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DuraTable Enterprises Inc.

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THE JOURNAL OF ENTREPRENEURIAL FINANCE VOLUME 20, NO. 1 (WINTER 2018) **56-71**

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ABSTRACT

In late 2017, DuraTable received a number of unsolicited inquiries regarding its interest in selling out in a going private transaction, mostly from private equity firms. Since the chairman of the board and founder, Gary Reynolds, was approaching retirement age and the largest single shareholder who had provided the seed capital to start the company was over 80 years old, Mr. Reynolds was willing to consider a sale and provided information to four or five of them to prepare bids. DuraTable was a closely held company with relatively few individuals holding the vast majority of shares. As such, DuraTable's shares traded infrequently. As a result, Mr. Reynolds questioned if even the share price itself appropriately reflected the value of the company. As he looked forward to a meeting that would be held with Pierce the following week, Mr. Reynolds asked himself, 'What price would reflect a fair valuation of DuraTable's operations?'

Keywords: acquisition, private equity, small business, entrepreneurship, valuation
JEL Codes: G32, G34

I. Introduction

With the start of a new year, DuraTable Inc. found itself weighing the possibility of making a new start of its own. In late 2017, DuraTable received a number of unsolicited inquiries regarding its interest in selling out in a going private transaction, most from private equity firms. Since the chairman of the board and founder, Gary Reynolds, was approaching retirement age and the largest single shareholder who had provided the seed capital to start the company was over 80 years old, Mr. Reynolds was

willing to consider a sale and provided information to four or five of them to prepare bids. DuraTable was trading at about $18 per share at the time.

After receiving indications of interest from three of them, Mr. Reynolds chose the buyer he was most comfortable with, and allowed them to come in and perform a detailed due diligence. Once Mr. Reynolds realized that the buyer intended to shut down the operations and combine DuraTable with another of their portfolio companies several states away from the current location, Mr. Reynolds changed his mind about the buyer. He did not want to disrupt the lives of the many employees that had been loyal to him over the years since the founding of the company.

Mr. Reynolds turned to his second choice and asked for a letter-of-intent from Heaps Investments, a private equity firm which would keep the operations in its current location. In its letter, Heaps expressed interest in acquiring DuraTable's furniture manufacturing operations through a leveraged buyout (LBO). During the weeks that followed, DuraTable entertained Heaps' interest and provided Heaps with the operational and financial information it had requested as part of its due diligence process.

While Heaps was preparing their offer, legal counsel for the board indicated they should determine what an appropriate price for the company would be to meet their duty of care as board members and avoid shareholder litigation.

DuraTable was a closely held company with relatively few individuals holding the vast majority of shares. As such, DuraTable's shares traded infrequently. As a result, Mr. Reynolds questioned if even the share price itself appropriately reflected the value of the company. As he looked forward to a meeting that would be held with Heaps the following week, Mr. Reynolds asked himself, 'What price would reflect a fair valuation of DuraTable's operations?'

II. DuraTable Inc.

Located in Boulder, Colorado, DuraTable Inc. was far removed from the central hub of furniture manufacturing, usually considered to be High Point, North Carolina. Nevertheless, DuraTable had made a niche for itself by providing collapsible and stackable furnishings that were both light weight and highly durable. Its market niche had been the highest end of the market with clients which frequently used tables and chairs and required tables that could be repeatedly stacked, stored, taken down and put in place by workers who were often less-than-gentle with the tables. DuraTable's tables were capable of sustaining two thousand pounds, whereas competitors' tables would collapse under 400 or 500 pounds of weight. DuraTable tables typically sold for a price premium over most competitors due to their greater durability and compact storage. Founded in 1997, DuraTable had grown to a $60 million business by the end of FY 2017.

DuraTable's various product lines could roughly be grouped in three categories: collapsible (folding) tables, collapsible (folding) chairs, and stackable chairs. The

products included in each of these categories were offered in a variety of styles and at various price points. Collectively, DuraTable's product offerings targeted the banquet furnishings segment of the contract furniture market. Exhibit 1 shows products representative of each of DuraTable's major product categories.

