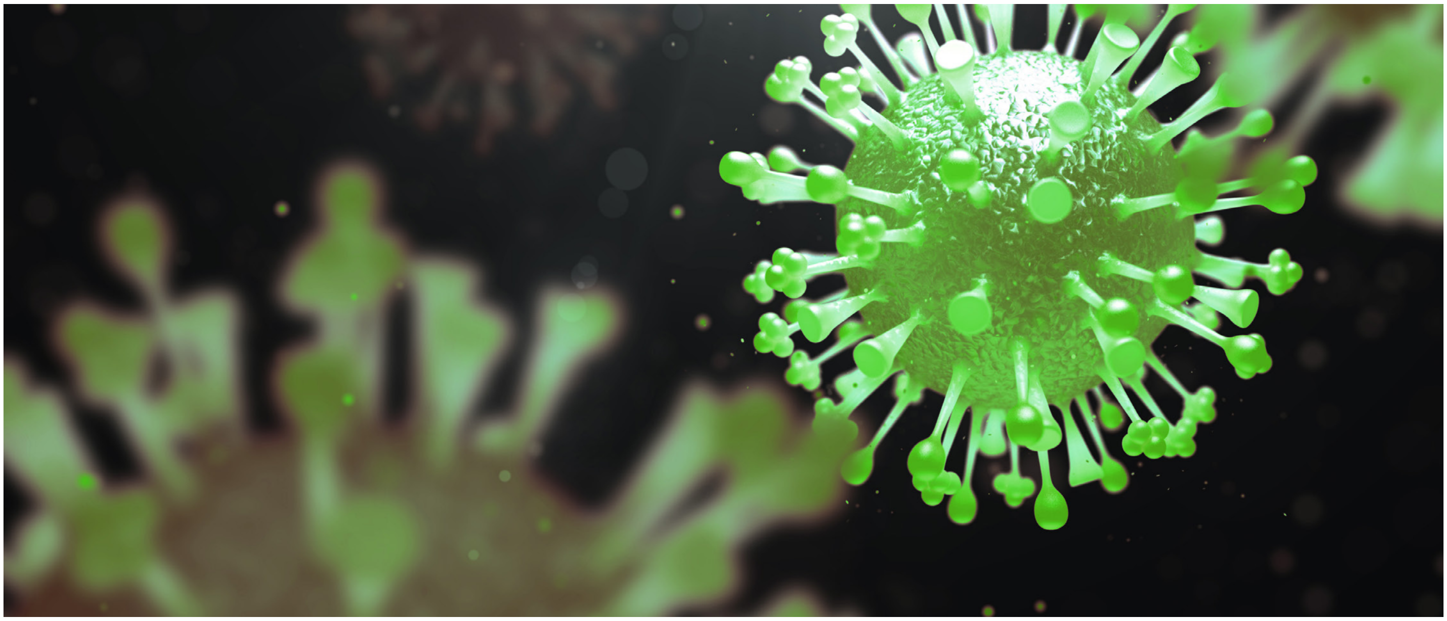


An opportunity to leverage current disruption into long-term gain through creative capital solutions

Given recent events around COVID–19 and its unprecedented market turbulence, Deloitte Corporate Finance LLC's ("DCF") ESOP ("Employee Stock Ownership Plan") Corporate Finance team thought it beneficial to provide a current state of events surrounding the novel coronavirus and key attributes of ESOPs as they relate to private equity portfolio companies.

ESOP as a liquidity alternative

Due to the unique characteristics of ESOP transactions, ESOPs can present compelling liquidity opportunities for portfolio companies that may experience difficulty exiting to strategic or equity acquirors in the near-term market environment. Portfolio companies with the below characteristics could benefit from further exploring an ESOP alternative:

Limited alternatives
Portfolio companies that currently have limited alternatives due to public acquirors facing price volatility, contracts with stringent change of control provisions, or other divestiture obstacles.

Human capital
Portfolio companies where the vast majority of the asset base is human capital, that may have keyman risk or medium-term concerns regarding retaining and recruiting talent in this environment.

Unsuccessful process
Portfolio companies that conducted unsuccessful marketing processes which could benefit from near-term partial investor liquidity and long-term value creation through enhanced cash flow and high employee retention.

Fund life
Portfolio companies nearing the end of a fund life, where an ESOP can effectuate a liquidity event while providing general partners longer-term cash flow realization via seller notes and warrant contract appreciation rights.

Case study: Global Vessel and Tank LLC

Process overview

- Headquartered in Lafayette, LA, Global Vessel and Tank LLC (GVT) is a leading surface production equipment design and manufacturing firm, serving primarily the domestic oil and natural gas markets.
- GVT was owned by eight shareholders and is differentiated through its advanced engineering and automation capabilities, which reduced manufacturing and lead times.

