2018 BP PULSE

A Distribution and Manufacturing Survey

Berntson Porter & COMPANY PLLC
Certified Public Accountants & Consultants

CAMPS
CENTER for ADVANCED MANUFACTURING PUGET SOUND

CONTENTS

In collaboration with these valued partners:

AJAC Aerospace Joint Apprenticeship Committee · Berntson Porter CORPORATE ADVISORY · Columbia Bank · nexTec · Resultist™ CONSULTING · WASHINGTON POLICY CENTER

EXECUTIVE SUMMARY

BP Specialist: Nicole Wright, CPA, Senior Manager, Assurance Services. Nicole can be reached at 425.289.7626 or nwright@bpcpa.com.

PROFILE OF PARTICIPANTS

OVER 45% of respondents indicate they are the Owner, President or CEO of their organization

41% report annual revenue between $5 and $100 million

56% of respondents report having 50 or fewer employees

INDUSTRIES REPRESENTED

- Consumer Goods / Retail
- Industrial Manufacturing
- Wholesale Distribution
- Medical Device Manufacturing

CAMPS INVOLVEMENT

Berntson Porter is honored to partner with CAMPS (the Center for Advanced Manufacturing Puget Sound) to reach a broader audience of manufacturers and distributors in the area. CAMPS recently celebrated their 10-year anniversary, and we are proud to be charter members, as well as serve on the board of directors. CAMPS is the premier non-profit membership organization in the Puget Sound region representing small and medium sized manufacturing businesses, supply chain partners, business advisors and strategic partners, all working together to drive innovation and find 21st century workforce solutions.

INTRODUCTION

Welcome to 2018! I'm excited to present the results of our second annual BP Pulse: A Distribution and Manufacturing Survey. In the second year of this project, we've grown the number of respondents, and we are now able to perform trend analysis on the data. With another year under our belt, our focus remains the same – gaining deeper insights into the opportunities and challenges that distributors and manufacturers in the Puget Sound region are facing.

We deployed the survey to over 1,000 Puget Sound area distribution and manufacturing professionals. All of the participants are from privately held companies, with a local Puget Sound or regional West Coast presence. The companies surveyed represent a broad range of industries throughout Washington State, with the largest number of respondents in the consumer goods/retail, industrial manufacturing, medical device manufacturing and wholesale distribution sectors.

The majority of respondents are in leadership roles, such as owner, president or CEO in their organization, which means we are getting feedback from top decision makers. The sizes of the companies, both in terms of employee numbers and revenue, are consistent with those that Berntson Porter works with in our business. Respondents had employee headcount of approximately 20-50, and annual revenues ranged from $5mm-$100mm, with numerous outliers on both headcount and revenues.

Overall, the responses trended positive, with many local companies planning for modest growth this year – both in terms of revenue and employee numbers. However, the optimism seems to be a bit more conservative than noted last year.

This report provides thoughtfully written articles by Berntson Porter's professional staff of CPA's who specialize in servicing clients in the distribution and manufacturing industries. We've also consulted with trusted, local professionals to provide additional commentary in their respective areas of expertise. By melding BP's insight with industry experts, we aim to provide a comprehensive look into these important industries that contribute so much to our state.

I'd love to sit down over lunch or coffee to continue the conversation, learn more about your business and further discuss the results of this initiative.

Thanks for reading,

Nicole Wright
Distribution and Manufacturing Practice Group Leader

REVENUE AND GROWTH

BP Specialist: Briana Wickens, CPA, Advanced Staff, Assurance Services.
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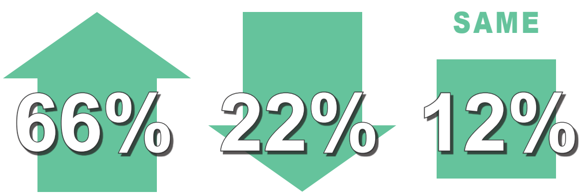
ANTICIPATED 2018 REVENUES



FINDINGS

The distribution and manufacturing industries are expecting continued growth during 2018. Our survey indicates that two-thirds (66%) of participants expect their 2018 revenues to increase compared to 2017 and 26% expect an increase greater than 10%. In terms of the top three challenges to achieving their revenue goals, participants cited: 1) Sales Team Effectiveness, 2) Alignment between revenue strategies and operations, and 3) Competition.

BP INSIGHT FROM BRIANA

Overall, the expanding economy is creating more opportunities for distributors and manufacturers while also increasing competition as more companies enter the market. In this highly competitive market companies must differentiate themselves in order to grow. Participants plan on achieving differentiation by establishing new markets (50%), achieving better customer-product alignment (50%), improved attention to customer service (38%) and product innovation (31%).

The strategy for differentiation may differ depending on company size. Survey participants at relatively large firms ($5 Million and $10 Million in annual revenue and/or have over 200 employees) most commonly indicated a focus of product alignment or establishing new markets in order to reach their revenue goals.

