ALTAVIEW ADVISORS

Unique Estate Planning Opportunities and Related Valuation Issues

Estate Planning Council of Central Texas

September 24, 2019

Topics

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Pre-Sale Planning

Pre-Sale Planning

Presentation Outline

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Presentation Objectives

Objectives

1. Explain the primary sources for the divergence in value of a non-controlling interest in a privately held company in the context of a potential liquidity event versus the same interest without any prospect of a liquidity event

2. Summarize the methodology used to accurately and defensibly value a non-controlling interest in the context of a potential, yet still uncertain, transaction

3. Understand how various transaction types, forms of consideration, structures, and deal stages impact the valuation discounts applicable to non-controlling interests

4. Review the available empirical data supporting valuation discounts in the context of a contemplated transaction

5. Provide case studies and a pre-sale planning valuation example

6. Highlight certain commonly used tax efficient wealth transfer strategies involving non-controlling interests in the context of a contemplated transaction

Valuation Methodology Overview

Sources of Value Difference

A non-controlling interest in a privately held company without any prospect of a liquidity event in the foreseeable future may be valued far less than an otherwise similar interest in a privately held company actively pursuing a liquidity event.

Where does this difference come from?

1. Strategic Synergies
2. Cost Reductions
3. Owner's Compensation
4. Control Premium
5. Marketability Discount

Hypothetical Example

	$ Value	% of Expected Sale Value
Expected Sale Value	**190,000**	**100.0%**
Synergies & Cost Reductions	10,000	5.3%
Owners Compensation Adjustment	10,000	5.3%
Pre-Deal Value (Controlling)	**170,000**	**89.5%**
Control Premium	30,000	15.8%
Marketability Discount	40,000	21.1%
Pre-Deal Value (Non-Controlling, Non-Marketable)	**100,000**	**52.6%**

Valuation Methodology Overview

Valuation Methodology

Due to the wide disparity in value for the same interest in either a "No Deal" scenario or a "Deal" scenario, how does one determine the fair market value of an interest in the context of a potential, but still uncertain, transaction?

1. **Determine the value of the interest under two alternative scenarios**

    Deal is Not Completed ("No Deal" Price) – Fully Discounted Value

    Deal Is Completed ("Deal" Price) – Expected Sale Value

2. **Reconcile the two values based on various factors, including but not limited to: (i) the probability that the deal is completed; (ii) the expected time to completion; and (iii) the uncertainty of the transaction price and terms.**

Depending on the facts and circumstances, a given interest may be valued at a large discount or small discount to the ultimate Deal Price.

Key Factors Impacting Valuation Discounts

Transaction Types, Consideration, Structure, and Deal Stages

There are many factors that impact the level of valuation discounts applicable to non-controlling interests in businesses exploring a potential liquidity event, including the following:

- Transaction Type
  - Capital Raise
  - Merger
  - Initial Public Offering (IPO)
  - Sale of the Business
- Deal Terms and Form of Consideration
  - Cash, Stock, Seller Note, Rollover Equity, Earnout
  - Lock-Up Restrictions Post-Transaction
  - Clawbacks
- Structure
  - Entity Structure Pre- and Post-Transaction
  - Structure of Subject Interest
- Deal Stage
  - Milestones Achieved and Hurdles Remaining
  - Probability of Successful Completion
  - Expected Time to Successful Completion
  - Uncertainty of Ultimate Price and Form of Consideration

Key Factors Impacting Valuation Discounts

Transaction Type

Valuation discounts are impacted by the type of transaction, and more specifically, how the subject interest participates in the transaction. Discounts are primarily a function of:

1) The level of value at which the transaction occurs (i.e., control, minority marketable, minority non-marketable)

2) Whether the subject interest receives cash or other liquid assets at the transaction close

The chart below presents a spectrum of transaction types and the impact on valuation discounts at the time the transaction is consummated:

		Capital Raise	Merger	Initial Public Offering		Sale Transaction	
				Primary Shares	Secondary Shares	Partial	100%
DLOC	Ability to Exit at Control	✗	✗	✗	✗	✗	✓
DLOC	Does a DLOC still apply?	✓	✓	✓	✓	✓	✗
DLOM	Ability to Gain Liquidity	✗	✗	Not Immediately	Partial	Partial	✓
DLOM	Does a DLOM still apply?	✓	✓	Reduced	Reduced	Reduced	✗

Prior to a transaction closing, discounts may be applied to capture: (i) the risk of a deal getting done; (ii) the expected time to closing; (iii) uncertainty regarding the ultimate price and form of consideration; and (iv) various other factors.

Key Factors Impacting Valuation Discounts

Deal Terms and Form of Consideration

Transactions can involve a wide range of deal terms and forms of consideration that make the structure less attractive than an all-cash transaction:

- All-Cash
  - Most favorable. Typically undiscounted at the time of the transaction (with some exceptions)
- Rollover Equity / Stock Consideration
  - A portion (or all) of the proceeds are paid with stock of the acquirer
  - Private Buyer: equity is illiquid and typically subject to transfer restrictions
  - Public Buyer: equity may lack registration rights or have other restrictions
- Contingent Consideration / Earnout
  - Future payments tied to performance (revenue growth, achievement of forecast, etc.)
  - Lacks immediate liquidity and has valuation risk
- Seller Note
  - Consideration may be partially paid for with a seller note
  - Seller notes are often at under-market rates (i.e., note would be valued at less than face value)
  - Lacks immediate liquidity and has valuation risk
- Lock-Up Restrictions
  - An IPO will often include lock-up and Rule 144 restrictions reducing the marketability of stock held following an IPO

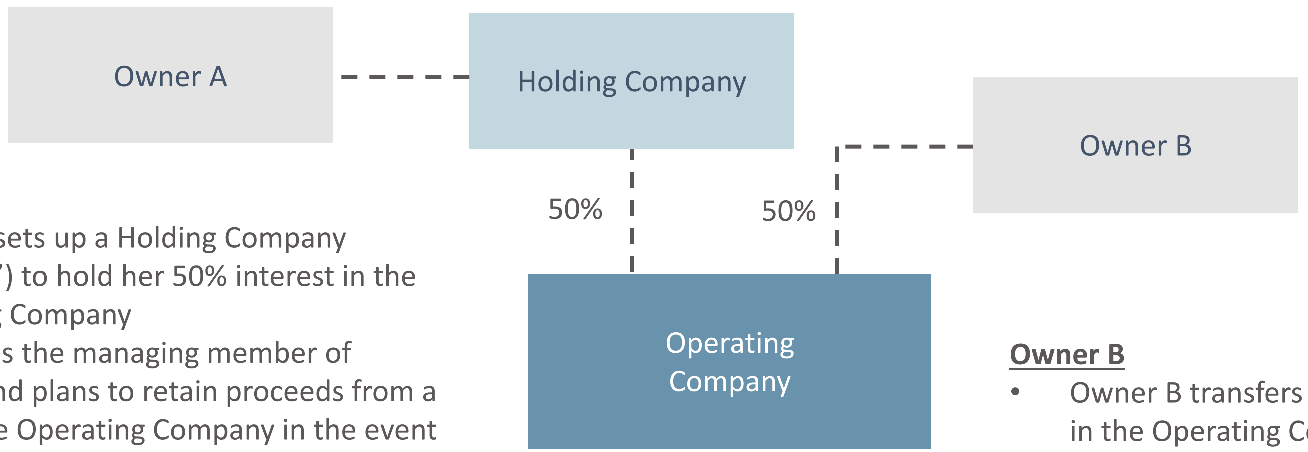
Compenents of Closed Deals (Non-Cash or Other)		
Compenents	2019	Average
Seller Financing / Seller Note	30%	30%
Contigent Earnout	37%	36%
Rollover	33%	29%
Lowered Multiple of EBITDA	29%	25%
Adjusted Amount of Equity Sold	29%	20%

Source: Pepperdine Capital Markets Reports (2012-2019)

Key Factors Impacting Valuation Discounts

Structure

A holding company structure is also often used to manage, invest, and protect the proceeds from a liquidity event. Depending on the design, this structure may result in higher discounts.



