

GO Growth Partners

**Exit Planning Institute
Webinar Series
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Objectives:

Answer common question in exit planning process:

“How do I add value to my company”

Explore fundamental Go-to Approaches that deliver results

Discuss value enhancement strategies role in Exit Planning Team

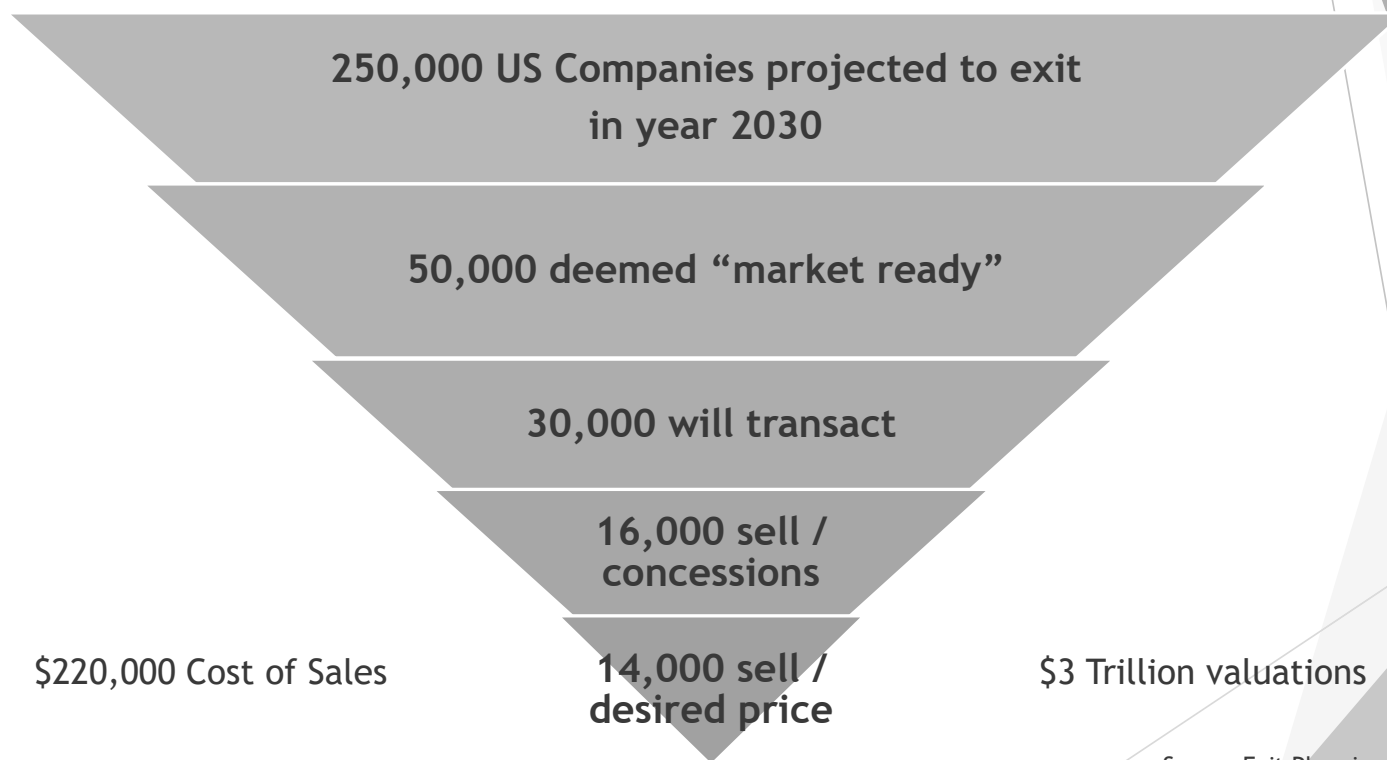


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Why is Value
Enhancement
Important