Additionally, the location of customers makes a difference when it comes to strategy. Respondents with a local or regional sales presence were more likely focused on product alignment while participants with national or international customers typically reported a priority of expanding into new markets.

WHAT DO THE EXPERTS SAY?

“The 2018 forecasted revenue growth is very encouraging,” says **Elizabeth Harris, President and CEO of Resultist Consulting**. “Two-thirds (66%) of respondents anticipate an increase in revenue year over year. This is welcome news especially when talent shortages, increasing material costs, and foreign competition are considered.

Sales team effectiveness is reported to be the largest challenge that respondents face. Yet, only 27% intend to focus on improving their distribution channels to meet their revenue goals. Fortunately, one-half (50%) of respondents are focusing on improving the alignment between their customers and their products, which will address some of the sales effectiveness issues respondents are facing. The other core focus for respondents in 2018 is establishing new markets, which can also improve sales team effectiveness by providing the right product to the right client (see chart on page 7).

To accomplish 2018 revenue forecasts and overcome revenue challenges, all companies should focus on establishing the right revenue strategy, sales and marketing approach, process and procedures, as well as the alignment between revenue teams and operational teams within their organizations. This foundation will enable them to overcome any disconnects and have engaged employees and loyal customers who advocate for the company.”

CHALLENGES AND OPPORTUNITIES

BP Specialist: Cale Middleton, CPA, Manager, Assurance Services.
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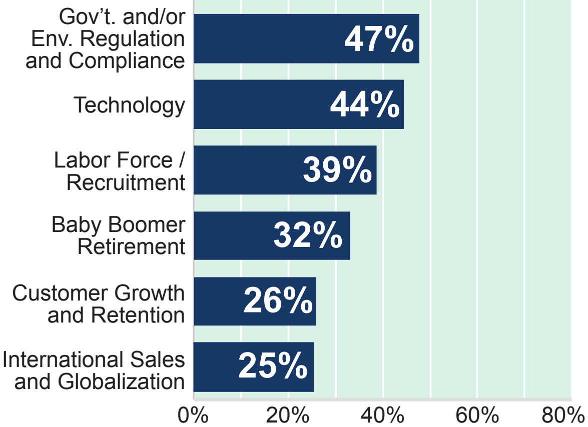
GREATEST IMPACT TO MANUFACTURING IN NEXT 5 YEARS



FINDINGS

When asked regarding the future of distribution and manufacturing industries, almost one-half (47%) of our survey respondents cited the impact of government regulation, followed by technology (44%) and recruitment and development of labor (39%).

Though forward-looking, these responses were similar to that of questions related to current challenges and opportunities. Nearly one-third (32%) of survey participants cited lack of skilled labor as a key challenge, in addition to growing market share (28%) and healthcare costs (25%). In terms of opportunities, respondents most commonly indicated new sales opportunities and market growth, process improvements and cost reductions (likely through technological advancements).

BP INSIGHT FROM CALE

Lack of skilled labor to fill open positions is a significant challenge currently – here in the Puget Sound and across the nation. Over the next decade, about 2 million jobs are expected to go unfilled according to a survey conducted by the Manufacturing Institute. Attracting and retaining workforce talent, and providing adequate training, will certainly be key for distributors and manufacturers to succeed – now and in the future.

With regard to the other core challenges (growing market share, healthcare costs and government regulation) – none of these is surprising as the industry faces increased competition from overseas, skyrocketing costs due to both increases in wages and healthcare benefits, and uncertainty surrounding governmental regulations.

Despite these challenges, our survey respondents noted many opportunities in the coming years – many participants cited growth within the industry as well as the ability to grow market share as opportunities, in addition to new product development.

WHAT DO THE EXPERTS SAY?

“One of the main benefits of being associated with CAMPS is the power of collaborative efforts of Washington State SMMs (Small and Medium Manufacturers),” says **Tom McLaughlin, CMC, Executive Director of the Center for Advanced Manufacturing Puget Sound (CAMPS)**. “These owners and executives are innovative, open-minded, pro-active, and making a difference. Below are some ways CAMPS has helped turn challenges into opportunities.

Within this survey, the top challenge identified is the Lack of Skilled Workers. This emerging issue was identified seven years ago within CAMPS. Having foreseen this challenge, we are ahead of the curve and have created programs that can identify potential applicants to fill critical jobs:

- M2M (Military to Manufacturing) Career Pathways Program – identify transitioning military personnel for highly technical and important manufacturing jobs. Over 40 CAMPS Member companies have hired M2M candidates. CAMPS has

Continued...

TOP CHALLENGES BY RANK

Answer Choices	Responses	Rank
Lack of Skilled Workers	32%	1
Growing market share	28%	2
Healthcare Costs	25%	3
Government and/or Environmental Regulation and Compliance	21%	
Customer Demand	19%	
Labor Costs	18%	
Protecting Market Share	16%	
Identifying New Markets	16%	
Managing Current Employees	16%	

OPPORTUNITIES

established direct relationships with Joint Base Lewis McChord and Navy Region Northwest.