<u>Owner A</u>

- Owner A sets up a Holding Company ("HoldCo") to hold her 50% interest in the Operating Company
- Owner A is the managing member of HoldCo and plans to retain proceeds from a sale of the Operating Company in the event of a sale
- Owner A transfers 10% of the HoldCo
- **Tiering:** The Subject Interest is a minority interest in HoldCo, which in turns owns a 50% interest in the Operating Company. This structure may warrant "second-level" or "tiered" discounts
- **Discounts:** All in, this structure may add another 5-15% combined discount

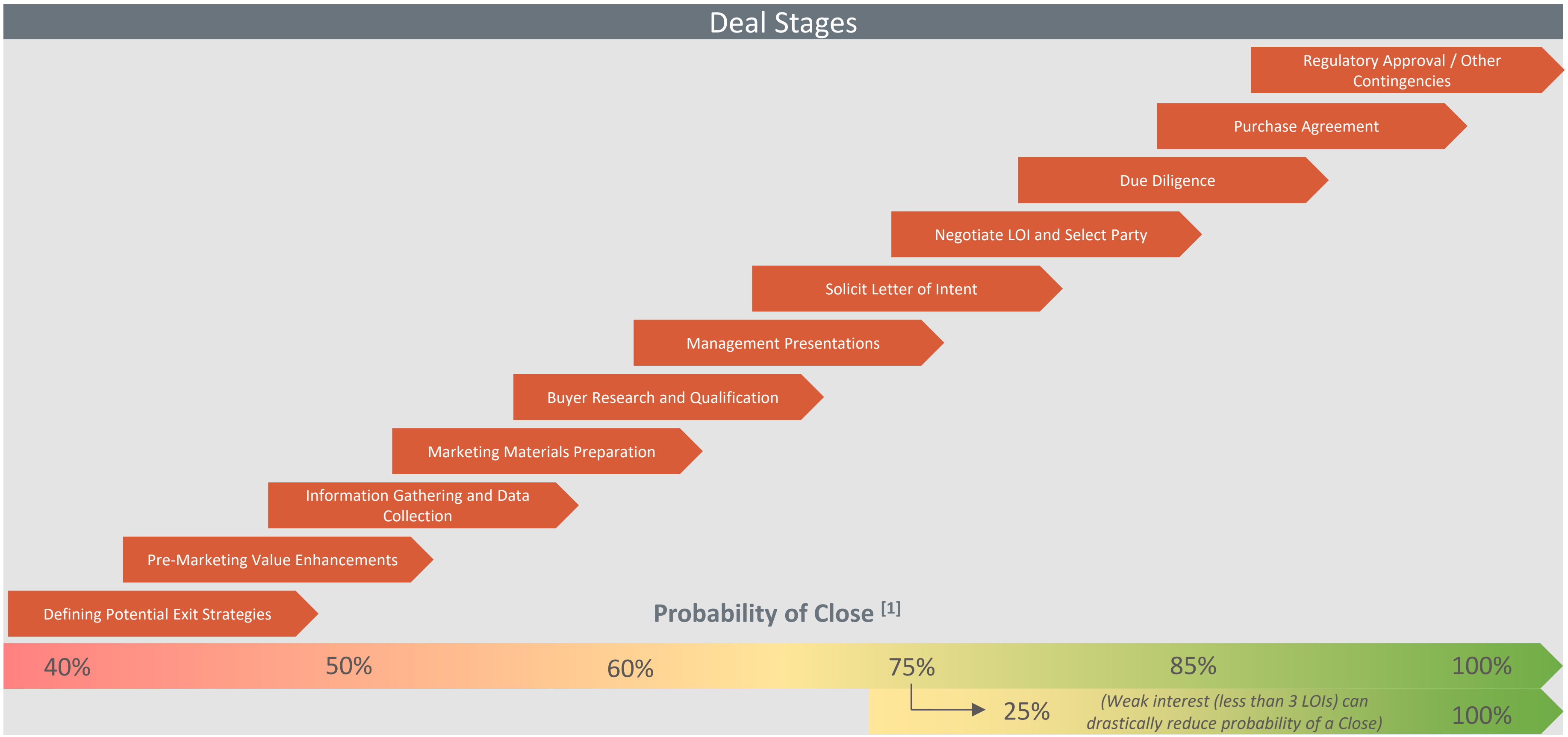
<u>Owner B</u>

- Owner B transfers 10% of his interest in the Operating Company
- In the event of a sale, the recipient would receive the proceeds from the transaction directly. Only the discounts applicable to the 5% interest (10% of 50%) would apply

Transaction Stages and Probability of Deal Completion

Transaction Stages Overview

For companies pursuing a sale, valuation discounts decline as the probability of a deal being completed increases. The probability of a deal being completed is significantly impacted by the stage of a deal.



[1] ***Source: Investment Banker Interviews.*** *These probabilities are solely intended to illustrate the concept of an increasing probability of close as deal stages are completed and the time to close decreases. It does not provide an opinion regarding the appropriate value of a specific business or interest in any particular case. Any such determinations necessarily involve consideration of the unique factors and circumstances involved in such case.*

Transaction Stages and Probability of Deal Completion

Key Risks to Deal Completion

There are a number of risks that can impact the probability of a deal being completed, the timeline to complete the transaction, and the deal price. These risks need to be considered in a pre-sale valuation and are ultimately imbedded in a pre-sale discount.

Risks to Consider

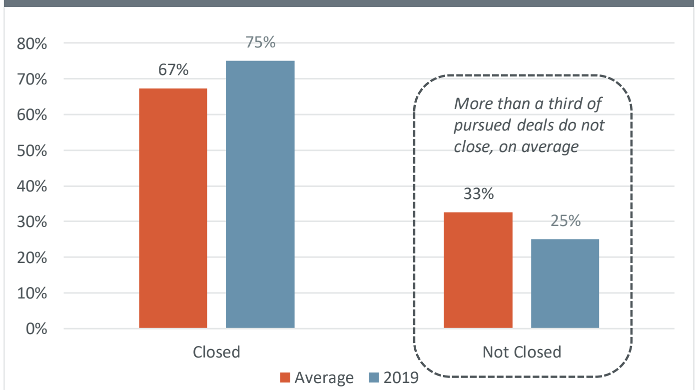
Probability of Completion	Expected Time to Completion	Price and Consideration

• Valuation gap
• Due diligence
    • Financial
    • Legal
• Regulatory approval
• Seller misrepresentations
• Quality of management team
• Environmental liabilities
• Financing
• Market volatility
• Impasses over reps and warranties
	• Delayed due diligence
	• Prolonged regulatory approval
	• Market timing
	• Lead acquirer drops-out
	• Unmotivated / uncertain seller
	• Management fatigue
	• Subject company performance
	• Aggressive timing estimates from investment bankers
		• Buyer re-trading
		    • Lower multiple
		    • Adjusting EBITDA
		• Overbidding in an IOI period to get to the next round
		• Seller financing / seller notes
		• Contingent earnout
		• Rollover equity

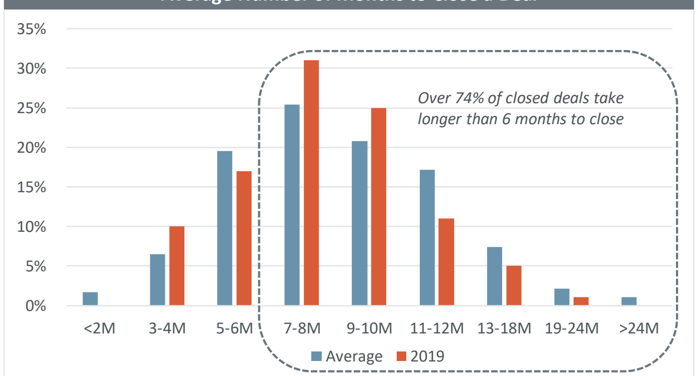
Transaction Stages and Probability of Deal Completion

Probability of Completion

The Pepperdine Capital Markets Report provides evidence of the probability of closing a transaction, time to close, and other risks associated with private company transactions.



