

WholeTrees Structures Projections -- \$3M Capital Raise by Q3, 2019

Dated February, 2019

	2016 A	2017 A	2018 A	2019	2020	2021	2022	2023	2024
High Margin Mass-Customization Contracts Averaging \$200K until 2020 and then \$300K (35%-39)	\$374,942	\$334,937	\$644,415	\$2,300,000	\$4,170,000	\$6,540,000	\$8,542,000	\$11,209,600	\$13,150,000
Volume Department: Commercial Columns, Trusses, and Carports (22%-30% GM)	\$0	\$0	\$0	\$400,000	\$1,500,000	\$5,000,000	\$9,600,000	\$12,000,000	\$15,000,000
Installation (25% GM)	\$96,447	\$66,589	\$126,047	\$200,000	\$250,000	\$300,000	\$350,000	\$350,000	\$350,000
Other High Margin Product (>45% GM)		\$31,420	\$202,518	\$100,000	\$100,000	\$200,000	\$300,000	\$400,000	\$500,000
Licensing Production Processes and Software (70% GM)	\$0	\$0	\$0	\$0	\$0	\$50,000	\$250,000	\$450,000	\$650,000
Total Gross Receipts	\$471,389	\$432,946	\$972,980	\$3,000,000	\$6,020,000	\$12,090,000	\$19,042,000	\$24,409,600	\$29,650,000
COGS	-\$312,399	-\$312,730	-\$666,192	-\$1,999,000	-\$4,078,000	-\$8,215,200	-\$12,578,960	-\$15,922,452	-\$19,189,000
Gross Margins	34%	28%	32%	33%	32%	32%	34%	35%	35%
Grant Revenue and Direct Expenses									
Grant Revenue (22% GM)	\$176,800	\$220,919	\$575,217	\$150,000	\$150,000	\$300,000	\$300,000	\$0	\$0
Grant Direct Expenses	-\$144,976	-\$181,154	-\$443,813	-\$117,000	-\$117,000	-\$234,000	-\$234,000	\$0	\$0
Total Gross Profit	\$190,814	\$159,981	\$438,192	\$1,034,000	\$1,975,000	\$3,940,800	\$6,529,040	\$8,487,148	\$10,461,000
Expenses									
Market Development 15% of gross revenue through 2019. Then 12%. Then 10%.	\$187,229	\$148,311	\$38,830	\$300,000	\$602,000	\$1,209,000	\$1,904,200	\$2,440,960	\$2,965,000
Indirect Manufacturing After 15% of all product revenue is rolled into COGS.	\$115,605	\$84,404	\$72,545	\$60,000	\$120,400	\$241,800	\$380,840	\$366,144	\$444,750
R&D 1.5% of gross receipts beginning in 2022.	\$117,662	-\$29,906	\$19,276	\$75,000	\$250,000	\$225,000	\$285,630	\$366,144	\$444,750
Other G&A	\$396,940	\$391,908	\$234,987	\$330,000	\$662,200	\$1,088,100	\$1,713,780	\$2,196,864	\$2,372,000
Total Expenses	\$817,436	\$594,717	\$365,638	\$765,000	\$1,634,600	\$2,763,900	\$4,284,450	\$5,370,112	\$6,226,500
EBITDA	-\$626,622	-\$434,736	\$72,554	\$269,000	\$340,400	\$1,176,900	\$2,244,590	\$3,117,036	\$4,234,500
	-133%	-100%	7%	9%	6%	10%	12%	13%	14%
Interest	\$103,842	\$35,168	\$39,394	\$35,000	\$12,040	\$24,180	\$38,084	\$48,819	\$59,300
Capital Investment: Manufacturing	\$2,756	-\$58,032	\$53,898	\$250,000	\$90,300	\$181,350	\$285,630	\$366,144	\$444,750
Capital Investment: Software	\$0	\$0	\$0	\$350,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000
Capital Investment: Inventory	\$16,391	\$49,070	\$109,786	\$200,000	\$250,000	\$300,000	\$350,000	\$500,000	\$750,000
Equity Capital Raise	\$1,228,320	\$0	\$250,000	\$3,000,000	\$0	\$0	\$0	\$0	\$0

Assumptions

Gross Receipts

Assumes a \$3M capital raise by Q3, 2019.

High margin mass-customized contracts grow from 12 in 2019 to 22 ('20), 23 ('21), 30 ('22), 39 ('23), & 45 ('24). Totals include Design and Engineering Services revenue.

Seattle Sales Engineer hired in January 2019 will close \$500K in new sales in 2019, \$2M in 2020, and grow to \$7.5M/year.

A second Sales Engineer will be hired in 2020 with the same revenue growth over time.

High margin mass-customized sales strategy involves the following:

- Nature-Oriented Companies and Institutions
- Direct Sales to Owners/Architects
- Increasing sales via web traffic
- Brand alignment with high profile industry
- Sales reps

Use of software platform to convert new customers

Volume Department product mix as follows:

Truckloads of Columns and Trusses each assumed to total \$50,000 in revenue.