- Youth – CAMPS has been working on improving the image of manufacturing careers. A prime example is our support of and participation in Tahoma School District's 'Future Ready' program. The new Tahoma high school is also a Regional Learning Center with vocational training programs.
- Manufacturing Workforce Development – South King County Program. This is a JPMorgan Chase grant that has funded Seattle Jobs Initiative with a research and planning project to create a new pipeline of competent and well trained entry-level workers. Ensuring a ready pipeline of entry level workers will give participating employers the flexibility to enhance existing upskilling strategies.
- CAMPS participates in the Clover Park Technical College program development for the Fundamental Skills for Manufacturing and Engineering and Mechatronics Programs.

Healthcare costs were also identified as a key challenge. This has been an on-going issue for SMMs and it reached a point where the companies and employees simply could not continue to absorb the double-digit rate increases year after year. In late 2016, CAMPS launched the CAMPS Health Trust and after our first year, this program has helped over 50 SMM members save over $1.5 million in healthcare costs.

Labor costs were also frequently cited in this year's survey. There is a strong focus within CAMPS Manufacturing Members to pursue Lean Practices, automation, and increased use of technologies in a full array of approaches. Once again, this challenge has helped drive these manufacturers to become more efficient and invest in new systems and advanced processes.

Overall, CAMPS has found power in collaboration and leveraging the combined energies of our members. Connect with me or another CAMPS member to learn how we can help you."

STATE TAXES AND SALES LOGISTICS

BP Specialist: Krysta Smith, CPA, Tax Manager.
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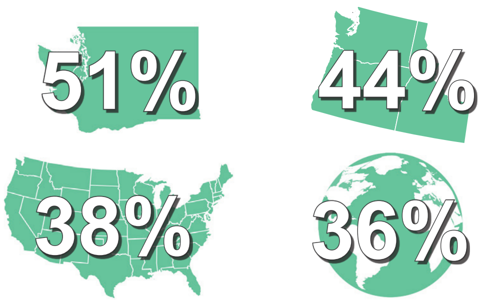
CUSTOMER BASE



FINDINGS

The majority of survey respondents described their customer base as local or regional, with 38% reporting that they sell nationally and 36% selling internationally. When asked whether they plan to sell internationally within the next 3-5 years, the vast majority (95%) indicated they did not.

BP INSIGHT FROM KRYSTA

Overall, survey participants are looking less toward international expansion and focusing more on building their businesses here in the U.S. When asked about their primary concern(s) when entering / operating in a new state, a majority cited state and local taxes and other compliance regulations. With tax reform dominating the current headlines, how should business owners anticipate the states to react to these changes? It's important to note: tax reduction strategies at the federal level will likely conflict with state tax rules and budget goals. As they have in the past, states may choose not to conform to federal laws, creating more complexity going forward.

States and municipalities across the country have been looking to increase their revenues, often employing entire departments to research out-of-state companies and their business activity for new tax opportunities. How can distribution and manufacturing businesses stay ahead of these aggressive efforts? Start by understanding what business activities can subject you to increased taxes and compliance.

Generally, a company will be liable for tax in a given state if sufficient nexus is established within that state. There are two main types of state and local taxes; income taxes and sales and use taxes, and the level of activity creating sufficient nexus can vary. To further complicate matters, activities that establish nexus for one type of tax may not establish nexus for the other.

Various activities can establish income and sales tax nexus in a state, including:

- Employing workers in a state
- Performing a service, warranty, or repairs
- Attending trade shows
- Leasing to customers

In addition to the examples above, some states consider nexus to be created by certain levels of sales activity within the state, regardless of any tangible physical presence. This type of nexus is called "economic nexus," and generally applies to income taxes. However, there may be some partial protection available under federal law depending on the specifics of the company's activities.

Navigating the state and local tax landscape can be difficult and overwhelming, but Berntson Porter can help! Our State and Local Tax department is available to answer any of your questions.

Continued...

BP Specialist: Rachel Roberson, CPA, Tax Senior Manager.
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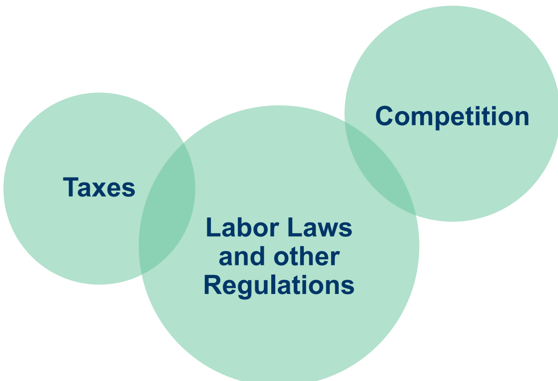
PRIMARY CONSIDERATIONS WHEN ENTERING A NEW STATE



WHAT DO THE EXPERTS SAY?