Source: Pepperdine Capital Markets Reports (2012-2019)



Source: Pepperdine Capital Markets Reports (2012-2019)

Reasons for Terminated Transactions		
Reason	**2019**	**Average**
Valuation Gap	31%	31%
Unreasonable Demands	22%	21%
Lack of Capital	7%	10%
Economic Uncertainity	7%	10%
No Market for Busiess	8%	8%
Insufficent Cash Flow	10%	8%
Other	8%	7%
Seller Misrepresentations	2%	5%

Valuation Gap on Terminated Transactions		
Valuation Gap	**2019**	**Average**
50%+	4%	6%
41-50%	5%	4%
31-40%	9%	12%
21-30%	30%	36%
11-20%	46%	34%
1-10%	7%	8%

Source: Pepperdine Capital Markets Reports (2012-2019)

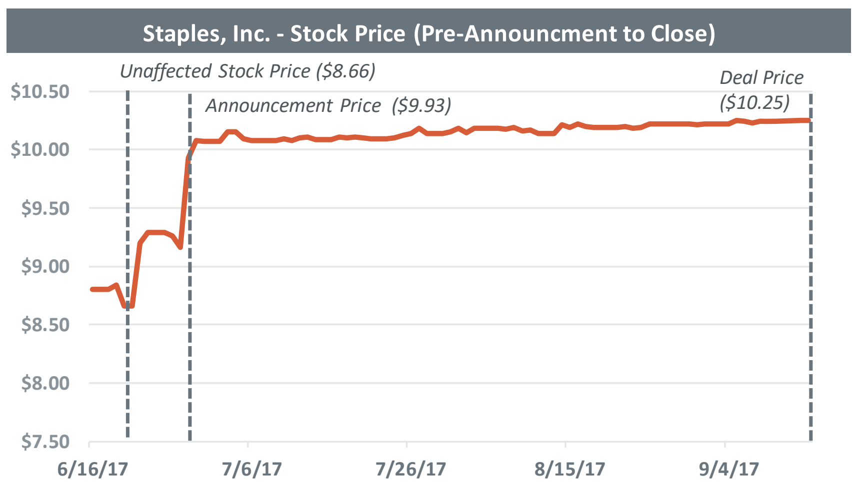
Empirical Data Review and Application

Merger Arbitrage Data

Merger Arbitrage data provides market-based evidence regarding the impact of deal stage and time to close on the valuation of non-controlling interests prior to a contemplated transaction.

Example:

- **Sycamore Partners** announced on June 28, 2017 that it would take private **Staples, Inc.** for $6.9 billion, implying $10.25 per share (“Deal Price” or “DP”). The deal ultimately closed at the DP on September 14, 2017.
- Prior to the announcement, the unaffected trading price for Staples was $8.66 (“Unaffected Price” or “UP”).
- Following the announcement, the stock price increased to $9.93 (“Announcement Price” or “AP”).



- The Sale/No Sale Percentile represents how far the stock price increases from the Unaffected Priced towards the Deal Price. It is calculated as:

(AP - UP) / (DP - UP) = ($9.93 - $8.66) / ($10.25 - $8.66) = **79.9%**

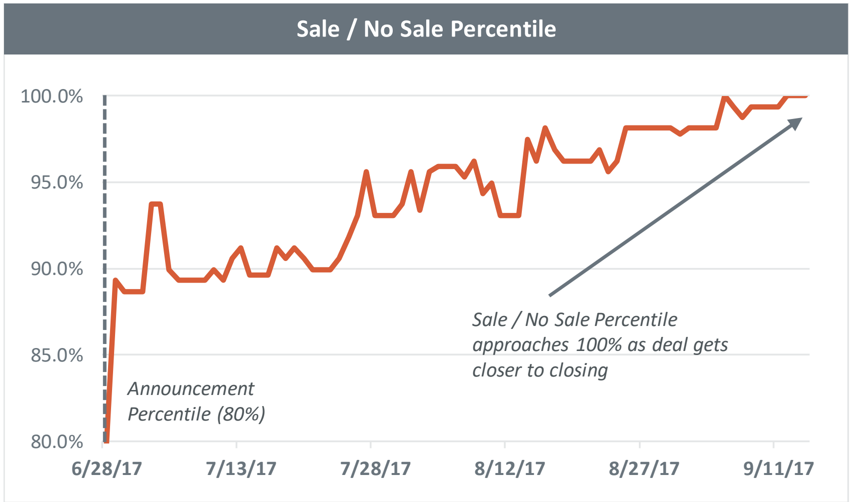
Empirical Data Review and Application

Merger Arbitrage Data

In arriving at the market clearing price of $9.93 on the date of the announcement, the market is effectively "weighting" the Deal Price 79.9% and the Unaffected Price 20.1%.

	Value	Implied Weighting
Deal Price	10.25	79.9%
Unaffected Price	8.66	20.1%
Weighted Average Price	**9.93**	**100.0%**

The Sale/No Sale Percentile takes into account both the probability of the deal being completed and the expected time to close. As illustrated below, as the deal progresses, the Sale/No Sale Percentile approaches 100%.



Presumably, if the deal does not close, the stock price will fall back to the Unaffected Price of $8.66, barring other changes to the company and/or the market.

Empirical Data Review and Application

Merger Arbitrage Data

The Merger Arbitrage data provides the best available evidence for accurately and defensibly valuing non-controlling interests in a pre-sale context due to the apples-to-apples nature of the data.

	Example Public Company Announcing Sale	Private Company Exploring Sale	Selected Weighting
Deal Price	10.25	Expected Deal Value (1)	??
Unaffected Price	8.66	Fully Discounted Value	??
Market Price	**9.93**	**Fair Market Value**	

(1) May include discounts due to non-cash consideration and other factors

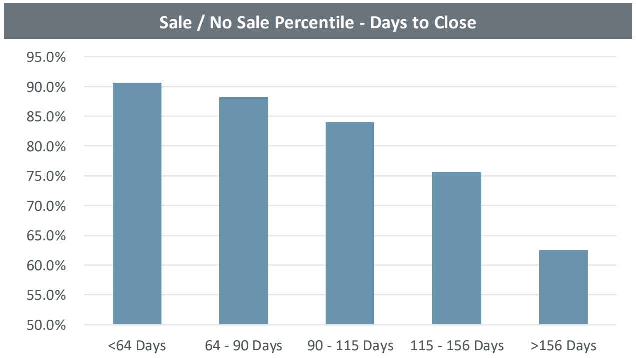
Weightings are selected based on the various factors impacting the probability and timing of the transaction relative to the Merger Arbitrage data.

Empirical Data Review and Application

Merger Arbitrage Data

Based on almost 700 public company transactions analyzed, we observe the impact that days to close, company size (revenue), and profitability (net profit margin) have on the Sale/No Sale Percentile. As detailed below, for public companies, deals announced close to their closing dates (<64 days) have an average Sale/No Sale Percentile of 90.7%, while deals announced well in advance of their closing dates (>156 days) have only a 62.6% Sale/No Sale Percentile.

			Size		Profitability	Transaction Details		
		Count	Total Invested Capital (TIC) (Median)	Revenue (Median)	Net Profit Margin (Median)	Control Premium (Median)	Days to Close (Median)	Sale / No Sale Percentile
All Transactions		**5,643**	**363**	**161**	**4.1%**	29.2%	n/a	**n/a**
Selected Transactions		**681**	**458**	**321**	**3.0%**	25.8%	106	**79.6%**
Days to Close								
Less Than	64	100	$241.5	$184.4	2.1%	33.0%	51	**90.7%**
64 -	90	95	509.9	407.5	3.0%	29.7%	77	**88.2%**
90 -	115	97	600.4	385.9	3.5%	26.1%	104	**84.0%**
115	156	97	647.6	455.1	3.7%	24.5%	132	**75.6%**
156	and Above	98	564.2	318.1	3.1%	30.9%	209	**62.6%**
Revenue								
Less Than	$93.0	98	$67.8	$44.5	(0.3%)	36.5%	94	**79.6%**
$93.0	226.8	97	170.5	151.4	2.1%	33.8%	98	**83.5%**
226.8	462.7	97	423.5	305.3	2.9%	29.9%	96	**77.9%**
462.7	1,198.8	97	1,077.8	672.3	4.2%	25.9%	100	**86.6%**
1,198.8	and Above	98	3,175.8	2,546.0	4.5%	24.9%	116	**77.7%**
Net Profit Margin								
Less Than	(2.8%)	98	189	159	(10.1%)	35.9%	91	**83.4%**
(2.8%)	1.9%	102	258.6	303.8	0.4%	34.6%	105	**80.6%**
1.9%	4.5%	93	508.5	460.4	3.1%	29.8%	100	**82.4%**
4.5%	8.1%	96	1,102.3	496.9	6.1%	25.4%	109	**79.6%**
8.1%	and Above	98	1,029.6	305.4	13.4%	24.8%	107	**80.6%**



Empirical Data Review and Application

Merger Arbitrage Data

Practice Tip: The Merger Arbitrage statistics involve trading in the securities of publicly traded companies following a public announcement of an acquisition. In general, public company transactions have a higher probability of closing than private company transactions.