2019, 8 truckloads; ('20) 30 truckloads; ('21) 100 truckloads; ('22) 192 truckloads; ('23) 240 truckloads; ('24) 300 truckloads.

Other potential product in this mix: Solar carports.

Volume Department sales strategy involves the following:

Strategic Buyers such as sales teams of complimentary products (CLT, Redbuilt); Deep Green Developers; national accounts such as REI or IKEA.

One-Steppers such as Post Frame companies (Morton Buildings, Tuff Shed, and/or Cleary Buildings); JH Baxter; Stella Jones; Solar Carport Installers.

Two-Steppers such as Blue Linx; US Lumber; Menards.

Integration of WholeTrees software platform with the product specification software of partner sales teams Redbuilt or Cleary Buildings.

Use of software platform to convert new customers

Volume Department will certify 3-4 standard truss designs and column components through PFS TECO.

Licensing opportunities to be studied in 2019 and 2020 in preparation for revenue beginning 2021.

COGS & Gross Margin

Gross margin percentages increase over time due to the following:

Inventory efficiencies as company targets strategic timber purchases nation-wide.

Increased access to low value (low cost) trees as grading procedures scale up.

Manufacturing efficiencies.

Fixed G&A drives down unit costs over time with sales volume.

Expenses: Market Development

Total budget assumed at 10% of annual gross receipts.

Budget includes:

Salaries and support for 2 Sales Engineers of Mass-customized product by mid-2020.

Annual contributions to strategic lost leader projects.

Salary and support for Volume Department executive, sales reps, commissions, etc.

National brand presence via trade shows, presentations, strategic partnerships, etc.

Testing and certification of strategic products for volume sale (trusses and column assemblies).

Expenses: Indirect Manufacturing

Product COGS include 15% toward manufacturing. This covers most of WholeTrees manufacturing costs.

Volume produced by partner fabricators in regions with cost-effective timber supply.

2% of annual gross receipts assumed lost to production partners as of 2019, lowering to 1.5% in 2023.

Expenses: R&D

Total budget assumes sufficient capital to drive innovation and company valuation.

R&D initiatives include:

Commercialization of truss designs and column components.

On-going development of MSR grade systems for low value trees and species.

A software commercialization executive beginning in 2020.

Lost-leader projects that facilitate new product development.

Expenses: Other G&A

Budget assumes 11% of gross receipts through 2020 and then 9%, and 8% in 2024.

Executive team in 2019-2020:

CEO

Comptroller and then CFO

Budget includes:

- Accounting and Auditing
- Legal Services
- Madison Headquarters
- Business development
- Insurance including D&O and Key-person Insurance.
- Recruitment fees

Capital Investment: Manufacturing

On-going investment toward efficiencies at the Westby, WI facility, and possibly strategic investments with partners.

Capital Investment: Software

On-going software development for existing inventory and sales platform, as well as integration with partner systems for truss specification, with specific focus in 2020 and 2021.

Capital Investment: Inventory

Bulk-purchasing of advantageous low-value tree supplies to improve gross margins and competitive advantage.

2016, 2017 and 2018 Actuals

All totals in 2017 and 2018 are on an accrual basis.

2017 gross margins were brought down by an installation contract. Product and Design gross margins were 35%. 2018 installation pricing and terms were changed due to lessons learned.

2016 & 2017 Grant Expenses (and thus final EBITDA) differ from company reports because activity was accrued across multiple years. In this model, grant expenses are captured as they were eventually completed (82% of total budget).

2018 Sales and Marketing and G&A have a total of \$100,805 subtracted from them as allowable grant direct expenses.

2016 & 2018 Interest Expense includes interest collected on convertible debt.

2018 COGS and Indirect Manufacturing differ by \$10,000 from company reports because this amount was removed from COGS as percentage manufacturing lost to industry partner (Caribou Creek).

2017 Capital Investment: Manufacturing reflects asset divestment upon moving from our Muscoda facility to our current Westby Facility.

