Guest,

Welcome to:

Pre-Sale Planning -- Maximize the Market Value of your Company

Presented by
Lighthouse Consulting Services, LLC
what we often find--big picture

- an established, private company ($5/10 million to $150 million) in any industry that is not optimizing its growth/profitability potential
- you and/or the company are ‘stuck’
- you and/or your partners’ personal/business goals diverge
- the growth plan (‘growth story’) in your head is not working as well as you want in reality
- dysfunction rules your family and/or your business
- you can’t hire and/or keep talented managers
what we often find--small picture

- operating performance that zigs and zags = inconsistent
- too little emphasis on profitability and too much on revenue = average to above average growth and below average margins
- rarely say 'no' to new customers/prospects and to new growth initiatives = not a lot of strategic focus
- scattershot marketing and/or sales tactics = little strategy
what we often find--small picture

- senior management team which is not empowered, or cannot make decisions = subpar decision making
- poor finance staff, controls and/or books = numbers that are usually late and not always accurate
- little in the way of financial projections = no forecasting
- no articulated strategic direction or growth story = no plan
strategic options

- sell control to a strategic buyer or private equity group (PEG) for liquidity
- sell a minority stake to PEG for liquidity/fund growth
- a dividend recap with debt, ESOP, minority equity, or cash
- a recap involving one owner buying others out with debt, ESOP, minority equity and/or cash
- accelerate the growth story using the same or new strategies
what is market value?

\[
\text{market enterprise value} = \text{EBITDA} + \text{private co add backs} \times \text{your specific market multiple}
\]

\[
\text{market equity value} = \text{long term debt (to be repaid)} + \text{EBITDA}
\]

Our work can increase both EBITDA and the multiple.
increase your market value

- decrease business risk—sign contracts with your biggest customers
- decrease business risk—reduce the company’s dependence on you
- hire smart people and keep them motivated
- favorable market size and growth rates
- favorable company size and market share
increase your market value

- lots of recurring revenue
- little revenue and/or supplier concentration
- good visibility on revenue/ebitda
- sustainability competitive advantage, inc. IP
- scalable growth story/operating leverage
- sustainable and focused growth story
increase your market value

- increase revenue/ebitda
- make sure the company is 'ready' to go
- always raise capital or sell when you don't need to
- run the company as if you are NOT selling
- credibility is critical--deliver expected financial forecasts
timing

- what are your personal goals, financial goals and risk appetite?
- where is the momentum/inflection point in the financial projections?
- what is the transaction we want (if any)?
- WHEN will it stop being a seller’s market? where are we in the economic cycle?
- are you ready for the onslaught--for due diligence?
- don’t go too soon... prepare, position and plan
- don’t wait too long... ‘this can go on forever’

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the process

1. Meet with the owners to define individual personal and financial goals, risk appetite and growth opportunities, conduct industry research to understand the directional trends.

2. Interview the senior management team to gauge its depth and quality, and attend management meetings to understand the company's culture.

3. Analyze the financial performance of the company against "increase your market multiple" (on page 8) and determine where we can increase market value (pages 9-11).

4. Create new or add to existing revenue streams, streamline overhead costs and/or reduce business risk.

5. Lead the management team through 4-6 group sessions and boil all these inputs into the financial projections that embody the growth story that you all agree to.

6. Implement the growth story and on a regular basis, and monitor/assess it, and hire the right transaction team (if appropriate).
how to hire the best team

- The transaction team should be 'center of the plate'— who do you connect with and trust the most?
- Who has the best combination of connection and/or personality fit with you, transaction experience, industry experience and specific positioning/transaction ideas we want?
- The IB and M&A lawyer are front and center—the most important hires
- Create an information package for IB's that includes historical numbers, financial projections and other info
- Our usual process is to meet with 4/6 IB's—choosing from a broad cross section of IB's creates a better result—exclusive industry focus, generalists, big firm, small firm, with/without capital markets capability, etc
**how to hire the best team**

- compare and contrast industry specific focus versus generalist ib's--e.g., auctions versus 'fire-side chats'
- give the 3 finalists time to review the information package and for q&a with us, and then bring them in for full blown presentations--they give away their best ideas for free, e.g. combine potential buyer/investor lists
- the ib will have hundreds of conversations about your company with out you--who do you trust?
- other key players are m&a lawyer, accounting, trust & estate lawyer, tax lawyer and wealth management
marketplace trends

- hot to white hot market conditions--equity and debt
  - north of $1 trillion private equity to invest--leveraged 4 times equals over $5 trillion of buying power
  - trillions of cash on public companies balance sheets (the estimates vary)
- we picked up 12 clients in the last 24 months in direct response to unsolicited offers/inquiries--we've advised clients to:
  - rapidly assemble a strategy/financial projections to respond directly
  - politely say no in favor of creating and building out the growth story to capture the additional market value themselves, and sell down the road
  - hire an investment banker to solicit interest because the offer was worthy
- the economy continues to improve
  - overall, our clients performance is strong
  - we are the busiest we have ever been in 11 years
Thank you for attending
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