LEEWARD
CAPITAL MANAGEMENT

Capital for Closely-Held & Related-Party Transactions

Leeward’s Sale-to-Service® delivers a low-cost non-dilutive covenant-free alternative to mezzanine debt and minority equity for liquidity events, management and shareholder buyouts, family ownership transitions, acquisitions, and independent sponsor transactions.

Sale-to-Service®

Innovation in the capital markets has not kept pace with the United States’ transition from an asset-intensive manufacturing economy to an asset-light service economy. Leeward’s innovative Sale-to-Service ("S2S®") is an exception. An S2S monetizes one of the economy’s largest and most valuable intangible asset classes, mission-critical systems and data, through a structure similar to a sale-leaseback of physical assets. An S2S unlocks the value of these assets through an off-balance sheet structure and because all payments are operating expense, Leeward's cost of capital is equal to or lower than senior debt for tax-sensitive owners.

Mission-Critical Systems & Data

Mission-critical systems and data are server-based assets that represent between 30% and 70% of a company’s enterprise value but often have little to no value on the balance sheet. These assets can be customized ERP or internally developed proprietary systems. In other words, if a company had no disaster recovery and the servers hosting these assets were destroyed, the company would not be able to implement a new system quickly enough to continue to serve its customers. An S2S can also monetize data separate from the company’s systems, making systems-light but data-rich businesses a fit for an S2S.

Transaction Types

Because S2S assets are acquired well above their book value, the seller incurs capital gain. As a result, an S2S is a fit for transactions when value is moving out of a business or from one party to another where there would be capital gain in any case. Leeward describes the transactions as closely-held and related-party transactions.

- Liquidity Events
- Shareholder Buyouts
- Management Buyouts
- Family Ownership Transitions
- Strategic M&A
- Independent Sponsor Transactions
- Growth Capital in Select Circumstances

Industry Focus

While Leeward is industry agnostic, these service economy industries have a high concentration of businesses with mission-critical systems and data assets. However, S2S candidates can be found across all industries including asset-light manufacturing and industrial businesses.

- Business Services
- Financial Services
- Healthcare Services
- Media & Telecom
- Transportation & Logistics
- E-commerce & Digital Marketing

Investment Criteria

Investment Size: $10 million to $150 million or greater

EBITDA: $5 million to $50 million

EBITDA Margin: Ideally 10% or higher

Location: U.S. Only

Excluded Categories

C-Corporations: Entities taxed as C-Corporations are generally not a fit for an S2S.

SaaS Businesses: If the company’s revenue is largely license income, an S2S is not a fit.

Pure Debt Recapitalization: If proceeds are used to exclusively pay off existing debt, an S2S is not a fit.

2301 Cedar Springs Road #200, Dallas, Texas 75201 | *Phone* (469) 284-5166 | *Toll Free* (855) 201-1907 | info@leewardcapitalmgt.com | www.leewardcapitalmgt.com

Low-Cost Non-Dilutive Capital

Mezzanine-type leverage at the cost of senior debt from a partner who behaves like preferred equity.

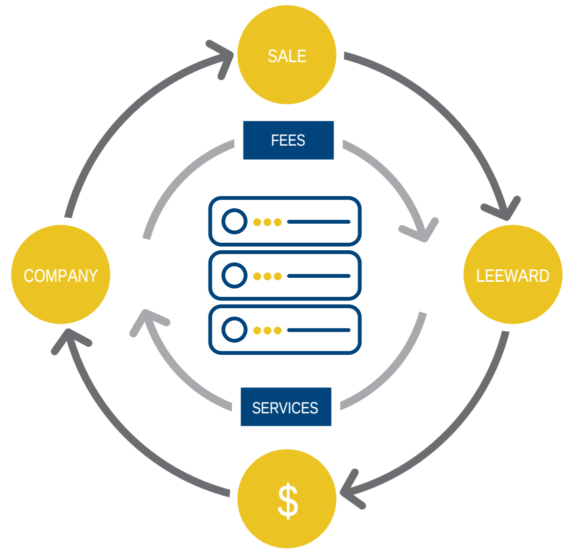
Transaction Structure

An S2S is similar to a sale-leaseback of physical assets like real estate or equipment. However, an S2S utilizes a three to six-year services agreement rather than a lease or license agreement.

The S2S structure does not impact the operations of the business and S2S fees, which are operating expense, are contingent on service levels.

The company may pay a fee to exit the S2S early, generally after twenty-four months. Upon early termination or maturity, the company may then repurchase the assets for fair market value or extend the agreement for up to fifteen years for a low fee.