Use of Funds: \$3M Series B

Expenditures	2019	2020	2021	Total contributions by Q4, 2024	Justification
Market Development: Leverage current national clientele and portfolio with a PNW sales engineer in 2019 and a second national sales engineer in 2020.					
Launch a "Volume Department" in 2019 focused on columns & trusses.					
Sales Engineer - Seattle Division. Joe Terrenzio (75% of total annual salary in 2019 and 25% in 2020. Benefits included)	\$72,500	\$26,250		\$29,000,000	Salaries and Benefits rising from \$95K in 2019 to \$105K in 2020. Not including commissions. Contributions: \$500K in 2019 growing to \$7.5M/yr by 2022.
Sales Engineer - National 2020 (100% of salary in 2020)		\$95,000	\$0	\$21,500,000	Salaries and Benefits rising from \$95K in 2020 to \$105K in 2021. Not including commissions. Contributions: \$500K in 2020 growing to \$7.5M/yr by 2024.
Executive: Volume Department (100% of salary 2019 and 25% of salary in 2020)	\$150,000	\$43,750	\$0	\$33,000,000	Salaries and Benefits rising from \$150K in 2019 to \$175K in 2020. Not including commissions. Contributions: Driving \$38M in volume sales by Q4, 2024.
Talent Recruiter	\$0	\$30,000			Assume that the second sales engineer or some of the reps we look for require either a recruiter or in-house bandwidth. 20%-25% of base salary
Seattle Division Annual Office Expenses (75% in 2019 and 25% in 2020)	\$18,000	\$6,000			Assuming \$2000/month for open-plan rent, utilities, supplies.
Volume Department Annual Expenses (100% in 2019; 50% in 2020)	\$75,000	\$112,500	\$0		Assuming \$75K in 2019 and \$225K in 2020 for Reps, Trade Shows, Travel
Volume Department Production Partnership Development & Fiber-sourcing Capabilities (100% salary for Q3/Q4 2019; 50% of salary in 2020)	\$50,000	\$50,000			Assuming a staff member to support the Volume Department Executive toward its fiber sourcing and production efficiencies.
Sales Training	\$15,000	\$0			Time and bandwidth invested in sales agents and repping strategies
2019-2020 PR Campaign	\$35,000	\$75,000			Invest \$110K for a prominent firm to spin press releases written by WholeTrees staff until operational capital can cover a larger campaign. Assuming our internal team leverages national media hits with social media.
Product discounts for lost-leader projects	\$350,000	\$200,000			WholeTrees has found that the most far-reaching market development tools are projects with national "point-to" potential. Assuming the opportunity to drop 30% off a project price up to \$1.5M in projects
Website updates toward our market segments	\$35,000	\$0			.5% of the targetted annual revenue of the following year.
High Margin Products & Brand Promotion:					
Trade Events in Nature Institutional & Hospitality/Events Spaces.	\$25,000	\$45,000			Booth,staff, and travel cost an average \$4500/event. Assuming additional funds from operations.
Targetted education to key firms of building professionals in our market segments, including travel	\$8,000	\$8,000			Presentations planned for national firms well-established in our two market segments, with a focus on the MidWest and Pacific North West. Assuming additional funds from operations.
Business Development for Corporate and Institutional decision makers in our market segments	\$10,000	\$15,000			Attending events, serving as keynote speaker at events, targetted travel to decision makers.
TOTAL Market Development	\$843,500	\$706,500	\$0		

R&D: Complete current initiatives that improve internal gross margins and facilitate market development in our key segments.

Prepare for future licensing revenue and software commercialization.

R&D toward Licensing Production Process: MSR Grade Final Report. New Truss Development. Production Process SOPs	\$75,000	\$50,000		\$5,000,000	Contribution: Assuming savings of \$3M in cost reductions from production process trade secrets by Q4, 2024.
Licensing Consultant: Structure; Legal; etc.		\$20,000	\$50,000	\$1,400,000	Assuming a consultant will counsel the company on how to prepare for licensing and how to protect ourselves in the process. Additional capital to launch a licensing model assumed to come from future operations. Contribution: \$1,400,000 in licensing revenue by Q4 2024.
Software Executive, Full Salary Q4 2020-2021	\$0	\$125,000	\$125,000	\$5,000,000	This salary and benefits facilitates the growth of our software capabilities toward the most valuable niche within our industry. Contribution: Assuming that strategic software development and partnerships drives customers to \$5M more in WholeTrees products.
TOTAL R&D	\$75,000	\$195,000	\$175,000		

G&A: Contribute to company survival while sales revenue grows toward break even at the end of 2017

Finance Personnel, Partial Salary	\$50,000	\$25,000			A portion of the required cash management. The balance is to come from the operational capital. Assuming \$75K-\$85K annual for comptroller plus \$15K/year formal audit process plus the hiring and training time.
Accounting	\$35,000	\$0			Covered by operational capital
Certified Annual Audit	\$20,000	\$20,000			
Legal Services: Closing the Series B	\$35,000	\$25,000			2% of the Series B raise
Insurance: Key-Person Insurance	\$5,000	\$5,000			
TOTAL G&A	\$145,000	\$75,000			

Balance Sheet: Capital Expenditures

Software: Misc. Inventory platform for internal use	\$25,000	\$0			This includes some of the "wish list" we currently have trigger-ready to develop and some feedback from focus groups.
Software: Customer facing web-access to WholeTrees inventory for building professionals in our market segments.	\$100,000	\$100,000	\$125,000		This includes some of the "wish list" we currently have trigger-ready to develop and some feedback from focus groups. 2021 development will continue toward a path of value for the company and our strategic partners
Inventory	\$150,000	\$0			
Manufacturing Capacity	\$250,000	\$0			
Legal Services: IP	\$0	\$35,000		Total contributions by Q4, 2024	Assuming IP counsel for department executives and implementation funded by operations.
TOTAL Balance Sheet: Capital Expenditures	\$525,000	\$135,000	\$125,000	\$94,900,000	

TOTAL FUNDING	\$1,588,500	\$1,111,500	\$300,000		
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