**Maximize company's value and
ultimately increase sale price**

Go-to Approach: Buyers Perspective

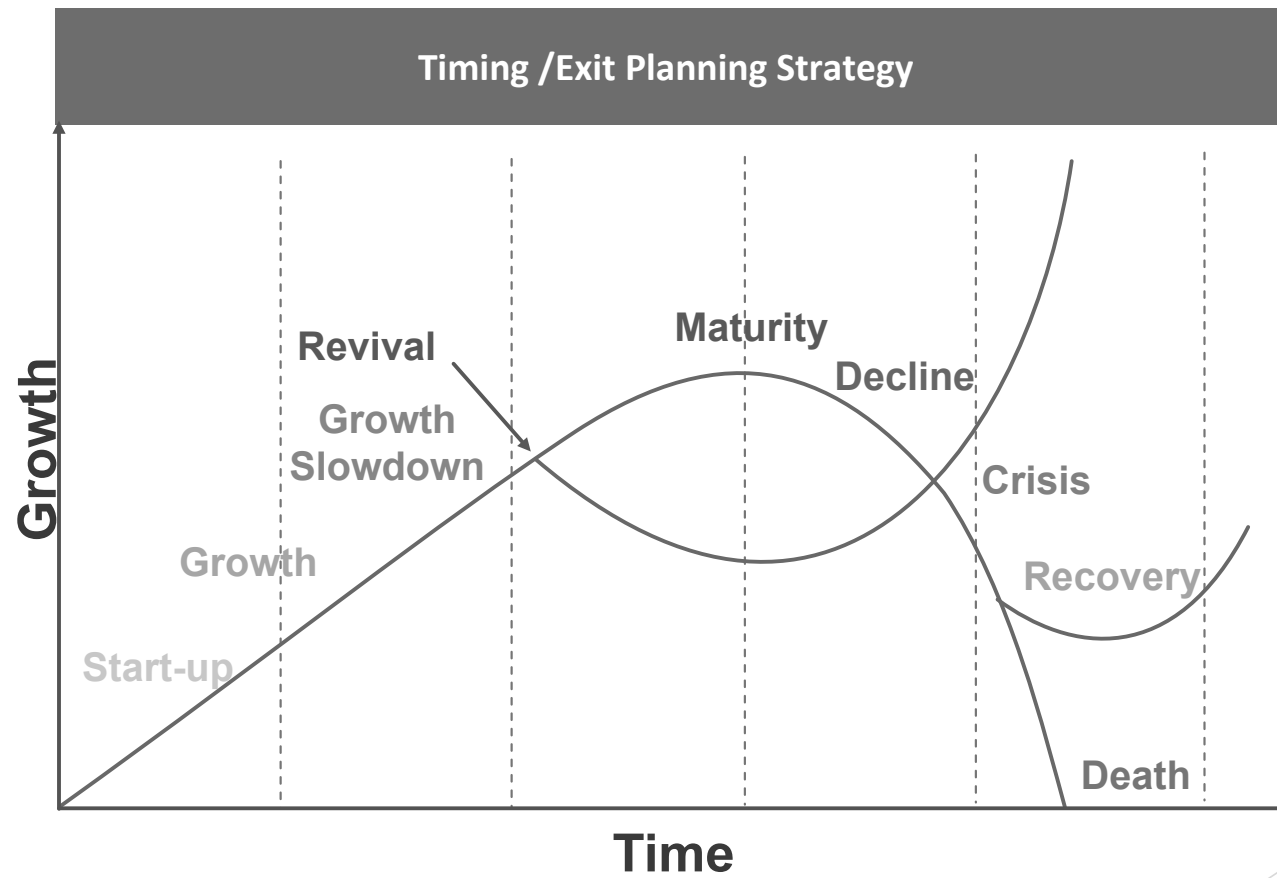


Source Exit Planning Institute research 2019



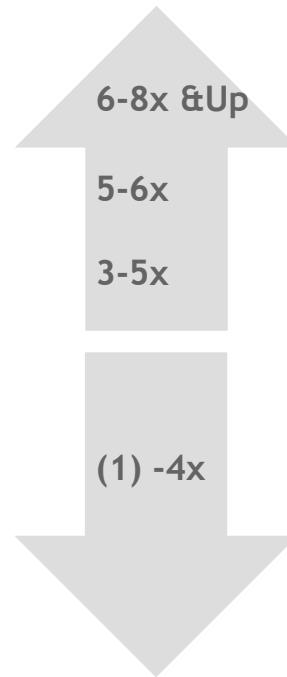
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Go-to Approach: Buyers Perspective - Cycle