"When businesses were asked what opportunities they are pursuing, several mentioned expanding their customer base, developing new sales channels and entering new markets," notes **Rachel Roberson, Senior Manager and State & Local Tax expert at Berntson Porter**.

"However, doing this can also increase a company's exposure to additional state taxes beyond where they are currently filing. Left unmonitored, failing to collect sales tax when required can result in substantial risk to a business as they can be held liable for these taxes even if they never collected them from customers. In addition to the audit risk, this frequently becomes an issue when a company looks to merge or sell. New owners will not want to assume this prior risk without proportional holdbacks or resolution of the issues.

To compound the problem, sales tax rules are constantly changing. While a business traditionally needed a physical presence in a state to create nexus, many states are implementing economic nexus provisions similar to the trend with state income taxes. However, these rules are currently being challenged before the US Supreme Court, so there may be clarity on the horizon.

As Krysta noted, navigating the tax landscape is complicated. While state and local taxation is complex, businesses can help themselves by periodically reviewing their nexus creation and potential tax risk so they can make informed decisions on registering with a state. Monitoring this risk and ensuring it doesn't exceed the business' tolerance thresholds, will help avoid disastrous results if a state decides to audit."

Despite the challenges associated with expansion into new states, it remains a priority for many survey participants as a method of growth. One-half (50%) of respondents cited "Establishing New Markets" in order to reach their 2018 revenue forecasts.

2018 FOCUS FOR REVENUE GROWTH

	Response
Establishing new markets	**50%**
Increased attention to customer - product alignment	50%
Improved customer service	38%
Product innovation	31%
Digital sales and marketing (website, ecommerce, etc.)	29%
Increasing / Improving distribution channels	27%

ROLE OF GOVERNMENT

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MINIMUM WAGE IMPACT

FINDINGS

Just over 21% of respondents to our survey selected "Government and/or Environmental Regulation and Compliance" as one of the toughest challenges currently facing their companies. It was the fourth most common response, up from seventh in last year's survey. Additionally, when asked about the factors that will most impact the U.S. distribution and manufacturing industries over the next five years, government was the top response – cited by nearly one-half of respondents (47%). Collectively, these results showcase the growing uncertainty, and in some cases frustration, regarding government oversight, brought to the forefront in this period of transition.

Respondents further specified how the government is impacting their businesses, with a majority of answers involving taxes and/or regulations. Other responses included labor costs rising and poor educational systems impacting the workforces of the industry. A few responses indicated positive impact, including the current tax structure benefiting business and public money driving sales and funding new buildings.

BP INSIGHT FROM DAVID AND JAY

Major tax reform is here via a bill signed by President Trump. While the effective date of the bill will be January 1, 2018, it is important to note that many of the tax changes are temporary in order to comply with the budget reconciliation process. The bill proposes reductions in individual and corporate tax rates, increases business fixed asset expensing, repeals corporate AMT, makes significant changes to individual credits and deductions, and contains provisions for repatriation of overseas profits. Now more than ever, it is important for businesses and their owners to be in contact with tax professionals for effective planning.

Another area of increasing importance to some Puget Sound area businesses is Washington's minimum wage. As the minimum wage has increased in recent years, we were curious as to what the effects have been for local businesses. Our survey revealed that the vast majority of respondents (86%) reported little or no impact, with 14% indicating that the rate has contributed significantly to overall growing costs – giving competition with lower minimum wage requirements an advantage.

WHAT DO THE EXPERTS SAY?

"In the closing days of 2017, Congress passed, and President Trump signed, the most sweeping tax reform in a generation," states **Paul Guppy, Vice President for Research, Washington Policy Center**. "The change in national tax policy will bring direct benefits to Washington state companies, investors and working families. Still, the changes are complex and everyone's situation is different. Companies and individuals will need expert guidance to ensure they are receiving the maximum level of tax relief possible under the new law, as Congress intended.

Washington's lack of an income tax will continue to give us an edge in attracting top talent and investment to our state. But this advantage will be eroded if people don't take full advantage of the latest changes in federal tax law.

With regard to minimum wage, under our state's high-minimum policy, one of the highest in the nation, many employers are not directly affected, and those that are will adapt as needed to the rules for conducting a business. The greater impact will be felt by those who have difficulty entering the workforce, the young, the unskilled, the disabled, and immigrants. Financially, employed low-income workers will see a modest benefit, but for the jobless, getting a foot on that first rung of the employment ladder will become harder than ever."

