



Wangard Partners' Sale-Leaseback Financing Program

Reallocate valuable capital and reduce debt.

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— WANGARD PARTNERS' SALE LEASEBACK FINANCING PROGRAM

Sale-leasebacks are a cost-efficient, effective way to unlock equity and raise cash.

Sale Leasebacks are an attractive financing tool because of the flexibility they offer. They allow businesses to remain in control of their real estate long-term without impacting business operations, while also monetizing the value of illiquid real estate assets. Sale-leasebacks are great tools for the reallocation of valuable capital and reducing debt.

Many businesses see the advantage of redeploying this capital within their operations than in the real estate to achieve a higher return. This capital can then be unleashed into the business' core functions that provide a higher rate of return. This may include acquisitions, growth, equipment, technology, shareholder distributions, stock buybacks, or other facility upgrades. If your business generates a higher return through operations than in real estate, then a sale-leaseback may be an attractive option for you.

Sale-leasebacks provide favorably priced, long-term capital, and a tool to hedge against shorter-term market uncertainties such as rising interest rates and market volatility. As a form of alternative financing, the strategy gives the seller 100% of the real estate value versus a bank's lower loan-to-value ratio. The transaction also improves the company's balance sheet to the extent that the value of the property exceeds its book basis.

It also reduces exposure and lowers risk in the event of downward market shifts, thereby locking in gains while the real estate market is up.

Under 2017 tax reform, a sale-leaseback may allow businesses to meet the challenge of restrictions around business interest deductions by shaping tax strategies around fully deductible lease expenses.

Seven Main Advantages of Performing a Sale-Leaseback:

Sale-leaseback opportunities allow business owners to convert real estate assets into capital for business expansion, succession planning, ownership consolidation, acquisitions and other major business needs.

1. Quickly Generate Cash – Liquidate your real estate and get 100% of market value versus a typical 65%-70% loan to value (LTV) loan which may require refinancing as soon as 3-5 years. This can unlock a business' hidden equity.
2. Reduce Taxes – Deduct 100% of your rent expense versus only the interest portion of your debt-service.
3. Reinvest Capital – Use the net proceeds from your transaction in order to reinvest in your operations that produce higher yields.
4. Retain control of property through a triple-net lease.
5. Create a more attractive sales offering than a vacant building. On average, final prices are higher for sale-leasebacks than for traditional vacant sales.
6. Reduce exposure and lower risk in the event of a downward market shift, and thereby lock in gains while the real estate market is up.
7. Alleviate risks associated with property ownership.

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How Does a Sale-Leaseback Transaction Occur?

A sale-leaseback transaction occurs when a corporation or business sells its building, but remains the tenant and retains control of the property and operations through signing a triple-net lease.

At closing, the business will simultaneously sell the property and sign a lease at previously agreed upon lease terms.

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Are You looking To Sell Your Business and The Real Estate?

It is usually advantageous to value the business and real estate separately. If the real estate is left in the sale transaction of the business, the full value of the real estate may not be fully realized as the EBITDA multiple often does not value the company's real estate at its true, fair-market value.

By executing the sale of the business and also entering into a separate sale-leaseback transaction, the owner may be able to maximize their return while maintaining control of daily building operations.

How does a sale-leaseback transaction occur?

A sale-leaseback transaction occurs when a corporation or business sells its building, but remains the tenant and retains control of the property and operations through signing a triple-net lease. At closing, the business will simultaneously sell the property and sign a lease at previously agreed upon lease terms.

Are you looking to sell your business and the real estate?

It is usually good to look at valuing the business and real estate separately. If the real estate is left in the sale transaction of the business, the full value of the real estate may not be fully realized as the EBITDA multiple often does not value the company's real estate at its true, fair market value. The separation of the sale of the business and entering into a sale-leaseback may maximize your return while you maintain control of your operations.

What are the tax benefits of a sale leaseback?

A sale-leaseback provides additional tax deductions by reducing the seller's business income tax liability caused by the appreciation in value of its real estate asset. Under 2017 tax reform, the business can deduct 100% of all rent payments, as opposed to only the interest portion of their debt-service on a building.

If the business and real estate are located within an Opportunity Zone, the business owner may also be able to take advantage of further tax benefits by redeploying the gain into the business on a tax-deferred basis, and the future growth of that investment may be able to be treated as tax free.

How does the sale-leaseback affect my balance sheet?

One of the single biggest reasons why a company undertakes a sale-leaseback is to gain off-balance-sheet financing. If there's a loan on the property, its full amount is clearly on the balance sheet as a liability. For most operating leases, or sale-leasebacks, the only thing seen on the balance sheet is that year's obligation or lease payments, which casts a more favorable look on the balance sheet for that company.

- Helps reduce debt-to-equity ratio (improves the company's balance sheet)
- Reduces long-term debt
- Increases available cash
- Increases shareholder equity
- Eliminates depreciating asset
- Improves ratios often measured in other debt covenants (debt to equity, net worth, profitability)
- Many businesses do not have to maintain the capital reserves for real estate holdings that regulators require
- Improves performance metrics (ROA, ROI, current ratio)
- The sale-leaseback converts illiquid non-core asset to cash

What is the process and timeline of a sale-leaseback?

A streamlined, open-book approach to sale-leasebacks can typically close within 30-60 days. Wangard Partners can complete the transaction within a quicker or longer timeframe depending on the business' needs. This allows capital to be infused back into the business quickly and may be quicker way of recapitalizing than selling a portion of the business or pursuing traditional financing.

Do I still control my property?

Absolutely. Through a sale-leaseback and signing a triple-net (NNN) lease, you still have full control of your property through leasehold rights. You can continue to operate and grow your business as you did in the past, but now have unleashed additional capital to grow your business as opposed to having it tied up within an illiquid asset. As the seller and occupier of that real estate, we can also work with you to provide various options such as future expansion, extension options, or sublease should there be any need to downsize in the future.

In addition, since leasebacks do not traditionally impose any operating covenants that traditional financing requires, companies can gain more operating flexibility. Corporations are often saddled with onerous and restrictive debt covenants through traditional financing, and they have to operate in a certain way or may be declared in default of the covenants. Leaseback financing eliminates these operating covenants and provides more flexibility to the lessee.

What are the concerns as a business entering into a sale-leaseback?

Sellers may suffer an initial hit to EBITDA in the short term, as the rental cost will generally exceed the operating costs; however, the property's high value may generate a meaningful one-time gain and, depending on how the newfound capital from the sale is deployed, may reap much higher returns when invested by the company elsewhere.

Additionally, if you are looking to either expand or contract your real estate footprint, we will need to make sure that you have the appropriate expansion or sublease rights within the lease.

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If a sale-leaseback is a fit for me, what are your targeted sale-leaseback terms and assets?

- Targeted deal size: \$5 million to \$30+ million. If a larger portfolio, then this would be larger.
- Targeted Asset Class: Industrial or office
- Targeted Lease Term: 10 to 20 years
- Initial base rent: This will be based on a set percentage of the desired purchase price, and will be dependent upon the other factors above as well as length of lease, quality of credit, location, construction type, condition of asset, and flexibility of that real estate.
- Annual base rent escalations: 2.5%-3.5%
- Security deposit, personal guarantee and/or corporate guarantee based on credit-underwriting
- Transaction timeline: closing 30 to 60 days from signed purchase and sale agreement

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Is A Sale-Leaseback Financing Option Right For You ?

Contact us today.

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