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Go-to Approach: Buyers Perspective



Strategic Buyers that can *clearly* expand market and leverage growth opportunities

Synergistic Buyers are often competitors & complementary firms. Often focus on cost savings or horizontal expansions

Performance Buyers are often private equity groups, opportunistic buyers

Risk and Weakness Buyers, heavy customer concentration, uneven performance, messy financials, etc.

Source Ney Grant and Woodbridge Group



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Go-to Approach: Buyers Perspective

Example of a typical niche private equity
company focusing on small-lower middle
market portfolio



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Go-to Approach: Buyers Perspective

Interactive Multiple-Choice Question

- 1) 1000 Deal - 1 to 2 Completions
- 2) 500 Deal - 10 Completions
- 3) 100 Deal - 10 Completions



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Go-to Approach: Focus on Fundamentals

Value is ultimately a function of the level of sustainable cash flows and expected rate of return adjusted for risk.

- Sustainability
- Predictability
- Transferability

Go-to Approach: Focus on Fundamentals

3 fundamental elements of business value

- 1) Cash Flows
- 2) Expected Growth
- 3) Adjustments for Risk

Go-to Approach: Focus on Fundamentals



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Go-to Approach:

Focus on Fundamentals-The BIG Picture

4 “C’s” of Value Enhancement

Social Capital - Culture	Human Capital - Talent	Customer Capital - Sales Base	Structural Capital - Process
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Source: Exit Planning Institute

Go-to Approach:
Start with
Social Capital

**“Culture eats Strategy for
Breakfast”**

- Peter Drucker

(Secret Sauce)



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Go-to Approach: Start with Social Capital

- ▶ Culture is the nucleus of a company that explains:
 - ▶ “The way we do things”
 - ▶ Why “we do things”
- ▶ The linchpin of success

(Secret Sauce)



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Go-to Approach: Human Capital

- ▶ Owner dependent
- ▶ Strength and depth of management team
- ▶ Up-Skilling - Expand current skill sets
- ▶ Reskilling - 180 degree pivot
- ▶ Talent recruitment and retention

The “X” Factor



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Go-to Approach: Customer Capital

- ▶ Industry comparisons:
 - ▶ Growth rates
 - ▶ Margins
 - ▶ Competitive strengths
- ▶ Intangible assets:
 - ▶ Brand value
- ▶ Key customer reviews - concentration
- ▶ Pricing:
 - ▶ Margins
 - ▶ Target most profitable segments
- ▶ Incentive plans
- ▶ Marketing spend and metrics

It's All About SALES



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Go-to Approach: Structural Capital

- ▶ Operating margins-cost savings
- ▶ Divest assets with negative EBIT
- ▶ Lower tax rates -consider change of locals
- ▶ Inventory management-inventory turns
- ▶ Tighter credit policies-AR
- ▶ Processes and procedures
 - ▶ *It can not be sold if it can not be documented*

Beyond Costs



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Go-to Approach: Focus on Fundamentals Primary Growth Strategies

Highest Value Drivers

- New product/New services
- Expand existing market
- Maintain share in existing market

Lowest Value Drivers

- Competing for share in stable market
- Acquisitions

McKinsey & Company 2017 Study “Value Premium of Organic Growth”