TAX REFORM

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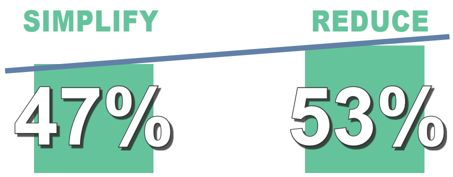
TAX PREFERENCES



FINDINGS

Consistent with last year's survey, nearly one-half of respondents (47%) indicated they prefer simplified filings to a reduced tax liability. Navigating the tax landscape is a key challenge area for respondents – especially now, due to new tax legislation.

WHAT DO THE EXPERTS SAY?

"The new tax bill provides reductions in individual and corporate tax rates, increases business fixed asset expensing, repeals corporate AMT, makes significant changes to individual credits and deductions, and contains provisions for repatriation of overseas profits," states **Chris Julien, Tax Senior Manager at Berntson Porter**. "Below is a summary of key changes for individuals, corporations, estates and trusts.

Individuals:

- Decreases top individual tax bracket from 39.6% to 37% tax rate. This tax bracket applies to married couples filing jointly with income over $600,000; $500,000 for single filers
- Increases the Alternative Minimum Tax (AMT) exemption
- Significantly changes itemized and standard deductions
  - Increases standard deduction to $24,000 for married couples filing jointly; $12,000 for single filers
  - Limits state and local tax deduction for both real estate, sales, and income taxes to $10,000
  - Limits mortgage interest deduction to $750,000 of acquisition debt. The pre-2018 limitation was $1 million and is retained for existing loans
  - Repeals deduction for home equity debt
- Eliminates itemized deduction phase-outs
- Eliminates personal exemption deduction
- Repeals penalty associated with failure to purchase health insurance
- Increases child tax credit to $2,000
- Repeals deduction for alimony payments and inclusion of payments received as income

Estates and Trusts:

- Increases estate tax exemption to $22.4 million for married couples (WA state exclusion for 2018 is $2,193,000 per person)
- Four tax brackets with maximum rate of 37%

Business Tax:

- Creates a 21% corporate rate for years beginning after 12/31/2017
- Repeals corporate Alternative Minimum Tax
- 20% deduction from taxable income for certain pass-through entities
  - Limited to 50% of W-2 wages paid, or
  - Limited to 25% of wages paid plus 2.5% of the cost of tangible depreciable assets in the business
- Allows for full expensing of assets purchased after 9/27/2017 for five years (does not apply to structures)
- Limits net operating losses to 80% of taxable income, can be carried forward indefinitely, and eliminates the carryback provisions
- Repeals 9% Domestic Production Activities Deduction
- Repeals use of like-kind exchanges for personal property; Real property is still eligible

International Tax:

- Changes U.S. to territorial tax system
- 15.5% tax on repatriated earnings and profits of cash assets
- 8% tax on repatriated earnings & profits of illiquid assets
- Eliminates deduction for foreign property taxes

While new tax legislation brings about significant changes for individuals and corporations, there are opportunities. We recommend firms work closely with their tax advisors to ensure they understand the tax reform and can respond to it optimally."

CAPITAL BUDGETS AND FINANCING

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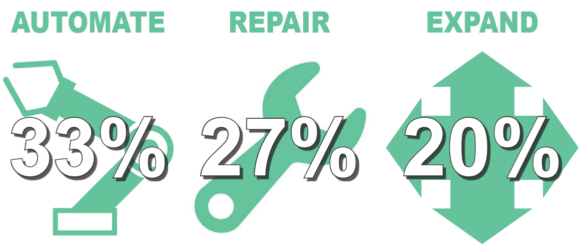
CAPITAL BUDGET



FINDINGS

The majority of the survey respondents are expecting to grow their businesses in the coming year; and growth in operations implies budgeting for capital expenditures. Over three-quarters (79%) of respondents reported their capital budgets will increase or stay at similar levels during 2018.

Respondents most commonly indicated that their capital expenditures will be allocated towards facilities and equipment as 33% plan to automate processes, 27% plan to repair or replace their current equipment, and 20% intend to expand their facilities.

The large number of respondents planning to automate their processes falls in line with their revenue and employee growth plans. As previously noted throughout this survey, respondents are planning for growth – both in terms of their revenue and, to a lesser degree, workforce. With the challenge of hiring qualified talent, however, businesses may turn increasingly to automation.

BP INSIGHT FROM JAKE

Automation can be an effective way for businesses to increase their operational capacity. While automation typically involves significant costs upfront, variable costs of production should decrease as less labor is required. As the cost of living locally grows, so will wages of the individuals working in the area. Businesses who increase automation may be less impacted by wage increases and able to keep costs more stable in the future.

For those businesses expanding their facilities, planning is paramount as it is difficult to "undo" expansion. Poor planning can lead businesses to a situation with excess capacity, which increases costs without realizing the expected revenue growth. Businesses need to plan capacity needs in accordance with their expected operations. For example, businesses expecting significant growth should ensure adequate capacity; this allows the business to grow in a more fluid manner. Once the business achieves the growth goal and then expects to maintain these levels of operations or a scale back, the facilities and equipment should be near maximum capacity. This keeps costs at a minimal level in relation to operations, thus increasing profit.

