TLC Investment Summary

Transaction Summary

Cohesive Capital Partners, L.P. ("Cohesive") is investing $6.5 million in the common equity of Transport Labor Contract/Leasing, Inc. ("TLC", the "TLC Companies" or the "Company") for a 35% diluted ownership interest alongside High Street Capital ("High Street"), who is leading the buyout of the Company. The total enterprise value of the transaction will be ~$30 million, which is ~5.6x 2011E Adjusted EBITDA of $5.3 million and ~5.0x 2011E Year-End Run-Rate EBITDA[1] of $6.0 million. Management is rolling $1.1 million of equity capital into the transaction.

Company Description

The TLC Companies, headquartered near Minneapolis, MN, is a Professional Employer Organization ("PEO") that serves companies in the transportation and logistics industries. As background, when a company utilizes the services of a PEO, that company's employees (the "Worksite Employees" or "WSEs") also become employees of the PEO (often called a "co-employment" model). In a typical PEO relationship, the PEO shares financial and/or administrative responsibility for certain employer-related services, such as payroll, healthcare, benefits, workers compensation, and other related human resource services. Cohesive, for example, uses a PEO called Extensis, which handles the firm's payroll, healthcare and benefits, and provides workers' compensation insurance through a third party insurance company. TLC provides its transportation and logistics clients, in addition to the typical services outlined above, with a comprehensive array of additional risk management services including truck driver applicant screening; truck driver safety management; and unemployment claims management. TLC also underwrites workers' compensation insurance for its clients, retaining a portion of the workers' compensation claims risk for its own account.

TLC is one of the 15 largest PEOs in the United States and is the largest transportation and logistics-focused PEO in the country. The Company has over 900 customers ranging from one to 750 WSEs in 44 states. As of January 2012, the Company employs more than 12,300 WSEs.

Investment Highlights

- *Market leader with compelling growth platform:* TLC is the market leader serving the highly fragmented transportation and logistics space, whose PEO adoption rate is only 4% of its addressable market[2] → significant room to grow
- *Compelling value proposition to clients / comprehensive service package:* TLC provides its clients a broad array of services and value-added benefits at lower costs, allowing clients to focus on running their businesses
- *Attractive financial characteristics:* TLC's average "controllable" WSE retention rate[3] has exceeded 93% over the past four years, leading to high levels of recurring revenue; low capex requirements enable over 95% Free Cash Flow conversion[4]
- *Spread of risk:* TLC's book of transportation and logistics clients is diversified with over 900 customers in 44 states, with no client representing more than 8.3% of gross revenues and the top ten clients accounting for ~25% of gross revenues
- *Strategic focus on risk management:* TLC's extensive database of 86,000+ drivers provides an edge in comprehensive driver screening consistent with Federal and DOT regulations (~99% of applicant reviews completed within 48 hours); ability to screen drivers allows TLC to better manage underwriting risk of workers' compensation insurance
- *Experienced management team:* Management team has an average of 23 years of relevant experience; revamped sales force under direction of new SVP of Sales and Marketing, Fred Souza who came from GE in 2009, has re-energized the sales force and increased WSEs by 5,700+ since his hiring
- *Good sponsor match:* High Street has significant previous experience investing in third-party administrators / business services companies; sponsor spent over a year analyzing numerous PEO targets before committing to TLC
- *Favorable trends:* Industry research indicates that a qualified driver shortage and a hardening workers compensation market may provide tailwinds to increased profitability
- *Numerous strategic initiatives*: High Street has developed a robust post-closing strategic initiatives plan to improve TLC

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1. 2011E Year End Run-Rate EBITDA is based on TLC's 2011 year-end WSE count of 12,300 as opposed to 2011E Adjusted EBITDA, which is based on an average WSE count in 2011 of 10,812 WSEs.
2. TLC's addressable market consists of trucking clients with < 1,000 trucks and excludes high risk clients, such as fuel hauling, hazmat and livestock, and private fleets.
3. Controllable retention is a measure of client retention excluding attrition that has occurred for reasons outside the Company's control, such as consolidations, poor client payment history, business closures and non-compliance with TLC's risk management policies.
4. Free Cash Flow is defined as EBITDA less capital expenditures.