1. No public shareholder accountability for private companies
2. Owner's unilateral decision vs. Board independent evaluation of transaction and shareholder vote
3. Private company owners' motivations are often not purely economically driven
4. Reputational risk associated with public company announcing a deal that doesn't close
5. Typically no termination fees in private company transactions

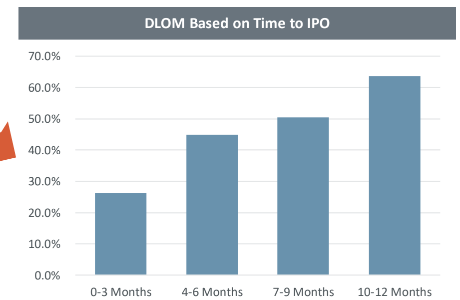
At any given stage of the transaction process, the indicated Sale/No Sale Percentile for a privately held company may need to be adjusted downward relative to that observed for public companies.

Empirical Data Review and Application

Pre-IPO Study

Valuation Advisor's Lack of Marketability Discount Study analyzes secondary market transactions in private companies in advance of an anticipated IPO. The "DLOM" is calculated based on the price of the secondary market transaction (prior to the IPO) relative to the ultimate IPO price.

		Size			Profitability	Block Size	
	Count	Revenue (Median)	Operating Profit (Median)	Total Assets	Net Profit Margin (Median)	Shares Offered / Shares Outstanding	**Indicated DLOM (Median)**
Time to IPO							
0-3 Months	111	$0.0	($13.3)	$91.3	(9.1%)	14.8%	**26.3%**
4-6 Months	178	66.6	(7.0)	110.0	(2.3%)	15.6%	**44.9%**
7-9 Months	159	89.9	(10.0)	124.4	(1.8%)	14.9%	**50.5%**
10-12 Months	143	90.2	(7.8)	145.7	0.0%	14.9%	**63.6%**
Selected Transactions - Sorted by Revenue (7-9 Months Pre-IPO)							
Less Than $9.3	32	$0.7	($24.8)	$48.4	(218.5%)	16.8%	**63.7%**
$9.3 - 57.6	32	25.7	(13.2)	46.9	(71.8%)	14.9%	**45.3%**
57.6 - 134.4	31	89.9	(10.0)	89.5	(11.2%)	12.3%	**52.4%**
134.4 347.3	32	197.7	6.7	173.0	2.6%	12.1%	**49.9%**
347.3 and Above	32	1,259.0	93.1	1,814.6	6.2%	15.3%	**37.5%**
Selected Transactions - Block Size (%) (7-9 Months Pre-IPO)							
Less Than 10.3%	32	$140.2	($9.3)	$199.7	(2.2%)	8.6%	**54.1%**
10.3% - 13.4%	32	91.1	(15.9)	98.9	(22.6%)	12.0%	**51.3%**
13.4% - 16.1%	31	30.0	(13.8)	144.2	(9.1%)	14.9%	**51.2%**
16.1% 18.3%	32	68.6	(3.3)	84.6	0.0%	17.1%	**51.1%**
18.3% and Above	32	74.3	(2.0)	98.4	0.4%	19.1%	**42.5%**



Word of Caution: The Valuation Advisors study can overstate the DLOM because the IPO price includes appreciation between the date of the secondary market transaction and the IPO. Often times, an adjustment to the indicated DLOM is warranted.

Pre-Sale Examples and Case Studies

Pre-Sale Example

The example below details a pre-sale planning valuation where a control level sale is being contemplated, but is in its early stages.

		Enterprise Value	
(Dollars in $000's)	Weighting	No Sale	Sale [1]
Guideline Public Company Method	33.33%	$100,000	$110,000
Guideline Acquisition Method	33.33%	115,000	128,000
Discounted Cash Flow Method	33.33%	95,000	104,000
Weighted Indication (Enterprise Value)		**$103,300**	**$114,000**
Less: Interest Bearing Debt		($50,000)	($50,000)
Indicated Equity Value		**$53,300**	**$64,000**
Implied Imbedded Control Premium			*20%*
Discount for Lack of Marketability			
Assumed Holding Period		Indefinite	
Selected DLOM %		35%	0%
Less: Indicated DLOM (Applied)		($18,655)	$0
Indicated Equity Value, After DLOM		**$34,645**	**$64,000**
Sale / No Sale Percentile [2]		*50%*	*50%*
Concluded Fair Market Value		**$49,300**	
Effective Discount to Sale Proceeds		*23%*	

[1] The 'Sale Scenario' values have been estimated assuming a 20.0% control premium and $50 million in debt.
[2] The Sale / No Sale Percentile givens consideration the Merger Arbitrage data previously reviewed, and certain deal specific adjustments as further detailed on this page

Selection of Sale / No Sale Percentile

Base Sale / No Sale Percentile	**65.0%**
Current Level of Market Volatility	*Neutral*
Competent Management Team	*Neutral*
Current Owners' Desire to Sell	*Large Increase*
Volatility of Historical Earnings	*Large Decrease*
Possibility for Earn-out / Rollover Equity	*Large Decrease*
Quality of Earnings / Level of Adjustments	*Small Decrease*
Bias of Closed Transactions in MergerStat Study	*Large Decrease*
Selected Sale / No Sale Percentile	**50.0%**

Likelihood of Premiums

	Acquirer Type	
Year	Strategic	Financial
2015	56%	44%
2016	52%	48%
2017	57%	43%
2018	55%	45%
2018	56%	44%
2019	55%	45%

Premium Paid by Strategic Buyers		
Premium	2019	Average
50%+	3%	8%
41-50%	0%	2%
31-40%	9%	4%
21-30%	11%	11%
11-20%	31%	30%
1-10%	24%	21%
No Premium	21%	25%

Impact of Ultimate Premium Obtained

	Effective Discount at Sale at Various Control Premiums				
Control Premium	0%	10%	20%	30%	40%
Effective Discount	**8%**	**16%**	**23%**	**29%**	**34%**

Pre-Sale Examples and Case Studies

Case Studies

1. **Medical Apparel Business:**
    - Pre-Sale planning completed in December 2017 after hiring an investment banker but before initial indications of interest
    - High brand concentration and ongoing negotiations of licensing deals lead to uncertainty around the valuation of the Company and likelihood of a successful close
    - Interest transferred in holding company and tiered discounts applied
    - Company ultimately sold in May 2018 to a strategic acquirer
2. **International Mobile Hardware Company:**
    - Pre-IPO planning completed in April 2018 after hiring an investment banker but before pricing range was established for an IPO
    - Tech “unicorn” with high growth but low profit business. Mainstream media articles (WSJ, etc.) rumoring a sky-high valuation that was hard to justify based on the fundamentals of the company
    - IPO completed in July 2018. Primary shares issued in IPO resulting in no liquidity for the Subject Interest
    - Valuation was at a significant discount to the rumored IPO price and included a 28% discount for lack of marketability that was applied due to lock-up restrictions and large block being valued
3. **Industrial Parts Integrator:**
    - Pre-Sale planning completed in September 2018 at the time the company was interviewing bankers
    - Significant quality of earnings adjustments creating potential for a wide range of offers
    - Hurdles to complete a transaction (regulatory, valuation risks, due diligence risks, seller fatigue, etc.) leading to a large discount from the potential transaction price
    - Transaction still in process; not closed as of Q1 2019

Wealth Transfer Strategies

Wealth Transfer Strategies

The following tax efficient wealth transfer strategies are commonly used in the context of pre-sale planning:

	Strategies to Benefit from Near-Term "Pop" in Value			Strategies to Reduce Taxes on Sale
	Gifts	**Related Party Sales**	**GRATS**	**Charitable Contributions**
Strengths:	Simplicity and Low Cost	No Gift Tax Exemption Used Due to Adequate Consideration Paid	Limited Downside if Deal is Not Completed	Income Tax Deduction at Ordinary Rates Based on FMV of Shares
Weaknesses:	Limited to Remaining Exemption or Subject to Gift Tax Use Too Much Exemption if Deal Doesn't Close	Seller Note May be a Burden in Event Deal Does Not Close	Cost to Establish and Maintain	Limited to Ordinary Income Available to Offset Risk of Deemed Sale Prior to Contribution
Recommendations:	**Transfer as Early in the Process as Possible!!!**			**Transfer Late But Not Too Late!!!**

