

Biden Tax Plan Impact on a Merger or Sale Transaction

Senior Analyst Gottfried Laubichler reviewed the Biden tax proposals to evaluate the Federal tax liability that would apply to a mid-market transaction. Our analysis assumes an increase of the capital gains rate to 39.6% and a discount rate of 2% which is equal to the Federal Reserve's inflation target rate.

A healthy company with \$100 million of revenue and earnings before interest, taxes, depreciation and amortization (EBITDA) of 20% that is ***growing at 11% will require over two years to regain the valuation ground lost to the capital gains tax increase.*** Note that the rate of growth may be a weak assumption if the package of tax increases proposed by the Biden team cause the general economy to falter, ***increasing the payback period to as much as eight years with a 5% growth assumption.***

11% Growth Rate, 2% Inflation Rate

(million USD)	2020	2021	2022	2023
Revenue	\$100.0	\$111.0	\$123.2	\$136.8
<i>Growth</i>	NA	11%	11%	11%
EBITDA	\$20.0	\$22.2	\$24.6	\$27.4
<i>Margin</i>	20%	20%	20%	20%
EBITDA Multiple	8	8	8	8
Enterprise Value	\$160.0	\$177.6	\$197.1	\$218.8
<i>Long-Term Capital Gains Tax</i>	<u>23.8%</u>	<u>39.6%</u>	<u>39.6%</u>	<u>39.6%</u>
Net Proceeds to Owner	\$121.9	\$107.3	\$119.1	\$132.2
Present Value	\$121.9	\$105.2	\$114.4	\$124.5

5% Growth Rate, 2% Inflation Rate

(million USD)	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenue	\$100.0	\$105.0	\$110.3	\$115.8	\$121.6	\$127.6	\$134.0	\$140.7	\$147.7
<i>Growth</i>	NA	5%	5%	5%	5%	5%	5%	5%	5%
EBITDA	\$20.0	\$21.0	\$22.1	\$23.2	\$24.3	\$25.5	\$26.8	\$28.1	\$29.5
<i>Margin</i>	20%	20%	20%	20%	20%	20%	20%	20%	20%
EBITDA Multiple	8	8	8	8	8	8	8	8	8
Enterprise Value	\$160.0	\$168.0	\$176.4	\$185.2	\$194.5	\$204.2	\$214.4	\$225.1	\$236.4
<i>Long-Term Capital Gains Tax</i>	<u>23.8%</u>	<u>39.6%</u>	<u>39.6%</u>	<u>39.6%</u>	<u>39.6%</u>	<u>39.6%</u>	<u>39.6%</u>	<u>39.6%</u>	<u>39.6%</u>
Net Proceeds to Owner	\$121.9	\$101.5	\$106.5	\$111.9	\$117.5	\$123.3	\$129.5	\$136.0	\$142.8
Present Value	\$121.9	\$99.5	\$102.4	\$105.4	\$108.5	\$111.7	\$115.0	\$118.4	\$121.9