While these server-based assets comprise a large part of a company's enterprise value, an S2S is still governed by traditional leverage ratios, allowing Leeward to deliver capital consistent with mezzanine debt.



Capital Comparison

Attribute	Sale-to-Service	Unitranche/Mezzanine	Equity
Effective Cost of Capital	2% - 8% *(1)*	8% - 15%	20% - 30%
Availability of Funds	2.5x - 5.5x EBITDA	2.5x - 5x EBITDA	4x - 12x EBITDA
Covenants	No Convenants	Modest to Strict	None
Exit	Maturity or Early Termination	Sale or Refinance	Sale
Cash Flow Demands	Comparable to 1% Per-month Amortization	Modest	None
Board Rights	None	Various	Board Representation

1) After-tax cost decreases with early termination

Frequently Asked Questions

- **What does Leeward's diligence process look like?**
Leeward's underwriting and diligence is similar in approach and timing to a non-bank cash flow lender and also includes an evaluation of the company's systems and data.

- **How does an S2S work alongside other lenders?**
An S2S can coexist alongside a third-party asset-based loan. If the transaction requires a cash flow loan, however, Leeward will generally also provide the cash flow facility, offering a complete capital solution.

- **What is the impact to the company's cash flow?**
The S2S consumes more cash on a pre-tax basis compared to traditional debt but consumes less cash on an after-tax basis.

- **What is the impact to the company's systems and data?**
Provided the company's systems are located in a third-party data center, they do not need to be moved. The company can modify or upgrade the company's systems during the S2S agreement as needed.

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Critical Path for Sale-to-Service Transactions

The use of proceeds and business criteria for Leeward's Sale-to-Service® are highly specific and easily identified. When these conditions are met, Leeward delivers a low-cost non-dilutive no-covenant alternative to mezzanine debt and minority equity.

Category	Use of Proceeds	Financials	Entity Type	Systems & Data
Overview	▪ An S2S acquires server-based intangible assets that have little to no value on the balance sheet. ▪ The assets are acquired for a higher value which results in a capital gain for the seller. ▪ Because of the gain on sale, an S2S is a fit for transactions where the use of proceeds would have had capital gain in any case.	▪ An S2S a low-cost non-dilutive alternative to unitranche, mezzanine, and minority equity. ▪ S2S candidates are profitable performing U.S. businesses. ▪ Ownership is usually closely-held and transactions are often related-party deals.	▪ Owners must value the tax shield of the S2S service agreement payments. ▪ An S2S favors pass-through tax entities. ▪ An S2S' asset purchase is inefficient for C-Corps due to double taxation.	▪ Mission-critical systems & data are server-based assets that are difficult, if not nearly impossible, to replace. ▪ If these assets were lost, the company would fail to serve its customers. ▪ These assets are common in asset-light to asset-moderate businesses as well as some asset-heavy businesses.
Critical Path Questions	**Are ~40% or more of the proceeds used for one of the following transactions?** →	**Does the transaction meet the below financial criteria?** →	**Is the business one of these entity types?** →	**Does the business have mission-critical systems or data?**
Specifics	▪ Liquidity Event ▪ Shareholder Buyout ▪ Management Buyout ▪ Family Ownership Transition ▪ Strategic M&A ▪ Independent Sponsor Acquisition	▪ Trailing twelve-month EBITDA of $5 million or greater ▪ Investments of $10 million or greater ▪ U.S. based businesses	▪ Limited Liability Corp ▪ Partnership ▪ S-Corp ▪ Other pass-through entities	▪ Customized ERP ▪ Proprietary Technology ▪ CRM & Marketing Systems ▪ Supply Chain Systems ▪ Indispensable Data ▪ Other Mission-Critical Systems
Exceptions	▪ Leeward can provide growth capital and/or a debt recapitalization alongside an S2S when ~60% or less of total proceeds stay on the balance sheet. ▪ An S2S may be a fit for pure growth or debt recapitalizations when there is an NOL to offset capital gain and/or when alternative sources of capital are higher-cost or dilutive.	▪ Leeward may consider businesses with EBITDA as low as $2.5 million under select circumstances. ▪ Businesses with recurring revenue in excess of $10 million may be a fit regardless of profitability.	▪ Acquisition targets can be a C-Corp if the transaction is an asset purchase and the acquirer is a pass-through entity. ▪ A C-Corp may also be a fit when alternative capital sources are costly or dilutive.	▪ A business with license income like a software business is not a fit for an S2S. ▪ A business that looks like a software business but has revenue based on anything other than license income, like transactions, commissions, or leads, is a fit for an S2S.

Critical Path for Independent Sponsors & Management Buyouts

Leeward's Sale-to-Service® delivers independent sponsors and management teams direct equity at close and a larger share of deal economics because Leeward can be the sole capital in a transaction when certain acquisition terms are met.