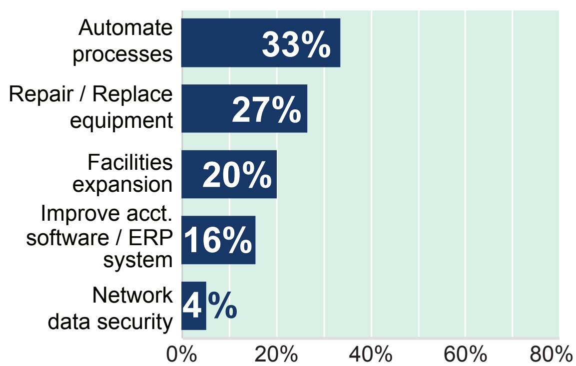
How do businesses plan to fund their capital expenditures? The data shows that companies are planning to utilize a mixture of self-funding options and financing. In terms of self-funding, 47% plan to use cash reserves to fund all or part of their expenditures and 13% plan to issue equity to fund all or part of their expenditures. In terms of utilizing financing, 34% plan to use bank term financing to fund all or part of their expenditures, 43% plan to use bank revolving lines of credit to fund all or part of their expenditures, and 13% plan to use lease financing to fund all or part of their expenditures.

Many companies have large cash reserves as many businesses in the Puget Sound area have recently seen growth and increased profits. While it may be less risky to use cash reserves for capital expenditures, now seems to be a good time to pursue outside financing as interest rates are still relatively low and market returns are strong. The prime rate at the end of 2017 was 4.5% as published by the Wall Street Journal, while the S&P realized approximately a 20% return in 2017. While more risky, it may be more profitable to use bank financing for equipment and hold cash reserves in a market portfolio.

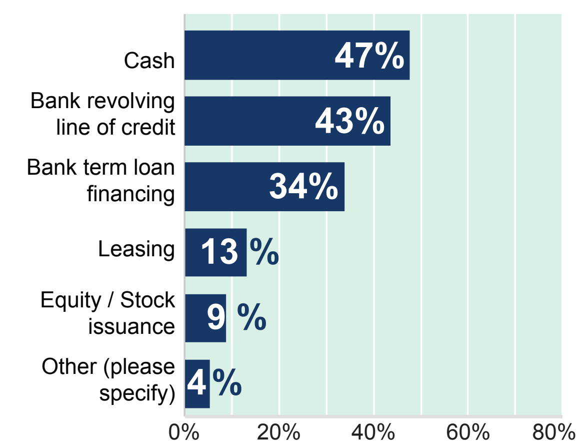
Continued...

Locking in financing now could be beneficial as the prime rate has been on the rise recently, increasing three-quarters of a percent from the end of 2016 through 2017 with multiple rate increases forecasted in 2018, per announcement from the Federal Reserve. Interest rates are essential when considering financing as rates are the cost driver. Businesses planning to expand their operations through bank financing need to lock in the lowest interest rate possible as small changes in the rate can make large differences in interest payments over the life of the loan.

CAPITAL BUDGET EXPENDITURES



FINANCING MECHANISMS FOR 2018 EXPENDITURES



WHAT DO THE EXPERTS SAY?

"While the continued healthy economic environment supports a higher capital budget for most companies going into FY 2018, nearly half of the respondents indicated that they intend to use cash and/or short term debt to fund capital expenditures," says **Hieu Tran of Columbia Bank**. "This seems to indicate that internally generated funds will be more heavily relied on than long-term debt. This notion is also supported by an average estimated equity injection of 48% for those who intend to borrow. All in all, the inference is that companies have been stockpiling cash and plan to take a conservative and strategic approach to funding capital expenditures (CAPEX).

As bankers we understand the owner's desire for a modest "funded debt" leverage because lower future payment obligations provide for better sleep when looking out 2-3 years and beyond. However, a business with the healthy working capital position (i.e. strong liquidity) holds an advantage when presented with an unplanned growth opportunity. Conclusion: Use a little of the working capital for those CAPEX needs but keep a healthy bit of 'dry powder' by adding some term debt to those long term assets acquisitions."