Go-to Approach:
Four “C’s” Summary

Development of *three year*
Value Enhancement
Strategic Plan

Checklist for Analyzing Organizational Strengths and Weaknesses

Management and Organization	Marketing	Human Resources
Management quality	Distribution channels	Employee experience, education
Staff quality	Market share	
Degree of centralization	Advertising efficiency	Union status
Organization charts	Customer satisfaction	Turnover, absenteeism
Planning, information, control systems	Product quality	Work satisfaction
	Service reputation	Grievances
	Sales force turnover	
Finance	Production	Research and Development
Profit margin	Plant location	Basic applied research
Debt-equity ratio	Machinery obsolescence	Laboratory capabilities
Inventory ratio	Purchasing system	Research programs
Return on investment	Quality control	New-product innovations
Credit rating	Productivity/efficiency	Technology innovations

Sources: Based on Howard H. Stevenson, "Defining Corporate Strengths and Weaknesses," Sloan Management Review 17 (spring 1976), 51-68; and M.L.Kastens, Long-Range Planning for Your Business (New York: American Management Association, 1976).

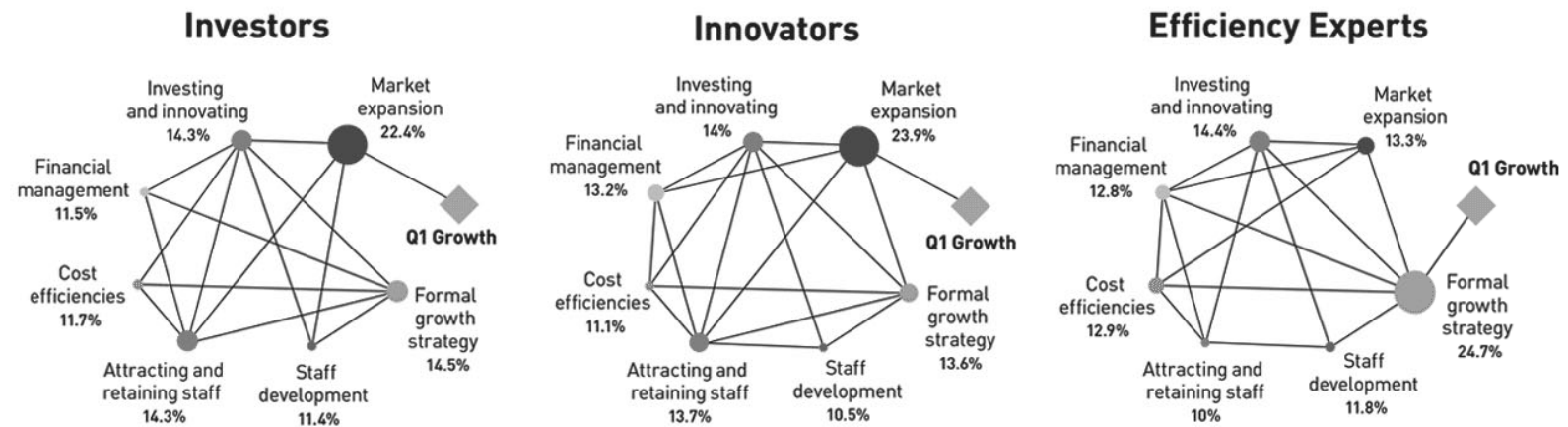
Go-to Approach: Lead with Strengths



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What the fastest-growing middle-market companies focus on

Analyzing data from 20,000 midsize companies reveals three characteristic types for the fastest-growing enterprises. These are grouped according to how much weight each gives to seven factors and the relationships between those factors. The Investors focus on opportunity, Innovators want to know what's next, and Efficiency Experts care most about the strategy.



Note: Sums may not total 100 due to rounding.