Within the banquet furnishings market segment, DuraTable faced two distinct groups of competitors. First were the various contract furniture providers that competed directly against DuraTable for contracts with hotels, military bases, schools, and other institutions. Notably, among contract furniture providers, DuraTable was somewhat unique in its offering of both collapsible and stackable furniture. The second group competing directly against DuraTable consisted of companies that manufactured low cost, less durable collapsible tables and chairs, including high volume manufacturers such as Lifetime Products. Although DuraTable's product quality was recognizably superior to that of its low cost competitors, the prices charged for DuraTable's individual products were largely governed by the low end alternatives.

Like most furniture manufacturers, DuraTable was notoriously subject to economic volatility, especially in the commercial real-estate market. However, unlike many contract furniture providers, DuraTable had shielded itself to some degree from this volatility by securing volume contracts with organizations whose growth was largely unaffected by economic trends. Exhibit 2 provides a listing of DuraTable's largest customer segments based on sales volume.

During recent years, DuraTable experienced steady sales growth, with revenues increasing from $40 million to $55 million from 2013 to 2016. Net income followed a similar trend, excluding FY 2015 (See Exhibit 4). Forecasts for the coming years indicate that growth trends would continue. Revenue is projected to exceed $70 million by 2020.

During the past five years DuraTable had provided investors with an average return of over 14%, a near 2% premium over the S&P 500 Index during the same period. However, during this period DuraTable had performed below their industry average which boasted an annual return of approximately 19%.

Beyond its base furniture market, DuraTable had purchased a Canadian manufacturer of inexpensive wheeled chairs used primarily in elder-care facilities. This subsidiary represented about $9 million of DuraTable revenues and just under $2 million of EBIT. Although the Canadian acquisition had proven very profitable, a more recent acquisition of a manufacturer of inexpensive office furniture had proven disastrous. The acquisition was eventually shut down and sold off in 2012 through 2014.

In the last few years, DuraTable had developed a roto-molding process with the original intent of producing tables that could withstand the outdoors environment. Ultimately, the process failed to be stable enough to produce the high-quality tables that DuraTable felt necessary to maintain their reputation. However, one of the engineers suggested that the process could be used to produce a fence with much higher strength and durability than the common polyvinyl fencing. By 2006, fence sales were a trivial

part of total sales, the costs of development had hurt DuraTable's margins for the last four years, and it was clear that the fence industry was a much more intensely competitive industry than DuraTable was anticipating. In 2006, the fencing product had EBIT of negative $1.2 million.

III. Industry Background

The furniture manufacturing industry was made up of two major segments – residential and commercial. Of the two, the residential segment was larger, accounting for approximately 60% of the industry's $65 billion annual revenue. The industry as a whole was highly segmented with the largest 50 companies controlling less than 40% of the market. Additionally, within the industry there were approximately 20,000 individual manufacturers. The largest of these manufacturers typically produced a relatively small number of standard products in large volumes. In general, as the quality and customization of a product increased, the size of the manufacturing firm typically decreased. At the extreme upper end, a manufacturer may have only produced between one and five pieces of furniture each day, with retail prices ranging from $10,000-$100,000 per piece.

Across both the residential and commercial segments, similar products were produced using near identical manufacturing technology. The vast majority of products produced for either the residential or commercial markets could be classified in one of three broad categories: metal, upholstered, or case-good (finished wood) furniture. However, because of the relatively small size of many manufacturers, most firms in the furniture industry chose to focus on either the residential or the commercial market but not both. A major reason behind this strategy was the highly unique sales and distribution networks used within the two segments. Residential furniture was almost universally distributed through retail showrooms, such as RC Willey, Ethan Allen, Ashley Home Stores, and countless local chains. Commercial furniture, on the other hand, was primarily channeled through wholesalers and/or networks of independent dealers. Most contract furniture manufacturers, excluding DuraTable, distributed their products almost exclusively through the independent dealer networks. DuraTable, on the other hand, used a direct sales force that made frequent calls on their major customers and spent time establishing new contracts.

