facility space in early 2015 and began arranging financing for it to coincide with the possible renewal of the Met Council contract. Despite heavy competition in applications for the contract, Mike received news in April 2015 that he had indeed been awarded the new contract that would begin that summer. Later in the year, he secured bank financing to build a new facility on the northwest side of Minneapolis that was in much closer proximity to a large portion of Transit Team's routes. The new facility would reduce costs significantly while providing much needed space.

TN-1 – ORIGINAL DEAL CASH FLOW ANALYSIS WORKSHEET

Assume 5-year loan amortization at 8% interest. Base projections on trailing twelve months adjusted EBITDA.

	Year 1	Year 2	Year 3	Year 4	Year 5
Adjusted EBITDA					
Interest Expense					
Pre-Tax Income					
Taxes (40%)					
After-Tax Income					
Loan Principal					
Net Cash Flow					

TN-2 – ORIGINAL DEAL CASH FLOW ANALYSIS WORKSHEET (COMPLETED)

Assume 5-year loan amortization at 8% interest. Base projections on trailing twelve months adjusted EBITDA.

	Year 1	Year 2	Year 3	Year 4	Year 5
Adjusted EBITDA	1,897	1,897	1,897	1,897	1,897
Interest Expense	369	300	223	140	51
Pre-Tax Income	1,528	1,597	1,674	1,757	1,846
Taxes (40%)	611	639	670	703	738
After-Tax Income	917	958	1004	1,054	1,108
Loan Principal	847	917	994	1,077	1,166
Net Cash Flow	70	41	10	(23)	(58)

TN-3 - $3 MILLION DEAL CASH FLOW ANALYSIS WORKSHEETS

$3 million offer (8% loan amortized over three years):

	Year 1	Year 2	Year 3
Adjusted EBITDA			
Less: Interest Expense			
Pre-Tax Income			
Less: Taxes (40%)			
After-Tax Income			
Less: Loan Principal			
Net Cash Flow			

Final Offer:

	Year 1	Year 2	Year 3
Adjusted EBITDA			
Less: Consulting Agreement			
Less: Non-Compete Agreement			
Interest Expense			
Pre-Tax Income			
Taxes (40%)			
After-Tax Income			
Loan Principal			
Net Cash Flow			

TN-4 - $3 MILLION DEAL CASH FLOW ANALYSIS WORKSHEETS (COMPLETED)

$3 million offer (8% loan amortized over three years):

	Year 1	Year 2	Year 3
Adjusted EBITDA	1,897	1,897	1,897
Less: Interest Expense	207	130	48
Pre-Tax Income	1,690	1,767	1,849
Less: Taxes (40%)	676	707	740
After-Tax Income	1,014	1,060	1,109
Less: Loan Principal	921	998	1,081
Net Cash Flow	93	62	28

Final Offer:

	Year 1	Year 2	Year 3
Adjusted EBITDA	1,897	1,897	1,897
Less: Consulting Agreement	1,083	1,083	1,083
Less: Non-Compete Agreement	83	83	83
Interest Expense	2	2	1
Pre-Tax Income	812	812	813
Taxes (40%)	325	325	325
After-Tax Income	487	487	488
Loan Principal	333	333	334
Net Cash Flow	154	154	155