Category	Transaction	Other Terms	Entity Type	Systems & Data
Overview	▪ An S2S acquires server-based intangible assets with little value on the balance sheet resulting in a capital gain to the seller. ▪ The S2S gain is offset by the management team or sponsor's acquisition of the business. ▪ Leeward can be the sole capital provider and may not require an equity investment subject to specific deal terms.	▪ Management teams and sponsors receive direct equity at close and a larger share of deal economics. ▪ Non-operating sponsors may receive board fees and salary. ▪ Leeward has no direct equity and no board seats, allowing management and sponsors greater autonomy.	▪ Owners must value the tax shield of the S2S service agreement payments. ▪ An S2S favors pass-through tax entities. ▪ An S2S' asset purchase is inefficient for C-Corps due to double taxation.	▪ Mission-critical systems & data are server-based assets that are difficult, if not nearly impossible, to replace. ▪ If these assets were lost, the company would fail to serve its customers. ▪ These assets are common in asset-light to asset-moderate businesses as well as some asset-heavy businesses.
Critical Path Questions	**Does the letter of intent have terms similar to the following?** →	**Does the transaction meet the below financial criteria?** →	**Is the business one of these entity types?** →	**Does the business have mission-critical systems or data?**
Specifics	▪ Cash consideration is generally within traditional unitranche or mezzanine leverage ratios. ▪ The seller takes back 25% or more of true enterprise value through a seller note or rolled equity, excluding earn-outs.	▪ Trailing twelve-month EBITDA of $5 million or greater ▪ Investments of $10 million or greater ▪ U.S. based businesses	▪ Limited Liability Corp ▪ Partnership ▪ S-Corp ▪ Other pass-through entities	▪ Customized ERP ▪ Proprietary Technology ▪ CRM & Marketing Systems ▪ Supply Chain Systems ▪ Indispensable Data ▪ Other Mission-Critical Systems
Exceptions	▪ Leeward can provide growth capital and/or a debt recapitalization alongside its acquisition capital provided ~60% or less of total proceeds are intended to stay on the balance sheet. ▪ Leeward can provide low-cost non-dilutive acquisition financing to equity sponsored transactions as well.	▪ Leeward may consider businesses with EBITDA as low as $2.5 million under select circumstances. ▪ Businesses with recurring revenue in excess of $10 million may be a fit regardless of profitability.	▪ Acquisition targets can be a C-Corp if the transaction is an asset purchase and the acquirer is a pass-through entity. ▪ A C-Corp may also be a fit when alternative capital sources are costly or dilutive.	▪ A business with license income like a software business is not a fit for an S2S. ▪ A business that looks like a software business but has revenue based on anything other than license income, like transactions, commissions, or leads, is a fit for an S2S.

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Sale-to-Service Transaction Map

This transaction map outlines Leeward's critical path investment criteria and highlights company and transaction attributes that offer the best fit for a Sale Sale-to-Service®.

Category	Company Criteria		
Critical Path Items	Pass-Through Tax Entity (S-Corps, LLCs, Partnerships)	Mission-Critical Systems and/or Data (Not Always Apparent)	Profitable & Performing (**$5 million+ EBITDA, 10%+ EBITDA Margins, $10 million+** investment)

Fit	Low	Moderate	High
Use of Proceeds	▪ Control sale transactions to third parties ▪ Sole use of proceeds is debt recapitalization ▪ Sole use of proceeds is growth capital (unless next best alternative is heavily dilutive)	▪ Financial sponsor follow-on acquisitions ▪ Financial sponsor dividend recapitalizations (hold period three years or greater)	▪ Liquidity Events ▪ Shareholder & Management Buyouts ▪ Family Ownership Transitions ▪ Strategic M&A ▪ Independent Sponsor Acquisitions
Balance Sheet	▪ Asset-heavy (with exceptions)	▪ Asset-heavy to asset-moderate	▪ Asset-moderate to asset-light
Alternative Cost of Capital	▪ Cost less than 6% ▪ Can be accomplished using only senior debt	▪ Cost from 6% to 8% ▪ No or modest warrants	▪ Cost greater than 8% ▪ No or modest warrants and equity
Domiciled State Tax Rate	▪ Texas (None) ▪ Florida (None) ▪ All States Are Viable for an S2S	▪ Georgia (6%) ▪ Virginia (5.75%) ▪ Colorado (4.63%) ▪ Other States with moderate tax rates	▪ California (13%) ▪ New Jersey (8.97%) ▪ New York (8.82%) ▪ Other States with high tax rates