For most contract furniture manufacturers, the dealer networks provided a critical link to the end customer. Often it was the dealer rather than the manufacturer that would contract with a hotel, school, or other institution to provide the required furnishings. The dealer would then seek competitive bids from a number of furniture manufacturers. Notably, in the furniture industry dealer contracts were jointly nonexclusive. This nonexclusively allowed a dealer to carry many product lines, including product lines offered by competing manufacturers. However, it also allowed a

manufacturer to distribute their products through multiple dealers within a single geographic region. Additionally, these nonexclusive contracts lowered the barriers to entry faced by contract furniture manufacturers by allowing even the smallest manufacturers access to the marketplace through the dealer networks. In an attempt to reduce their supply chain costs, many larger manufacturers and institutional customers had recently bypassed the dealer networks and have negotiated contracts directly with one another. DuraTable's early development of this strategy and sole reliance on its own direct marketing force differentiated it significantly from other competitors.

IV. Heaps Investments LLC

Heaps Investments LLC was founded in 2001 by Ryan Heaps, an early partner of the well-known Bain Capital. Heaps' initial fund of $135 million was largely garnered from wealthy individuals including a number of international investors. During the decade following its establishment, Heaps had primarily invested in the entertainment and communications industries. More recently, Heaps had diversified its holdings through the acquisition of a number of national restaurant and retail chains. In late 2017, Heaps managed assets valued at approximately $750 million. As was the case with many private equity firms, Heaps imposed an annual fee on the total value of its managed portfolio plus a percentage of any gains on the value of the portfolio.

During the first 10 years of its operation, Heaps had gained significant expertise in the retail, communication, and entertainment industries. More recently, however, Heaps had begun seeking investment opportunities in various manufacturing operations. In early 2017, Heaps had taken part in the acquisition of a firm that manufactured non-durable consumer products. However, Heaps was only a junior member of the syndication for the completed the deal and had minimal direct involvement in the company's daily operations. For Heaps, if the deal were to go through, the acquisition of DuraTable would be the first time it had taken sole ownership of a manufacturing firm and would be its first experience manufacturing durable products such as furniture.

V. Private Equity Investing

Private equity was an alternative form of investment that involved taking ownership in privately held companies. Private equity historically had broadly encompassed a number of well-known investment types including: venture capital, hedge funds, leveraged buyout (LBO) and mezzanine investments, each of which possessed a different risk/return profile. In recent years, private equity had generally come to refer to entities that would singly or in small partnerships acquire entire firms, often publicly traded, using high amounts of leverage.

Private equity firms established serial private equity funds and took a position in each. Private equity funds were generally illiquid, closed-end funds with a lifespan of 10-

12 years. During its lifecycle, a fund progressed through three distinct stages: fundraising, investment, and realization. Over time, private equity firms managed multiple funds, with each fund at a different stage in its respective lifecycle. Individual funds were typically structured as partnerships between the firm and investors. Investors were generally limited partners with the firm being the general partner. Because private equity funds generally operated with a long-term horizon, investors were typically institutions, such as foundations, endowments and pension funds, or high net worth individuals and families.

Private equity investing started in 1901 when Carnegie Steel Company of Pittsburgh, PA was purchased from Henry Phipps and Andrew Carnegie by J.P. Morgan (the man, not the company) for $480 million. A few years later, Henry Phipps used his portion of the proceeds, a mere $50 million, to found the Bessemer Trust, which was created to invest in private businesses and other exclusive holdings, thus creating one of the first firms specifically chartered for private equity investing.

In an effort to increase the level of investment in entrepreneurial ventures and thereby improve the United States' technological standing in comparison to the Soviet Union, the Small Business Act of 1958 was signed into law by President Eisenhower. This act allowed licensed venture capital firms, known as Small Business Investment Companies, or SBICs, to borrow money from the government at below-market interest rates. In turn, these firms would use the government provided funds to invest in a variety of small businesses. However, because of the governmental restrictions placed on SBICs, SBICs grew slowly.