Vertical Slice Transfers in Private Equity Funds

Vertical Slice Transfers in Private Equity Funds

Presentation Outline

Presentation Objectives

Overview of Private Equity Funds

Tax Efficient Wealth Transfer Opportunities

Section 2701 Vertical Slice

Key Valuation Issues and Common Pitfalls

Questions and Answers

Presentation Objectives

Objectives

1. Provide an overview of the investment objectives, legal structures, and economics of typical private equity funds

2. Discuss opportunities for tax efficient wealth transfer of interests in private equity funds

3. Summarize how IRC Section 2701 issues arise in transferring interests in private equity fund structures

4. Identify key issues and common pitfalls when valuing interests in private equity funds

Overview of Private Equity Funds

Investment Objectives

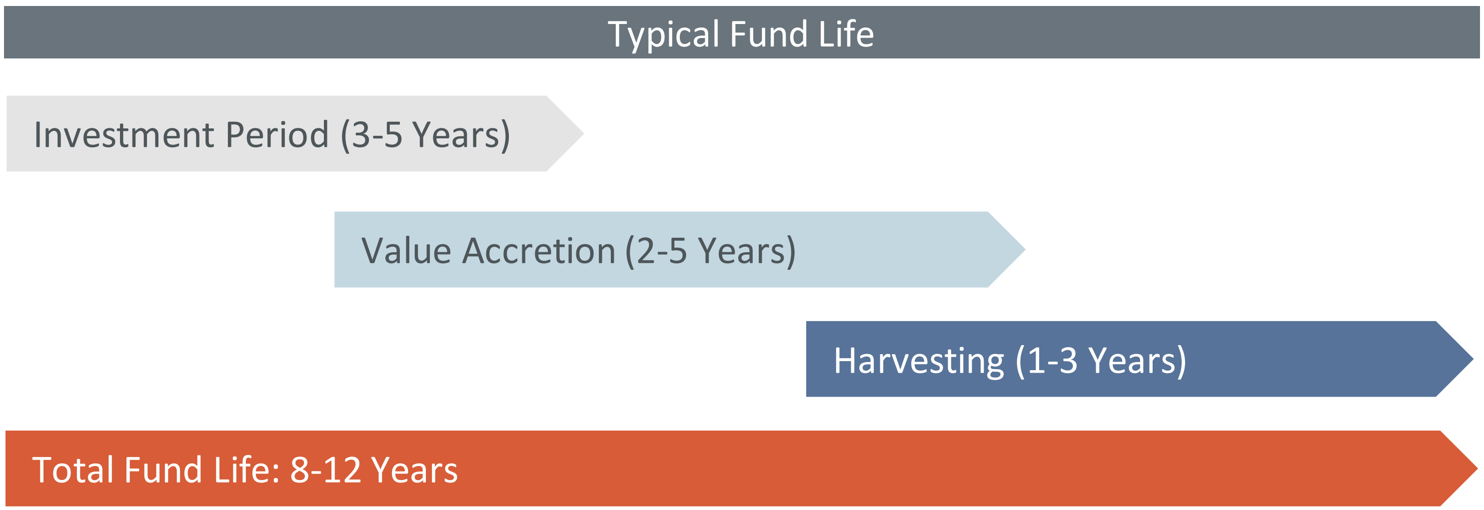
Private equity funds can have a diverse range of investment objectives, including various strategies, security or asset types, geographic focuses, and industry concentrations.

Investment Strategies	Securities / Assets	Geographic Focus	Industry Focus
Buyout	Equity	United States	Generalist
Growth Equity	Debt	Global Developed Markets	Technology, Media, Telecom
Mezzanine	Real Assets	Emerging Markets	Healthcare
Distressed Debt			Financials
Venture Capital			Real Estate
Fund of Funds			Industrials
			Consumer / Retail

Overview of Private Equity Funds

Investment Objectives

Private equity funds are long-term investment vehicles that call capital from investors to make investments generally over a 3-to-5-year period, hold investments for 2-5 years, and then dispose of investments over their remaining lives. This process generally results in an approximately 8-to-12-year total fund life.

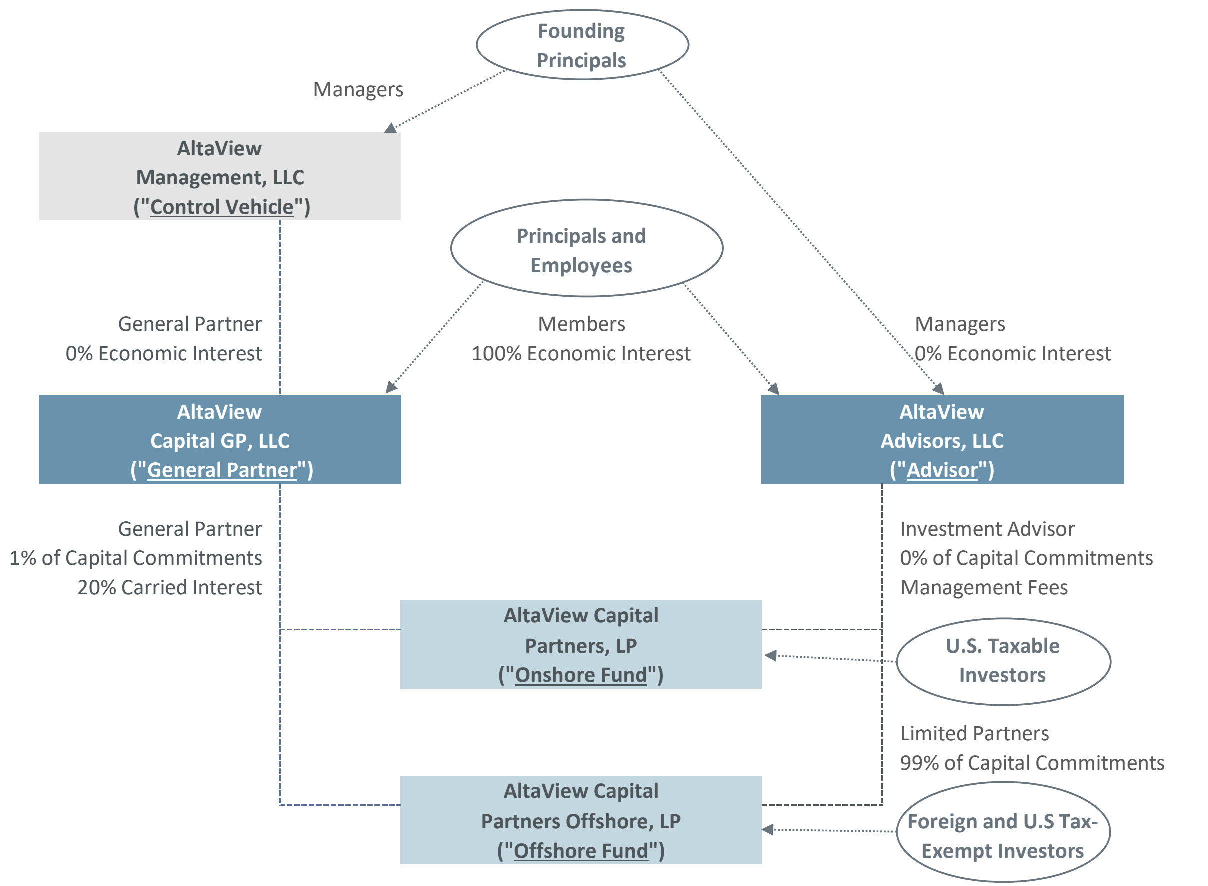


Overview of Private Equity Funds

Legal Structures

Private equity funds are structured as a series of foreign and domestic limited partnerships and limited liability companies.

AltaView Capital Partners Structure Chart



Overview of Private Equity Funds

Economics

When successful, private equity funds can generate attractive returns to investors and also significant carried interest distributions to fund managers.

Capital Commitments	$1,000,000	$1,000,000	$1,000,000
Capital Contributions			
Management Fees & Expenses	150,000	150,000	150,000
Invested Capital	850,000	850,000	850,000
Total Contributions	**1,000,000**	**1,000,000**	**1,000,000**
Gross Investment Returns			
Gross Multiple of Invested Capital	1.50x	2.00x	2.50x
Realized Investment Proceeds	1,275,000	1,700,000	2,125,000
Distribution Waterfall			
Return of Capital Contributions	1,000,000	1,000,000	1,000,000
Limited Partner Profit Share (80%)	220,000	560,000	900,000
Carried Interest (20%)	**55,000**	**140,000**	**225,000**
Total Distributions	**1,275,000**	**1,700,000**	**2,125,000**
Implied Net MOIC to LPs	1.22x	1.56x	1.90x

MOIC = multiple of invested capital

Overview of Private Equity Funds

Economics

Carried interest is a subordinated, highly leveraged, long-dated, and illiquid investment. As illustrated below, carried interest distributions are only made after significant distributions to limited partners are made.