WORKFORCE

BP Specialist: Chris Mela, CPA, Manager, Assurance Services.
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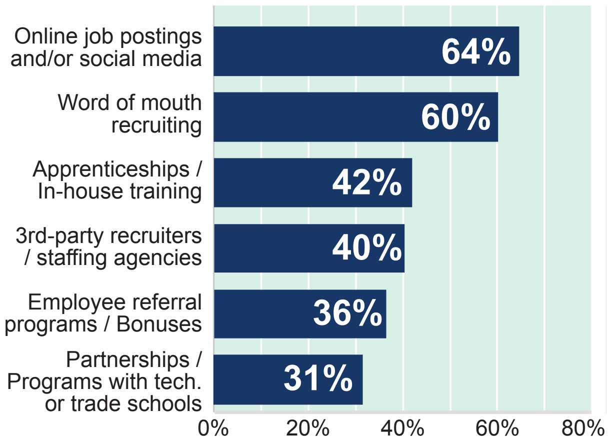
ATTRACTING AND RETAINING WORKFORCE TALENT



FINDINGS

Many distributors and manufacturers experienced growth throughout 2017, and the outlook for 2018 looks positive, as well. Over three-quarters (77%) of respondents are planning for their workforce to remain the same or increase through 2018, with nearly 54% of respondents indicating the need to hire and expand, a slight increase over 2017 respondents. These trends are apparent in the U.S unemployment rate, which continued to fall throughout 2017, reaching a low of 4.1% in October – its lowest since 2000.

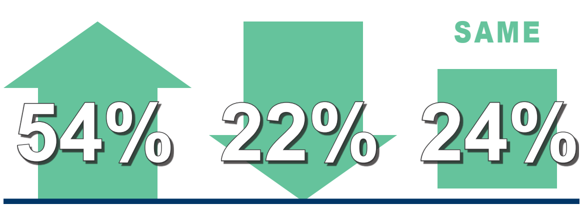
With companies planning for growth, perhaps one of the biggest challenges facing the industries is how to attract and retain quality talent. As technology advances, baby boomers retire, and a new generation enters the workforce, companies will need to adapt and evolve their hiring and recruitment strategies to ensure they remain competitive and can meet the increasing demands of their industries.

BP INSIGHT FROM CHRIS

Nearly two-thirds (63%) of respondents overall believe the (lack of) attractiveness of the industry is the biggest challenge of recruiting new employees, seconded by a lack of awareness or training at the high school level. These respondents also indicated that their primary method of attracting new talent is currently through word of mouth recruiting. As technology becomes more prevalent in our lives and the new generation of the workforce continues to quickly adopt new technology and trends, it is important for business to utilize technology not only to attract new talent, but also to increase the amount and visibility of information about their business.

Nearly two-thirds (63%) of respondents overall indicated that they use online job postings and recruiters to fill open positions. While the distribution and manufacturing industries are adopting technology in some regards, it is important to begin to think about how technology and social media can be used to move your company into the limelight and ensure the benefits and opportunities of a career in distribution or manufacturing are provided to those new to or re-entering the workforce. Making your company's presence known in a small world that technology is making even smaller is the key piece to solving the workforce conundrum we face in this time of economic boom.

WORKFORCE



WHAT DO THE EXPERTS SAY?

"These findings appear consistent with the anecdotal information we receive regularly from manufacturing employers regarding the status of the workforce and labor market conditions," comments **Shannon Matson, Director of the Aerospace Joint Apprentice Committee (AJAC)**. It is encouraging to see apprenticeship claim a growing share among workforce strategies aimed at closing the skills gap."

TECHNOLOGY AND THE FUTURE

BP Specialist: Jake Berg, CPA, Advanced Staff, Assurance Services.
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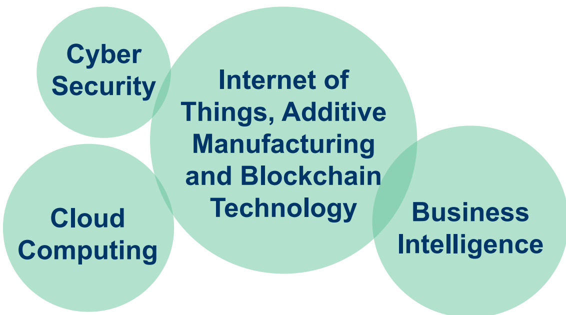

FINDINGS

Technology appears to be a leading issue for manufacturing and distribution companies in the Pacific Northwest. When asked about the three biggest opportunities presently facing their business, nearly 25% of the responses were technology related. However, some respondents are finding difficulties with the expanding use of technology, as 10% reported technology as one of their three biggest challenges.

BP INSIGHT FROM JAKE

Technology is a fast growing and evolving component of almost every business and respondents believe it to be one of the biggest opportunities on the horizon for distribution and manufacturing businesses.

While initiating new technology can be daunting, for those willing to start the process, there are clear benefits in sight. Advances such as cloud computing provide companies a wide range of benefits, including scalability, operational efficiency, application and partner integration, data storage, enhanced security and more.

Outside of cloud computing, there are many technological advances currently in use including the Internet of Things, additive manufacturing and blockchain technology – all topics BP monitors continuously. To learn more about how these advances might benefit your organization, start by visiting the Thought Leadership section of the Berntson Porter website.

WHAT DO THE EXPERTS SAY?