Private, non-SBIC firms that offered more flexibility than their government licensed counterparts began to grow and gain traction in the marketplace. Within a few short years, there were more independent private equity firms than SBICs. One of these independent private equity groups, Kohlberg Kravis Roberts & Co. (KKR), was recognized as having completed the first official leveraged buyout (LBO). However, because of the broad economic difficulties faced throughout 1970's, LBOs were all but forgotten until the 1980s. Contributing to the broad economic difficulties of the 1970's and the associated decrease in investments was the Employee Retirement Income Security Act of 1974 (ERISA), which discouraged pension funds from participating in any kind of "risky" investments, including private equity.

In the late 1970's and early 1980's private equity investing began to grow steadily. Much of this growth resulted from a decrease in capital gains tax and the relaxation of some of the ERISA legislation. As a result of these legislative changes, pension funds began to invest heavily in private equity. During the decade that followed, LBOs became increasingly common. A few well publicized LBOs tainted the image of private equity which came to epitomize the "ruthless capitalism" and "greed" pervading Wall Street at the time. Various private equity firms chose different paths. Those that focused on new startups ('seed capital') or fast growth technology firms became generally known as

Venture Capital firms. Those that focused on a variety of highly specialized and technical trading strategies generally became known as hedge funds. Those that focused on purchasing entire firms and used high levels of debt generally became known as private equity.

At the turn of the twenty-first century, private equity rose in popularity. In fact, private equity investing had become so main stream that a number of the largest private equity firms, including Blackstone Group, had become publicly traded corporations. These IPOs had given the more typical investor access to private equity investing that had previously only been available to institutions or high wealth individuals. Accelerating the growth in private equity was the huge amount of debt available at historically very low rates. Much of the money buying U.S. debt was coming from foreign government sovereign wealth funds and foreign central banks. The flood of liquidity had dramatically reduced interest rates (see Exhibit 8).

Due to the huge growth in professional money management firms and funds starting in the early 1980s, outperforming market indexes such as the S&P 500 on a risk-adjusted basis became not only difficult but rare, especially after management fees. On the other hand, private equity, like other non-traditional asset classes, offered greater hope of above market returns. Not all private equity managers had equal access to good investment opportunities, management resources, research, and industry expertise. This inequality resulted in the best private equity managers leveraging advantages to generate above-market returns in the late 1990s and early 2000s.

However, with higher returns came higher risks. Risk measurement in the public markets was much less subjective and easier to quantify than in private equity. However, private companies and publicly traded companies were quite similar when considering fundamental economic risk factors. One large difference was that in the private equity market, assets were infrequently valued.

A typical private equity fund would establish a separate entity (a "fund"), put in its own capital as the general partner and then raise additional equity from limited partners until it reached the fund target size. Once a fund was raised, it would be closed and the money would be 'deployed' on a number of deals in which additional debt was raised for each deal, usually three to five times the amount of equity the fund placed in a deal. The debt for each deal was generally raised as nonrecourse using only the assets of the acquired company as collateral. Each fund would have a target life of about ten years and then each fund would be 'harvested' as each of the deal companies were sold or taken public with an initial public offering (IPO) and the funds distributed to the investors. The standard fee arrangement was "2 and 20", meaning that the private equity fund would be paid 2% of the investment amount until harvest and then would collect 20% of any gain on each company as it was sold or taken public.

VI. Estimating a Reasonable Offer

To assist in the board's responsibilities to determine a 'full and fair market value' as their 'duty of care' required, the Chief Financial Officer (CFO) had prepared the forecasts for the next few years. (See Exhibit 4.) The projections were in nominal terms and assumed an inflation of about 2.5% to 3% per year. In December 2017, a new tax law was passed that reduced the federal corporate income tax rate from 36.2% to approximately 21%.

In the coming years, DuraTable's combined federal and Colorado state corporate income tax rate was estimated to be approximately 24%. Capital expenditures were projected to be about $2.2 million in 2018 and would grow with sales. Based on DuraTable's current capital structure, the CFO had estimated DuraTable's weighted average cost of capital at 12.5%.