	Fund Distributions		Allocation of Distributions to Owners			% of Total Distributions		
	Fund Distributions	Average Distribution Percentile	Limited Partners	GP Capital Interest	Carried Interest	Limited Partners	GP Capital Interest	Carried Interest
Distribution Stage								
Return of Capital	1,000,000	29.4%	990,000	10,000	-	64.1%	58.8%	0.0%
Preferred Return	291,086	67.4%	288,176	2,911	-	18.7%	17.1%	0.0%
GP Catchup	72,772	78.1%	-	728	72,044	0.0%	4.3%	52.0%
Profit Split	336,142	90.1%	266,224	3,361	66,556	17.2%	19.8%	48.0%
Total	1,700,000		1,544,400	17,000	138,600	100.0%	100.0%	100.0%
			Weighted Average Distribution Percentile			**47.0%**	**50.0%**	**83.9%**

Overview of Private Equity Funds

Economics

Near to a fund's inception, carried interest may have a very low fair market value relative to its potential ultimate payout. In the below example, the carried interest has a fair market value equal to approximately 1.0% of total capital commitments.

	12 Months Ended December 31,											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total
Distribution Waterfall												
Investment Proceeds	**0**	**0**	**0**	**0**	**170,000**	**170,000**	**340,000**	**340,000**	**340,000**	**170,000**	**170,000**	**1,700,000**
General Partner	0	0	0	0	1,700	1,700	3,400	3,400	3,400	1,700	1,700	17,000
Limited Partners	0	0	0	0	168,300	168,300	336,600	336,600	336,600	168,300	168,300	1,683,000
Limited Partner Waterfall												
Return of Capital	0	0	0	0	168,300	168,300	336,600	307,273	5,461	2,731	1,335	990,000
Preferred Return	0	0	0	0	0	0	0	29,327	258,849	0	0	288,176
GP Catchup	0	0	0	0	0	0	0	0	72,044	0	0	72,044
Profit Split - LP Share	0	0	0	0	0	0	0	0	197	132,455	133,572	266,224
Carried Interest	0	0	0	0	0	0	0	0	49	33,114	33,393	66,556
Summary												
General Partner Capital	0	0	0	0	1,700	1,700	3,400	3,400	3,400	1,700	1,700	17,000
Limited Partners	0	0	0	0	168,300	168,300	336,600	336,600	264,507	135,186	134,907	1,544,400
Carried Interest	0	0	0	0	0	0	0	0	72,093	33,114	33,393	138,600
Total	**0**	**0**	**0**	**0**	**170,000**	**170,000**	**340,000**	**340,000**	**340,000**	**170,000**	**170,000**	**1,700,000**
Carried Interest Valuation - DCF Method												
Projected Distributions	0	0	0	0	0	0	0	0	72,093	33,114	33,393	138,600
Years to Receipt	0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50	8.50	9.50	10.50	
Discount Factor (27%)	0.89	0.70	0.55	0.43	0.34	0.27	0.21	0.17	0.13	0.10	0.08	
Present Value	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**9,453**	**3,419**	**2,715**	**15,586**
Discount for Lack of Marketability												35.0%
Fair Market Value												**$10,100**

Tax Efficient Wealth Transfer Opportunities

Opportunities for Tax Efficient Wealth Transfer

Carried interest can be a highly appreciating investment that can provide significant opportunities for tax efficient wealth transfer through gifts and related-party sales. Such opportunities are maximized close to a fund's inception.

Gross Multiple of Invested Capital	1.50x	2.00x	2.50x
Capital Interest			
Contributions	10,000	10,000	10,000
Distributions	12,200	15,600	19,000
Multiple of Invested Capital	1.22x	1.56x	1.90x
IRR (5-Year Avg. Years to Receipt)	4.1%	9.3%	13.7%
Carried Interest			
Fair Market Value at Inception (1%)	10,000	10,000	10,000
Capital Contributions	-	-	-
Carried Interest Distributions	55,000	140,000	225,000
Multiple of Invested Capital	**5.50x**	**14.00x**	**22.50x**
IRR (8-Year Avg. Years to Receipt)	**23.8%**	**39.1%**	**47.6%**

Section 2701 Vertical Slice

IRC Section 2701

1. Transfers of carried interest may be subject to the special valuation rules of Section 2701 of the Internal Revenue Code (IRC).

2. If an individual transfers a profits interest while retaining a capital/investment interest in the same entity, IRC Section 2701 may impose a gift tax liability equal to the value of all interests (those transferred plus those retained).

3. If the individual's capital interest is sizeable, the deemed gift tax liability could be significant.

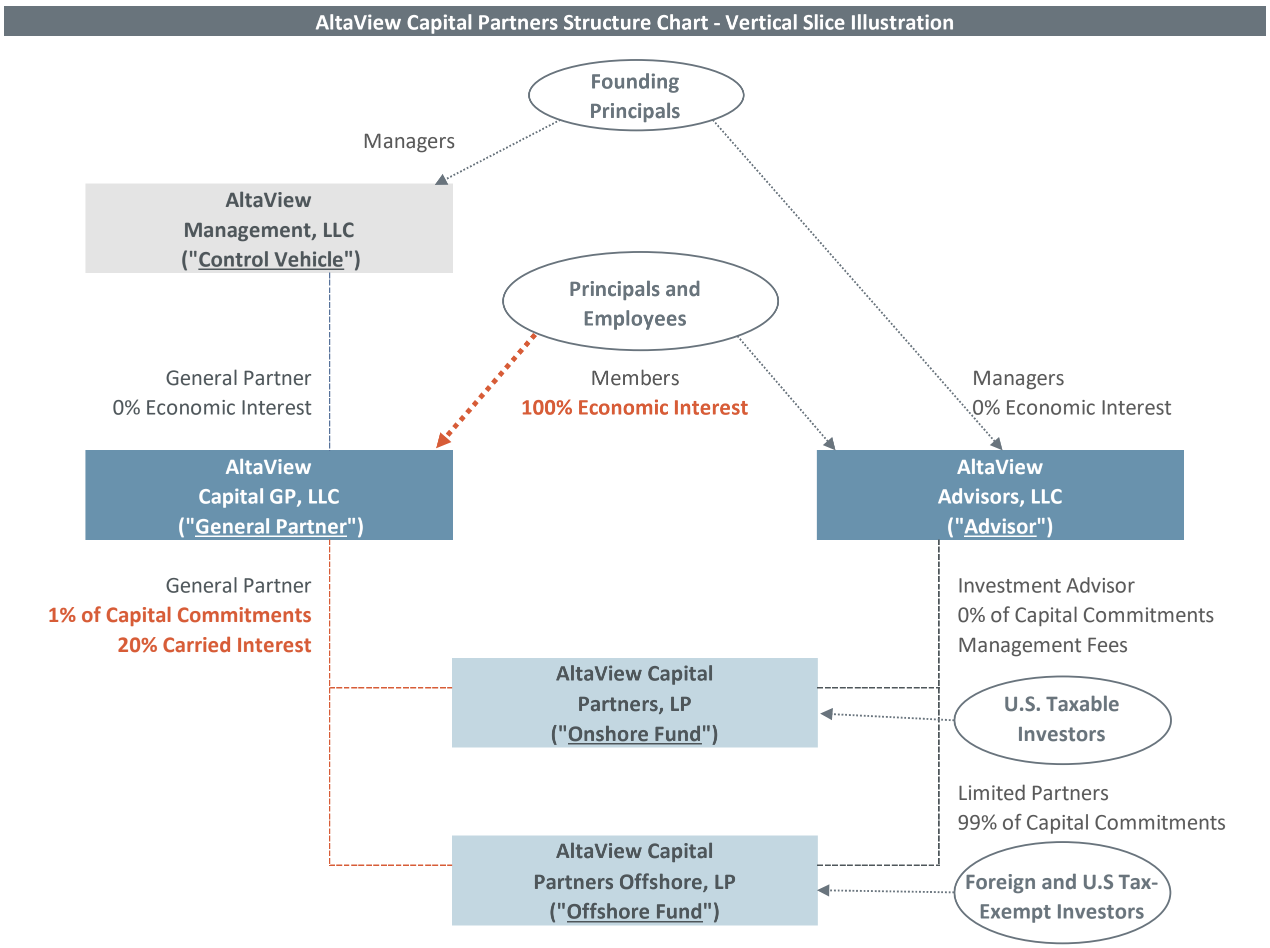
4. A safe harbor provision allows for the transfer of an equal portion of an individual's carried interest and capital interest. This is referred to as a "vertical slice." See IRC § 2701(a)(2)(C) and Treas. Reg. § 25.2701-1(c)(4).