“This survey highlights some interesting findings,” says **Russ Harper, Owner of NexTec Group**, a national consulting firm specializing in technology for distributors and manufacturers. “Nearly one-half (47%) of respondents indicated they had moved some systems to the Cloud or are in the process of doing so, which is ahead of trend for what we’ve observed in the marketplace as a whole.

Overall, these findings really underscore the growing importance of business intelligence (BI) systems and tracking for companies, consistent with national findings. A Forbes article from earlier this year indicates that nearly 80% of respondents from a separate BI study[1] are planning to increase the use of cloud for business intelligence and data management in the next twelve months, with cost savings, flexibility and reduced hardware/software as the key incentives.

Nearly two-thirds of this survey’s participants (65%) reported relying on a mix of reporting systems – from built-in reports to internally developed spreadsheets. While distributors and manufacturers may rely on this mix, our clients have experienced improved data and decision-making by looking at their data holistically and integrating their ERP, CRM and BI data. Additionally, we recommend more companies investigate low cost data visualization tools, like Power BI or Tableau.

If you are using Microsoft Excel to manage your business, be sure that you get everything out of it that you can. There are a variety of powerful features that are unknown to many. It’s worth reviewing the program and completing some basic training to identify aspects that can help you track and manage data.”

1 https://www.forbes.com/sites/louiscolumbus/2017/02/26/business-intelligence-and-analytics-in-the-cloud-2017

TRANSITION PLANNING

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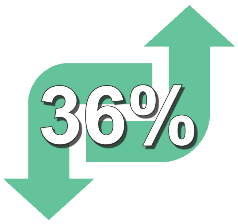
FINDINGS

In recent years, mergers and acquisition ("M&A") activity has been increasing for a variety of reasons, including the availability of capital, a healthy business cycle (continued growth post the most recent recession) and historically low borrowing costs, to name but a few.



This year's survey findings were consistent with this trend; over one-third (36%) of respondents indicated they recently implemented or were in the process of implementing changes in preparation for a business transition, while another 13% indicated that these changes were needed, but not yet started. Among respondents, 20% indicated that they plan to sell their business within the next three years.

However, in terms of actually being ready for a transition, only 60% of respondents indicated that they have a management team in place to run their business in their absence and nearly three-quarters (70%) are lacking a buy / sell agreement. Additionally, a majority of survey respondents (60%) have not obtained a third-party valuation of their company within the last three years.

BP INSIGHT FROM JAKE

Market conditions are ripe for business owners looking to transition ownership. There is currently an abundance of investors, including both financial buyers and strategic buyers, looking to acquire businesses and generate "above-market" returns. Given the availability of captial and low interest rates, enterprise values have been rising in recent years. According to GF Data, the average transaction value in 2016 was 6.7 times EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), while the average transaction value through the first three quarters of 2017 was 7.1 times EBITDA.

In any market, especially the current one, business owners should consider operating their business as if ready to transact. While transitioning a business is often a planned event, unforeseen circumstances such as an unsolicited offer or a health event can often alter that timeline.

First and foremost, this includes having financial books and records in order. Rarely do buyers of private companies insist upon audited financials, but having reviewed financials adds a degree of confidence for any buyer, and can identify any financial irregularities in advance.

Particularly in the case of an unsolicited offer, having a formal valuation in place can be helpful as well. A valuation provides the owner with an independent view as to the market value of the business, as well as the methodologies generally used by buyers. This figure could serve as a starting point for negotiations, or help an owner determine if an incoming offer is "market."

Lastly, investors strongly prefer, and will pay a premium for, businesses that are not dependent on the ongoing involvement of the owner. While retaining the owner for some period of time is typical and often encouraged, buyers also want to know they have a capable long-term management team in place – one with a plan for growth, and experience in making tough business decisions. While difficult for many owners, delegating more responsibilities to other team members can increase a company's marketability and valuation.

Continued...

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WHAT DO THE EXPERTS SAY?

"The M&A market continues to be very active, and valuations remain strong," says **Pitt Means, Managing Director at Berntson Porter Corporate Advisory**, "however, with higher valuations comes higher scrutiny. Buyers are requiring more information and doing deeper due diligence, with longer timelines to close."

Means added, "Buyers paying a premium not only want financial records in place, but a strong management team, and a clearly identified path for growth. High customer or supplier concentration, or unpredictable financial performance, can be deal-killers in this environment. Our job, when representing sellers, is to generate competition among buyers. We want options for our clients in terms of valuation and structure of the transaction, as well as alignment in terms of culture and growth plans. Ultimately, we are looking for the right home for the business. If sellers come to us with their house in order, we are better able to meet those objectives."

TRANSITION PLANNING	YES	NO
Do you have a management team in place to run your business?	62%	38%
Do you have a buy /sell agreement in place?	29%	71%
Have you obtained a third-party valuation of your company in the past three years?	41%	59%
Do you plan to sell your business in the next three years?	20%	80%

ACKNOWLEDGMENTS

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ABOUT BERNTSON PORTER

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