In addition to their own forecasts, the CFO had sought out a number of public companies within the industry that could be used as points of reference (See Exhibit 5) in valuing DuraTable's operations. Each of these firms was notably larger than DuraTable and all operated in a slightly different market niche. However, each firm derived a significant portion of its income from furniture manufacturing.

The CFO had also gathered general current and historical capital market information that might prove useful in the valuation process (Exhibit 6). Despite relatively low levels of debt, none of the competitors had an investment grade rating; most relied on privately placed debt and had never even been rated by the major credit rating agencies. In determining a discount rate, it was well known that investors required higher rates on smaller companies than what the Capital Asset Pricing Model estimated. The CFO included data for the 'size premium' which represented historical data on the additional return over the Capital Asset Pricing Model that smaller companies had offered (See Exhibit 7).

Exhibit 1 – Representative Products

Rectangular Folding Table

Folding Chair

Stacking Banquet Chair

Broda Healthcare Chair

Exhibit 2 – Major Customer Segments

Customers Segment	Percent of Total Sales
Churches/Religious Organizations	27%
Government Institutions	16%
Hotels/Convention Centers	19%
Schools	15%
Businesses/Individuals/Non-Institutional	23%

Exhibit 3: DuraTable Historical Financial Statements

Dura-Table - Consolidated Statements of Income (000's)

Year Ended December 31,	2017	2016	2015	2014	2013	2012
Net sales	$60,338	$55,701	$50,272	$45,210	$40,965	$40,094
Cost of products sold	40,793	35,947	33,537	28,037	24,457	23,738
Gross profit	19,545	19,754	16,735	17,173	16,508	16,356
Operating expenses:	-	-	-	-	-	-
Selling	8,760	7,903	7,427	6,452	6,172	6,363
General and administrative	2,538	2,012	1,980	1,787	2,504	2,028
Research and development	1,548	1,734	1,265	1,393	1,541	1,158
Asset impairment	-	-	2,226	-	-	-
Total operating expenses	12,846	11,649	12,898	9,632	10,217	9,549
Income from continuing operations	6,699	8,105	3,837	7,541	6,291	6,807
Other income (expense) :	-	-	-	-	-	-
Investment income	113	310	171	79	229	348
Interest expense	(115)	-	-	-	-	-
Other, net	52	(63)	(113)	(180)	(97)	20
Total other income, net	50	247	58	(101)	132	368
Income before provision for income	-	-	-	-	-	-
taxes and minority interest	6,749	8,352	3,895	7,440	6,423	7,175
Provision for income taxes	2,302	2,811	1,448	2,766	2,367	2,772
Net income before minority interest	4,447	5,541	2,447	4,674	4,056	4,403
Minority interest	-	-	22	79	07	-
Net income from continuing operations	$4,447	$5,541	$2,469	$4,753	$4,063	$4,403
Discontinued operations	-	-	-	-	745	(271)
Estimated loss on disposal	-	-	-	-	-	(3,256)
Net Income	$4,447	$5,541	$2,469	$4,753	$4,808	$876

Exhibit 3 (Continued): DuraTable Historical Financial Statements

Dura-Table Consolidated Balance Sheets (000's)