5. The right to management fees is generally not considered to be an "interest" in the fund, and interests in the Advisor are therefore generally not included in the vertical slice.

Section 2701 Vertical Slice

Vertical Slice Components

Most often, estate planners recommend including the General Partners' capital interest (senior security) and carried interest (junior security) in the vertical slice.



Section 2701 Vertical Slice

Vertical Slice Components

Word of Caution: It is critical to carefully review a fund's legal structure and to identify all economic and ownership interests of a given Principal. Look out for:

- **Capital Interest**
  - Through what entity or entities does the Principal invest capital?
  - How is the Principal's capital commitment going to be funded? With cash, management fee waivers, or loans?

- **Carried Interest**
  - Through what entity or entities does the Principal receive carried interest?
  - Does the Principal have a right to a fixed percentage of the aggregate carried interest, or are there discretionary or non-pro rata allocations to be determined at a later date?
  - Is the Principal's interest subject to vesting or forfeiture provisions?

Key Valuation Issues and Common Pitfalls

Key Valuation Issues and Common Pitfalls

1. **Capital Interests**
    1. Not Subject to Management Fees or Carried Interest
    2. Funded with Management Fee Waivers

2. **Carried Interests**
    1. Non-Pro Rata Allocations
    2. Vesting and Forfeiture

Key Valuation Issues and Common Pitfalls

Capital Interest Non-Fee-Paying Benefit

Because the General Partner's capital interest is not subject to management fees or carried interest allocations, it will achieve greater returns at the same level of risk compared with 3rd-party investors' interests. It therefore has a higher fair market value than 3rd-party investors' interests.

Gross Multiple of Invested Capital	**1.50x**	**2.00x**	**2.50x**
Limited Partner Capital Interests			
Contributions	1,000	1,000	1,000
Fees & Expenses	150	150	150
Invested Capital	850	850	850
Investment Proceeds	1,275	1,700	2,125
Distributions			
Return of Capital Contributions	1,000	1,000	1,000
Limited Partner Profit Share (80%)	220	560	900
Total Distributions	1,220	1,560	1,900
Multiple of Invested Capital	**1.22x**	**1.56x**	**1.90x**
IRR (5-Year Avg. Years to Receipt)	**4.1%**	**9.3%**	**13.7%**
General Partner Capital Interest			
Contributions	850	850	850
Fees & Expenses	-	-	-
Invested Capital	850	850	850
Investment Proceeds	1,275	1,700	2,125
Distributions			
Return of Capital Contributions	850	850	850
Profit Share (100%)	425	850	1,275
Total Distributions	1,275	1,700	2,125
Multiple of Invested Capital	**1.50x**	**2.00x**	**2.50x**
IRR (5-Year Avg. Years to Receipt)	**8.4%**	**14.9%**	**20.1%**

Key Valuation Issues and Common Pitfalls

Capital Interest Funded With Management Fee Waivers

1. A portion of the General Partner's capital commitment is funded with contributions to the fund made by limited partners in lieu of paying management fees to the Advisor (such fees are voluntarily "waived" by the Advisor).

2. Tax-efficient method to convert ordinary income (management fees) into long-term capital gains, as no taxes are due when limited partners contribute capital on behalf of the General Partner, only upon future realization.

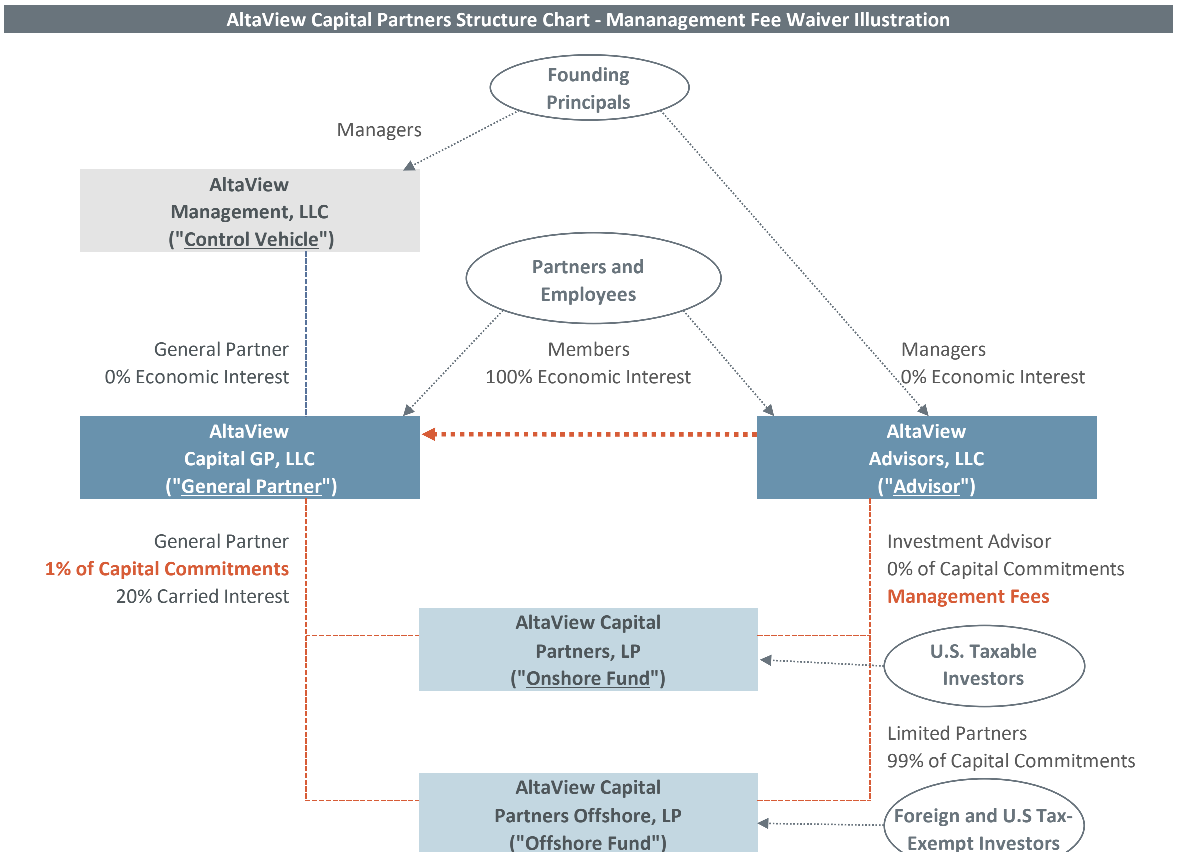
3. In order to receive this tax treatment, the General Partner's "deemed contributions" must represent "profits interests" in the fund (i.e., must only be returned after limited partners have received a return of their contributed capital).

4. If the General Partner's capital commitment has been transferred to a related party for estate planning purposes, each future waived management fee amount and subsequent "deemed contribution" to the fund on behalf of the General Partner is an <u>implied gift to the transferee</u>, which will receive the future economic benefit without the funding obligation.

Key Valuation Issues and Common Pitfalls

Capital Interest Funded With Management Fee Waivers

Substantively, the Advisor receives a management fee, transfers it to the General Partner, and then the General Partner contributes that amount to the Fund.



In practice, this all occurs in a single step whereby the Advisor waives the management fee and the same amount is instead contributed to the fund by the limited partners on behalf of the General Partner.

Key Valuation Issues and Common Pitfalls

Capital Interest Funded With Management Fee Waivers

General Partner's capital interest funded with management fee waivers is not a pro rata interest! It is a subordinated interest with "hidden value" until the fund has generated a positive return.

Aggregate Fund Fair Value	$1,000,000	$1,001,000	$1,010,000
% Increase		*0.10%*	*1.00%*
Net Asset Value			
Contributions	1,000,000	1,000,000	1,000,000
Net Return	-	1,000	10,000
Distributions	-	-	-
Aggregate Net Asset Value	**1,000,000**	**1,001,000**	**1,010,000**
Allocation of Net Asset Value			
Limited Partners	1,000,000	1,000,000	1,000,000
General Partner - Capital Interest	**-**	**1,000**	**10,000**
Carried Interest	-	-	-
Aggregate Net Asset Value	**1,000,000**	**1,001,000**	**1,010,000**

The valuation of such interest must take into account the aggregate amount of deemed contributions (both contributed to date plus potential future contributions), not just the stated capital account balance.