Source: The National Center for the Middle Market

Implementing Value Enhancement Strategies

	At a glance	Critical traits
Investors	<ul style="list-style-type: none"> • Fastest growers: 11.5 percent average annual revenue growth • US\$196 million average annual revenue (largest company type) • Average company age: 43 years • Most likely to have private equity ownership 	<ul style="list-style-type: none"> • Willing to invest in both organic and inorganic growth-producing strategies • Well-developed strategic planning process, including creating, communicating, and tracking the growth plan • Open to opportunities in foreign markets
Innovators	<ul style="list-style-type: none"> • 9.4 percent average annual revenue growth • \$136 million average annual revenue (55% fall into the lower end of the middle-market revenue spectrum, with \$10 million to \$50 million in annual revenues) • Average company age: 39 years • Most likely to be private or family owned 	<ul style="list-style-type: none"> • Unique or improved offerings are used to expand customer base and markets • Heavy investment in people and technology • Organic growth
Efficiency Experts	<ul style="list-style-type: none"> • 7.4 percent average annual revenue growth • \$151 million average annual revenue (midsized) • Average company age: 45 years; only a quarter have been in business less than 20 years • Most common in regulated industries where a low-cost, low-price strategy clears the road to growth 	<ul style="list-style-type: none"> • Annual growth goals are set and communicated • Least likely to introduce new offerings or engage in expansionary activity • Output from all assets – human, financial, and physical – is maximized • Talent develops from within • Financial management is a priority, occupying a central role and directly influencing every essential factor except staff development

Source: National Center for Middle Market Companies

Go-to Approach: Lead with Strengths

Shared characteristics of high growth organizations

- ▶ Formal 3-5 year strategy and execution plan
- ▶ Embrace innovation and open new markets - 20% of revenue from new products or services introduced in past 3 years
- ▶ Recruit and retain top talent
- ▶ Invest in staff development
- ▶ Strong financial management

Source: National Center for the Middle Market



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Go-to Approach: Reduce Risks

Studies demonstrate that 85% of barriers to growth are internal

- ▶ Owner dependent
- ▶ Low organization-wide commitment to growth strategy
- ▶ Talent Gaps - Not Assembling Experienced Team
- ▶ Pay + Performance not aligned to strategy
- ▶ Organizational barriers - lack of metrics and financial controls



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VARIDESK, LLC now VARI

- ▶ Privately-held - CEO and co-founder Jason McCann
- ▶ Manufacturer of standing desks and other office products and systems
- ▶ Reports 30% revenue growth annually last 3 years
- ▶ Has 200 products in pipeline to launch in 2020/2021
- ▶ Growth without taking on tremendous debt
- ▶ Business is asset-light-leverages outsourcing logistics and distribution channels

Source: National Center for the Middle Market

Go-to Approach: Case Study Innovative Leader

VARIDESK, LLC now VARI

“We look for intellectually curious people, and then we invest everything back into our people, product, culture, and R&D in order to continue driving innovation. This is our key to delivering high quality at terrific value. It’s how you can do things right: still run a profitable, sustainable business and eventually be known as one of the great ones.”