	2017	2016	2015	2014	2013	2012
ASSETS						
Current assets:						
Cash and cash equivalents	$302	$4,787	$3,940	$6,382	$2,203	$8,926
Available-for-sale securities	-	4,547	7,151	1,050	2,336	4,593
Accounts receivable (Net of Allowances)	8,978	6,718	6,463	5,586	3,792	4,382
Inventories	4,763	2,587	2,518	2,339	1,368	1,235
Other current assets	1,166	1,057	1,012	1,826	2,193	5,279
Total current assets	15,209	19,696	21,084	17,183	11,892	24,415
Property and equipment, net	15,734	12,485	11,714	13,230	11,656	6,286
Deferred income tax assets	199	248	403	63	376	405
Intangible assets, net	2,371	2,358	2,306	1,136	1,010	932
Other assets, net	91	32	109	344	468	1,331
Total Assets	$33,604	$34,819	$35,616	$31,956	$25,402	$33,369
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	$2,956	$1,989	$1,736	$2,088	$2,184	$1,649
Accrued expenses and other current liabilities	4,155	2,427	2,616	2,035	1,639	4,401
Total current liabilities	7,111	4,416	4,352	4,123	3,823	6,050
Net borrowing on long-term line of credit	3,151	-	-	-	-	-
Minority interest	-	-	-	34	125	-
Total liabilities	10,262	4,416	4,352	4,157	3,948	6,050
Stockholders' equity:	-	-	-	-	-	-
Common stock, $.01 par value, authorized 10,000,000 shares, issued 3,334,111	33	40	43	43	41	50
Additional paid-in capital	10,725	12,244	12,208	11,469	9,925	11,755
Retained earnings	11,668	17,247	18,337	15,868	11,376	15,615
Accumulated other comprehensive income	916	872	676	419	112	(101)
Total stockholders' equity	23,342	30,403	31,264	27,799	21,454	27,319
Total Liabilities and Stockholders' Equity	$33,604	$34,819	$35,616	$31,956	$25,402	$33,369
Net Working Capital as %	10.99%	8.78%	9.21%	8.41%	3.26%	-1.08%

Exhibit 3 (Continued): DuraTable Historical Financial Statements

Dura-Table - Consolidated Statements of Cash Flows (000's)

Year Ended December 31,	2017	2016	2015	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$4,447	$5,541	$2,469	$4,753	$4,808	$876
Adjustments to reconcile net income to net cash provided by operating activities:						
Net gain on disposal of discontinued operations	0	0	0	-	(745)	3,527
Asset impairment	-	-	2,226	-	-	-
Depreciation and Amortization	1,706	1,474	1,830	1,634	1,191	1,178
Deferred taxes	63	456	(473)	383	2,511	(1,234)
Loss (gain) on disposal of property and equipment	(02)	29	(06)	114	27	04
Tax benefit from exercise of stock options	-	314	125	440	37	12
Excess tax benefit from stock-based compensation	(23)	-	-	-	-	-
Stock-based compensation	307	-	-	-	-	-
Changes in assets and liabilities:						
Accounts receivable	(2,257)	(180)	(652)	(1,667)	666	469
Inventories	(2,177)	(43)	(88)	(913)	(99)	285
Tax receivable	-	-	784	508	(1,120)	865
Prepaid expenses and other current assets	(122)	(341)	107	(194)	165	(221)
Accounts payable	598	194	(420)	(137)	511	(768)
Accrued expenses and other current liabilities	1,166	(199)	462	373	(2,775)	2,007
Net cash provided by continuing operating activities	3,706	7,245	6,364	5,294	5,177	7,000
Net cash provided by discontinued operations	-	-	-	-	2,902	3,217
Net cash provided by operating activities	3,706	7,245	6,364	5,294	8,079	10,217
CASH FLOWS FROM INVESTING ACTIVITIES:	-	-	-	-	-	-
Purchases of available-for-sale securities	(845)	(4,664)	(7,591)	(1,463)	(2,787)	(10,673)
Sales and maturities of available-for-sale securities	5,396	7,276	1,478	2,750	5,060	7,241
Proceeds from sale of property and equipment	17	32	85	01	14	04
Purchases of property and equipment	(4,589)	(2,236)	(2,142)	(3,270)	(6,577)	(1,198)
Purchase of Versipanel	-	-	(1,201)	-	-	-
Net decrease (increase) in other asset, net	(64)	77	(30)	87	232	-
Purchase of intellectual property	-	-	-	-	(82)	(50)
Decrease (increase) in notes receivable	-	-	-	-	-	(436)
Purchase of DO Group (net of cash acquired)	-	-	-	-	-	-
Net cash provided by (used in) investing activities	(85)	485	(9,401)	(1,895)	(4,140)	(5,112)
Net cash provided by discontinued operations	-	-	-	-	250	(36)
Net cash used in investing activities	(85)	485	(9,401)	(1,895)	(3,890)	(5,148)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Net proceeds from exercise of stock options and issuance of shares to the 401(k) plan	242	1,123	614	1,181	379	418
Minority interest	-	-	(34)	(91)	(07)	-
Proceeds from lines of credit	15,421	-	-	(336)	(11,302)	(1,419)
Payments on lines of credit	(11,690)	-	-	-	-	-
Tax benefit from exercise of stock options	23	-	-	-	-	-
Purchase and retirement of common stock	(12,124)	(8,035)	-	-	-	-
Net cash provided by (used in) financing activities	(8,128)	(6,912)	580	754	(10,930)	(1,001)
Net cash used in discontinued operations	-	-	-	-	-	-
Net cash used in financing activities	-	-	-	754	(10,930)	(1,001)
Effect of exchange rate changes on cash	22	29	15	26	18	1
Net increase (decrease) in cash and cash equivalents	(4,485)	847	(2,442)	4,933	(6,723)	4,069
Cash and cash equivalents at beginning of year	4,787	3,940	6,382	2,203	8,926	4,857
Cash and cash equivalents at end of year	$302	$4,787	$3,940	$7,136	$2,203	$8,926