Key Valuation Issues and Common Pitfalls

Carried Interest Non-Pro Rata Allocations

Forms of Non-Pro Rata Allocations

1. Deal-by-Deal Allocations
2. Discretionary Allocations
3. Additional Allocations Upon Departing of Other Principals

Key Questions

1. Is a transfer of ***potential*** future allocations a ***completed*** gift?
2. Can the valuation take into account the additional risk associated with uncertain future allocations?

Key Valuation Issues and Common Pitfalls

Carried Interest Vesting and Forfeiture

Forms of Vesting and Forfeiture Requirements

1. Time-Based
2. Performance-Based
3. Voluntary vs Involuntary Departure

Key Questions

1. Is a transfer of an ***unvested interest*** a ***completed gift*** at the time of transfer or at the time of vesting?
2. Can the valuation take into account the risk of vesting/forfeiture?

Questions and Answers

Overview of AltaView Advisors

Overview of AltaView Advisors

THE ALTAVIEW DIFFERENCE

AltaView was founded by a team of seasoned valuation professionals that offer a unique combination of large firm expertise and boutique firm specialization and service. Our primary mission is to consistently provide:

- Best-in-class valuation services performed directly by highly experienced professionals
- Custom research and analyses tailored to our clients' unique circumstances
- Focused senior-level attention, availability, and responsiveness
- Defensible reports that are thorough yet comprehensible
- Superior products and services at a fair cost
- Timely results that meet or exceed our clients' expectations

To achieve our mission, we adhere to the following core principles:

Valuable Insights

AltaView delivers more than independent valuation opinions. We offer in-depth, customized research and thoughtful analyses conducted to best suit each engagement. Our approach results in deep insights that foster more informed decisions by business owners and enable advisors to preempt and defend against future controversy.

Superior Service

AltaView combines large firm experience with a client-centric approach. Our clients work directly with our senior team throughout the engagement lifecycle in an efficient and highly professional process. As a result, the work is done right the first time, which reduces turnaround times and eliminates what can otherwise be a significant burden to business owners and advisors.

Exceptional Results

AltaView's highly qualified and experienced professionals identify complexities in engagements, develop creative solutions, and deliver accurate results every time. Our approaches and conclusions are articulated clearly and convincingly, reducing the probability of scrutiny along with the associated costs.

VALUATION SERVICES

Tax Planning and Compliance

Financial Reporting

Controversy Support

Transaction Advisory

Corporate and Succession Planning

Alternative Asset Managers

Real Estate

VALUABLE INSIGHTS.
SUPERIOR SERVICE.
EXCEPTIONAL RESULTS.

Overview of AltaView Advisors

Tax Planning and Compliance

AltaView services the nation's top tax planning and compliance professionals including attorneys, accountants, family offices, and wealth advisors. Our professionals bring industry leading experience and insights to each assignment garnered from hundreds of completed fair market value engagements. AltaView offers the following tax planning and compliance valuation services:

- Estate and Gift Tax
- Generation-Skipping Transfer Tax
- Income Tax
- Charitable Contributions
- Foundation Distribution Requirements
- Retirement Plan Assets Distribution Requirements
- Planning in Anticipation of a Liquidity Event
- Guarantee Fees for Related-Party Transactions
- Personal Goodwill Valuations and Allocations

Experience

Tax planning and compliance engagements involve unique businesses, securities, interests, and circumstances necessitating a customized solution that is reliable, well supported, and clearly articulated. AltaView has robust experience with the valuation of the following:

- common and preferred stock in closely held businesses
- family limited partnership interests
- alternative investment fund interests
- carried interests in private equity and hedge funds
- preferred "freeze" partnership interests in compliance with Section 2701
- intra-family loans and promissory notes including self-cancelling installment notes
- illiquid shares in publicly traded companies

Real Estate Valuation Services

AltaView is a leading provider of real estate valuation and consulting services for a broad range of purposes, including the following:

- Estate and Gift Tax
- Qualified Appraisals for Charitable Contributions
- Fair Value Reporting
- Purchase Price Allocations
- Litigation Support and Expert Testimony
- Forensic Appraisal Reviews
- Dispute Resolution Consulting
- Life Estates and Remainder Interests
- Eminent Domain
- Conservation Easements
- Property Tax Appeal

Experience

AltaView's professionals have significant experience appraising the following property types:

- Office, Industrial, and Retail
- Residential (single-family and multi-family)
- Hospitality (single star motels to luxury resorts)
- Senior housing and healthcare facilities
- Self-storage and parking structures
- Manufactured home communities and recreational vehicle parks
- Undeveloped and agricultural land
- Recreational and operating ranches
- Vineyards
- Mineral rights

Professional Biographies

Professional Biographies

ERIC WARD, ASA

Principal

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EDUCATION

University of Southern California, M.B.A
Loyola Marymount University, B.S., Electrical Engineering

CREDENTIALS AND LICENSES

American Society of Appraisers, Accredited Senior Appraiser
FINRA, Series 7, 63, and 79

PROFESSIONAL ASSOCIATIONS

American Society of Appraisers
Dallas Estate Planning Council
North Texas Estate Planning Council

Eric Ward, ASA, is a Principal of AltaView and is located in the firm's Dallas office. He has extensive experience working with a broad range of businesses ranging in size from small private companies to multi-billion dollar enterprises.

Eric's particular practice areas include tax planning and compliance, financial reporting, corporate and succession planning, and transaction advisory. Within tax planning and compliance, he has significant experience performing valuations for trust and estate matters including valuations of closely held businesses and illiquid securities. Eric's financial reporting experience includes valuations conforming to ASC 350, ASC 360, ASC 718, ASC 805, and ASC 820. Eric's clients turn to him to solve complex valuation issues, provide value-added insights, and advise in situations where a transaction may be subject to high levels of scrutiny. His unique background and broad range of valuation experience makes him an ideal advisor on hard-to-value assets. Eric is actively involved with the Dallas and North Texas estate planning councils and speaks throughout the Dallas-Fort Worth area on valuation topics.

In addition, Eric has particular expertise in the following areas:

- Privately owned companies across a wide range of industries
- Pass-through entities (S Corp, LLC, LP)
- Discounts for lack of control and lack of marketability
- Second-level (or tiered) discounts
- Pre-sale and pre-IPO planning
- Personal goodwill valuations and allocations
- Intangible assets (trademarks, customer relationships, technology, and non-compete agreements) and goodwill

Prior to co-founding AltaView, Eric was a Director with Stout Risius Ross, LLC. He was the city leader for Dallas, responsible for the growth of the firm's private client services practice in the region. Prior to Stout, Eric was a Managing Director with FMV Opinions, Inc., where he was responsible for opening the firm's Dallas office and the development of the firm's valuation practice. Eric's early experience included Houlihan Lokey Howard and Zukin's financial advisory practice and the valuation and investment banking practice of Eureka Capital.

Key Professional Bios

KYLE VATAHA

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EDUCATION
Stanford University, B.A., Economics

PROFESSIONAL ASSOCIATIONS
North County San Diego Estate Planning Council
Stanford Alumni Association of Orange County

Kyle Vataha is a Principal of AltaView and is located in the firm's Orange County office. He has extensive experience advising on valuation matters for businesses across a diverse range of industries and encompassing a wide range of company sizes and stages of development. Kyle is one of the nation's foremost experts in the valuation of alternative asset managers, including a wide range of structured equity interests such as carried interests, co-invest capital, management fee waivers, and net fee income.

Kyle regularly performs valuations for individuals' estate planning and estate tax matters, and for individual and corporate income tax matters. Kyle has assisted with the design and implementation of owners' succession plans, buy-sell agreements, equity grants, and repurchases of departing owners' interests. He has defended valuation opinions in IRS audit and in Tax Court, and has supported private parties in commercial litigation. He has also performed fairness and solvency opinions related to mergers, acquisitions, and leveraged recapitalizations.

Kyle is an expert and thought leader in the following areas:

- Privately owned companies across a wide range of industries
- Pass-through entities (S Corp, LLC, LP)
- Alternative asset managers (PE, VC, hedge funds)
- Restricted securities (Rule 144, insider stock, NQSO's)
- Pre-sale and pre-IPO planning
- Fixed income and preferred securities
- Complex securities and derivatives
- Intangible assets (trademarks, patents, and royalty streams)
- Private derivative contracts
- Life insurance policies and split dollar receivables

Prior to co-founding AltaView, Kyle was a Senior Manager with Deloitte Transactions and Business Analytics LLP and a Managing Director with Pluris Valuation Advisors LLC. Kyle started his career with FMV Opinions, Inc., where he managed the ongoing development of The FMV Restricted Stock Study (now the Stout Restricted Stock Study).