CEO and cofounder Jason McCann



**Go-to
Approach:
Case Study
Innovative
Leader**

Educational Publishing Company

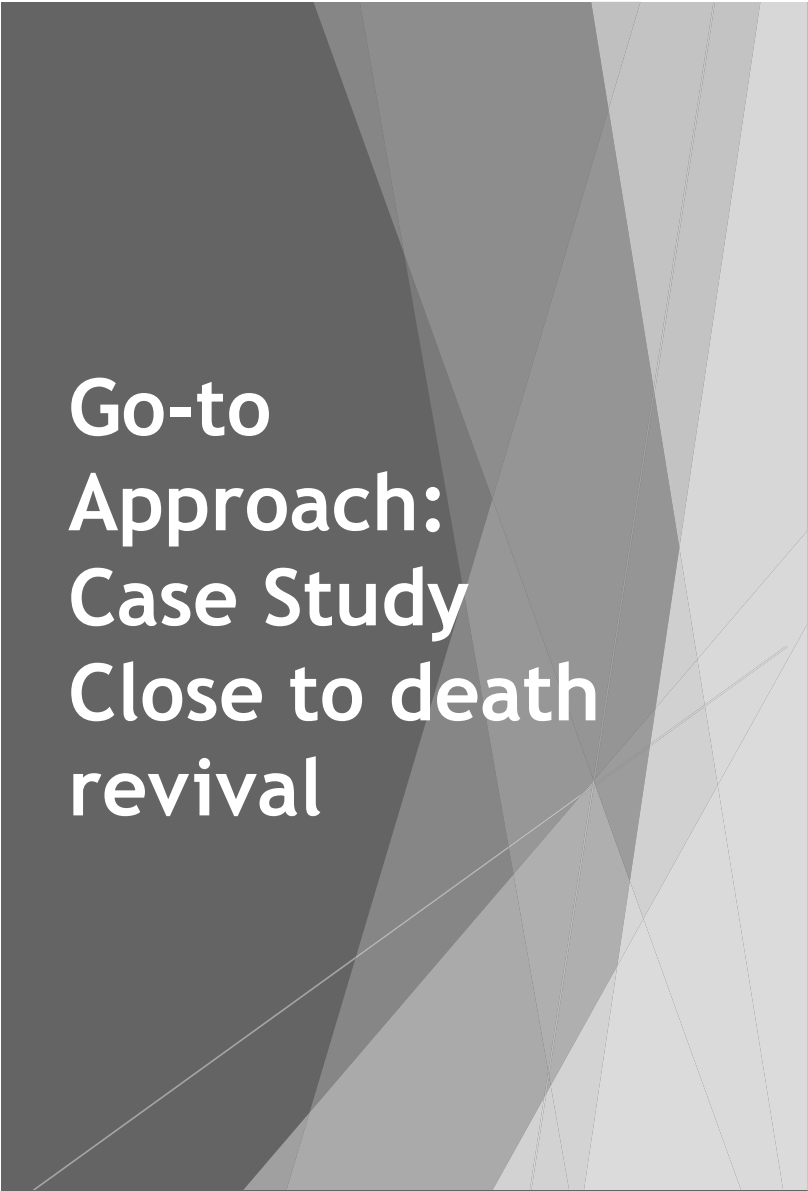
- ▶ Privately held company
- ▶ 30+ years of operation
- ▶ Peak sales of \$5 million
- ▶ 5 year steep decline in sales - \$1.5 million
- ▶ Aging owners
- ▶ Emotional desire to continue brand/content

**Go-to
Approach:
Case Study
Close to death
revival**

Educational Publishing Company

Exit Planning Value Enhancement Strategies

- ▶ Developed \$5 million /3 year Value Enhancement Strategic Plan
- ▶ Financials: New accounting system/reduced costs /audited financials/improved AR
- ▶ HR: retained new talent/built technology team/leveraged outsourcing to fill talent gaps and control costs/new incentive plan
- ▶ Innovation: Expanded into new market-Professional Development
- ▶ Expanded strategic alliances