Exhibit 4: DuraTable Financial Projections

Year Ended December 31,	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Net Sales	$62,400	$67,392	$72,109	$76,797	$81,404	$85,475
COGS	41,184	44,182	47,160	50,148	52,994	55,558
Gross Profit	21,216	23,210	24,950	26,648	28,410	29,916
Selling	8,736	9,435	10,095	10,752	11,397	11,966
G&A	2,496	2,682	2,827	2,995	3,134	3,248
R&D	1,548	1,096	1,160	1,224	1,282	1,333
Operating Expenses	12,780	13,213	14,082	14,970	15,813	16,548
EBITDA	8,436	9,997	10,868	11,678	12,597	13,368
- Depreciation	1,498	1,540	1,582	1,593	1,642	1,683
EBIT	6,938	8,457	9,286	10,085	10,955	11,685

Exhibit 5: Furniture Manufacturers (January 1, 2018)

		AC Steel	NRT Mfg	MetalTech	Edwards Machinery	KRC Polymers	Jones Mfg
Financial Data ($ 1000s):							
	LTM Revenues	$3,060.0	$2,680.0	$1,820.0	$1,260.0	$982.2	$221.6
	LTM EBITDA	254.1	282.0	222.9	69.9	136.6	16.1
	Equity	1,238.0	496.4	155.6	427.5	4.4	48.9
	Short Term Debt	5.1	29.7	10.4	27.5	3.0	7.6
	Long Term Debt	250.0	286.0	173.2	1.0	347.3	10.2
	Cash	527.2	28.0	76.4	35.0	16.0	1.9
Market Data:							
	Shares (millions)	146.85	47.92	62.92	38.5	42.69	14.38
	Share Price	$16.34	$44.41	$36.36	$24.30	$22.00	$7.80
	Beta	0.81	0.86	0.80	0.87	0.95	0.78

Exhibit 6: Capital Market Data (Early 2018)

Treasury and Corporate Bond Yields						
Maturity	Treasurys	AA	A	BBB	BB	B
1	1.80	1.93	2.05	2.26	3.05	3.41
5	2.25	2.59	2.73	3.08	4.38	5.14
10	2.47	3.15	3.29	3.76	5.41	6.33
15	5.53	3.44	3.69	4.18	6.10	7.26
20	2.64	3.58	3.82	4.32	6.42	7.74
25	2.73	3.64	3.82	4.28	6.35	8.12
30	2.81	3.70	3.79	4.23	6.34	8.11
Source: Bloomberg			January 1, 2018			

LIBOR (3 month) in early 2018: 1.7%

Standard and Poor's Ratios: US Industrial Corporations: Median Ratios						
	AAA	**AA**	**A**	**BBB**	**BB**	**B**
EBIT interest coverage	34.9	16.6	10.8	5.9	3.6	1.4
EBITDA interest coverage	38.8	20.8	13.3	7.8	5.1	2.2
Funds from operations/total debt(%)	190.2	76.9	54	34.8	26.9	11.6
Free operating cash flow/total debt (%)	154.6	42.5	30.9	14	7.8	2.1
Total debt/EBITDA (x)	0.4	1	1.5	2.3	3	5.4
Return on capital (%)	30.5	29.9	21.7	15.1	12.6	8.6
Total debt/total debt + equity(%)	13.3	27.6	36.1	45.3	52.9	75.6