DCF's role

DCF added significant value throughout the sale process by:

- Assisting GVT in evaluating several different ownership transaction structures, including establishing an ESOP, focused on enhancing value and deferring capital gains taxes on the transaction proceeds.
- Conducting a targeted marketing process to a variety of senior and junior capital providers, ultimately receiving eight term sheets.
- Assisting in the analysis of the tax-advantaged inclusion of separately held real estate contribution.
- Assisting GVT by quarterbacking the entire transaction process and coordinating with legal counsel on key transaction documents.
- Working with GVT to structure a transaction that met stakeholders' needs despite oil and natural gas market turbulence and uncertainty and COVID-19 turbulence.

Key considerations

Near-term cash flow enhancement	Post–ESOP creation, GVT became a tax-advantaged entity, significantly enhancing cash flow to assist in responding to the pandemic.
"Lock in" value	A strong market valuation was locked in via seller notes, based on compelling comparative market data, with attached warrants.
Future recapitalization	Selling equityholders can refinance with the lender, based on certain covenants, to accelerate seller note paydown.
Golden handcuffs	GVT expects enhanced retention of key employees during a critical market period due to their accruing ownership.
Flexibility	The process provided significant flexibility to structure a transaction that met the needs of all key stakeholders.

The employees of

GVT GLOBAL VESSEL & TANK

have purchased 100% of Global Vessel & Tank stock through a newly formed Employee Stock Ownership Trust

The undersigned acted as exclusive financial advisor to Global Vessel and Tank, LLC

Deloitte.
Deloitte Corporate Finance LLC

"I expected much from you as bankers and you have exceeded those expectations. I am indebted to you and will be your best referral source going forward."

Kyle Allen
Cofounder and Board Member
Global Vessel and Tank LLC

Transaction overview

An ESOP is a qualified benefit plan established to primarily invest in the stock of its sponsor company and to provide widespread distribution of equity ownership to the sponsor company's employees. ESOPs allow for partial liquidity events, which enable selling equityholders to diversify their holdings while retaining control and participating in future value increases at the company. Additionally, legislative initiatives around ESOPs have created significant tax incentives related to a variety of C corporation and S corporation transaction structures.

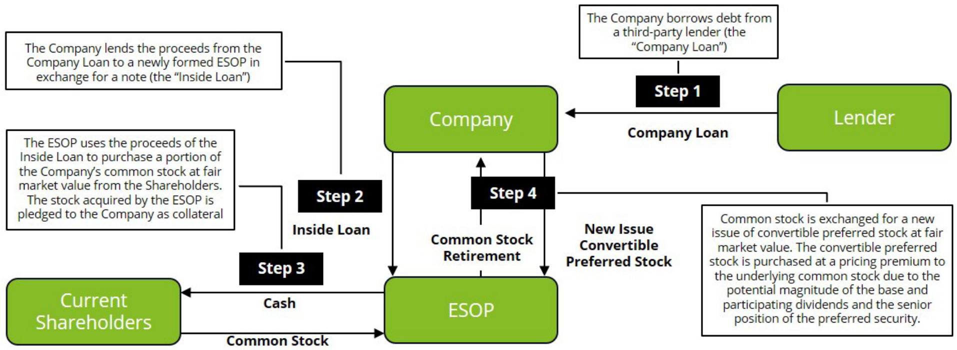
C corporation

- Selling shareholders can defer capital gains tax on proceeds from all sales of equity to the ESOP by utilizing the IRS §1042 tax shelter.
- ESOP contributions are tax-deductible at the corporate level, allowing the company to essentially pay back external debt using pre-tax dollars.
- Ability to negotiate convertible preferred securities that will allow for selling shareholders to retain a larger portion of the company's equity going forward.
- Typically provides a more flexible capital structure geared towards partial liquidity and growth.

S corporation

- If the ESOP owns 100 percent of the common equity, the company is a pass-through business tax entity with no tax consequence at the corporate level.
- ESOP contributions are tax-deductible at the corporate level, allowing the company to essentially pay back external debt using pretax dollars.
- No double taxation on discretionary dividends to shareholders and the ESOP.
- Greater flexibility to extend the ESOP contributions over a longer period of time, smoothing repurchase obligations.
- Superior acquisition vehicle.

Example Leveraged C-Corp. ESOP Transaction



Super acquisition vehicle

ESOPs possess a "unique corporate structure" that provides the equityholders superior value accretion potential as compared with other industry competitors that have more conventional corporate structures.

- If properly structured, ESOP companies may become essentially tax-advantaged entities, which provide the opportunity to model acquisitions with significant enhanced cash flow potential, creating potential longer-term EBITDA margin enhancement and the potential for target employees to participate in the sponsor company ESOP.
- Additionally, in certain transactions, ESOP companies have a unique ability to provide equityholders of target acquisitions a tax-favored sale, which can enhances net proceeds to selling shareholders. It may also potentially achieve a lower-priced acquisition through sharing of the capital gains tax shelter benefit.

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