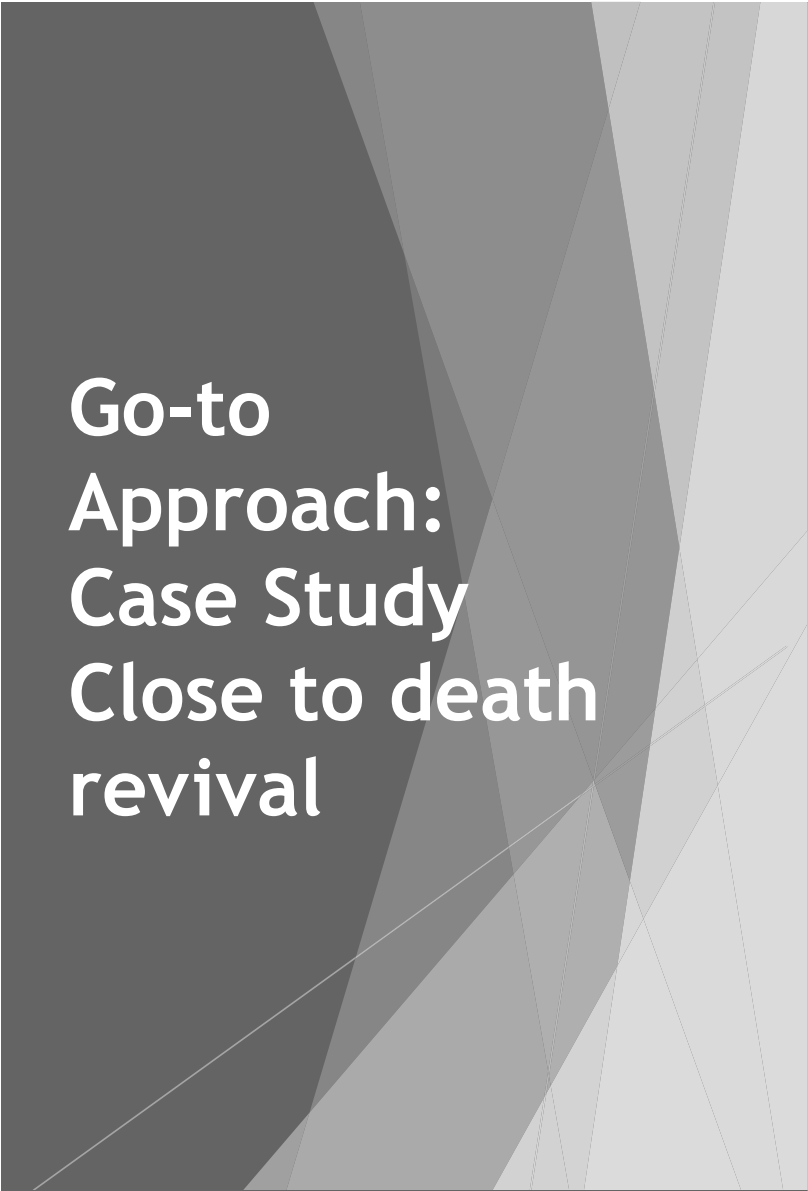


**Go-to
Approach:
Case Study
Close to death
revival**

Educational Publishing Company

Exit Planning Value Enhancement Strategies

- ▶ Improved operational efficiencies- established SOP's on content
- ▶ Developed on-line presences and sale through new distribution channels
- ▶ Changed culture from print to fast-paced digital content/publishing and professional development



**Go-to
Approach:
Case Study
Close to death
revival**

Educational Publishing Company

- ▶ Sold company to strategic buyer at 3.5 x multiple
- ▶ Asset only - technology assets and content processes
- ▶ 1 year from identification of buyer(s) to LOI to sale

**Go-to
Approach:
Case Study
Close to death
revival**

Go-to Approach: Case Study

All about the brand



Consumer goods
company



Co-founders
Husband-wife team



12 years operating
history



Strong projected
growth



Revenues of \$10
million



Experienced
management team -
non family members



Strong brand
recognition



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Consumer goods company

Exit Planning Value Enhancement Strategies

- ▶ Operational efficiencies - Six Sigma/lower production costs
- ▶ Expanded new markets - professional sales to retail presence - Strong marketing and sales
- ▶ Increased operating margins



**Go-to
Approach:
Case Study
All about the
brand**

Consumer goods company

- ▶ Sold to publicly traded company at 7 x multiple
- ▶ Cash + Stock purchase
- ▶ 2 years from discussions to sale - Competitive bids
- ▶ Couple retired comfortably with comprehensive estate plan

**Go-to
Approach:
Case Study
All about the
brand**

Go-to Approach: Value of Exit Planning Team



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Go-to Approach: Focus on Fundamentals

- ▶ Understand client
- ▶ Lead with strengths
- ▶ Multifaceted - not one size fits all
- ▶ Remember only documented processes can be transferred
- ▶ Owner Dependencies
- ▶ Continually educate