Average Annual Returns 1926-2017	Geometric Mean	Arithmetic Mean	Standard Deviation
Common Stocks	10.4%	12.3%	20.1%
Small Company Stocks	12.7%	17.4%	32.7%
Long- Term Corporate Bonds	5.9%	6.2%	8.5%
Long-Term Government Bonds	5.4%	5.8%	9.2%
Intermediate-Term Gov't Bonds	5.3%	5.4%	5.7%
U.S. Treasury Bills	3.7%	3.8%	3.1%
Inflation Rates	3.0%	3.1%	4.3%

Exhibit 7: Size Premium Data (January 2018)

Size Premium[3]

Decile	Market Capitalization of Smallest Company (in millions)		Market Capitalization of Largest Company (in millions)	Size Premium (Return in Excess of CAPM)
Mid-Cap, 3-5	$1,947.240	–	$7,777.183	0.97%
Low-Cap, 6-8	$627.017	–	$1,946.588	1.76%
Micro-Cap, 9-10	$2.247	–	$626.955	3.88%
Breakdown of Deciles 1-10				
1-Largest	$16,848.063	–	$371,187.368	-0.36%
2	$7,847.424	–	$16,820.566	0.65%
3	$4,098.254	–	$7,777.183	0.81%
4	$2,861.655	–	$4,085.184	1.03%
5	$1,947.240	–	$2,848.771	1.45%
6	$1,379.267	–	$1,946.588	1.67%
7	$977.912	–	$1,378.476	1.62%
8	$627.017	–	$976.624	2.28%
9	$314.912	–	$626.955	2.70%
10-Smallest	$2.247	–	$314.433	6.27%
Breakdown of the 10th Decile				
10a	$173.664	–	$314.433	4.35%
10b	$2.247	–	$173.439	9.68%
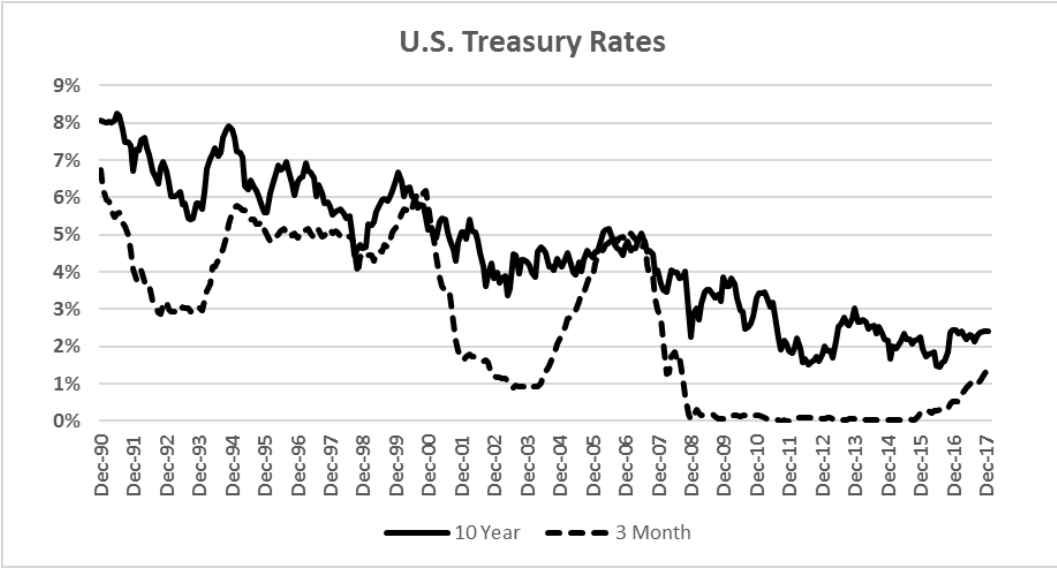
Exhibit 8: Treasury Rates