

# HOW TO MAXIMIZE COMPANY VALUE

*In M&A Transactions*

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VRC

- Valuation Methodologies
- Value Drivers and Process
- Case Studies (Buyer & Seller)
- VRC Overview



# Valuation Methodologies

### Business Enterprise Value:

= Operating Value + Nonoperating Value (Cash, Notes Receivable, Etc.)

- Debt Value

= Equity Value

- Valuation Discounts (Lack of Control, Lack of Marketability)

= Adjusted Equity Value

## Operational Valuation Methodologies

1. Discounted Cash Flow Analysis
2. Market Comparable Guideline Analysis
3. Transaction Analysis
4. Cost or Adjusted Balance Sheet Analysis

## Strengths and Weaknesses of the Methodologies

### Discounted Cash Flow

- Forecast bias
- Proper measurement of working capital
- Capacity considerations
- Proper risk profile captured in discount rate

### Market Comparable and Transaction Analyses

- Fallacies in selecting earnings multiples
- Consideration of synergies
- Proper comparability adjustments

### Economic Analysis

- Real and nominal growth rates
- Interest rates
- Other economic factors

### Industry Analysis

- Industry background
- Historical and forecasted industry growth

### Company Due Diligence Analysis

- History, facilities, employees, products, markets, and competitors
- Management forecasts

### Financial Statement Analysis

- Historical & projected financial statements
- Adjusted financial statements

### Market Valuation Analysis

### Removing Nonoperational Items

- Excess property and related expenses
- Cash value of life insurance and related expenses

### Removing Nonrecurring Items

- Extraordinary legal expenses
- Stock compensation
- Extraordinary compensation
- Project related professional fees

### Eliminating Interest Expenses

### Considering Synergy Adjustments

### The Discounted Cash Flow Forecast Considers:

- Sales forecast (typically 5 to 10 Years)
- Costs and expenses
- Capital expenditures and operating working capital requirements
- Discount rate or Weighted average cost of capital (WACC)
- Terminal or residual growth rate

Defined: The weighted average of after-tax cost of equity and debt.

In order to derive a market's cost of capital, we need to approximate three components:

1. Cost of Equity
2. Cost of Debt
3. Percent of Each Component in the Capital Structure

The Cost of Debt and Cost of Equity are based upon current market inputs

The higher the Discount Rate, the lower the relative value of the entity and vice versa

Test forecasts with:

- Historical annual growth
- Industry consensus annual growth
- Comparable data
- Customer consensus annual growth
- Economic forecasts

### Database Search

- Capital IQ public and private database
- Internal proprietary database

### Review Business Descriptions and Financial Performance

### Compute Multiples and Financial Ratios for the Selected Comparables

### Adjust Multiples for Differences in:

- Size
- Financial Leverage
- Profitability
- Growth and Asset Returns

### Marketability and Liquidity, Minority and Non-Voting Discounts

- Empirical discount studies
- Court cases
- Option models:
  - ✓ Black Scholes
  - ✓ Binomial
- Control premium studies
- Specific facts and circumstances

A man in a dark suit and glasses is sitting and pointing at a tablet with a white pen. The tablet displays a dashboard with a pie chart, a bar chart, and a table. The text "Value Drivers and Process" is overlaid in the center of the image.

# Value Drivers and Process

1. Market position
2. Company perception
3. Quality of management
4. Barriers to entry
5. Company size
6. Growth potential
7. Capital adequacy
8. Diversity of customer base
9. Technology
10. Market activity and stage of market cycle

1. Efficiency of working capital
2. Profit margin changes
3. Asset utilization
4. Consistency of profitability
5. Proper financial leverage
6. Revenue changes
7. Current market and transaction multiples



# Case Studies

### From a Seller's Perspective

- Through a referral, we were approached by the owner of a professional service firm who had been negotiating with a similar, but larger, regional firm.
- After receiving an initial offer, the owner wanted us to review it and conduct a valuation analysis of the business based upon the future work the firm had developed and upon what the owner would contribute to the acquiring firm.
- The initial offer appeared reasonable, but was on the lower end of what the owner had expected. We were also concerned about the mix of up-front versus deferred purchase price payments.
- Following multiple meetings, we developed independent valuation analyses and were able to help him receive both a higher price, as well as secure a higher upfront portion of cash by showing him and the seller the real intrinsic value of the firm.

### From a Buyer's Perspective

- A regional healthcare provider was having discussions with a smaller firm within the same specialty, and with a complimentary client base. The owners of the smaller firm were reaching retirement age and wanted to sell the business, but wanted to make certain any potential purchase would be a good fit for the remaining employees.
- The provider hired VRC to provide a valuation of the smaller firm to provide information to the provider's board of directors.
- After receiving the historical financial statements and reviewing the seller's forecast, we met with the sellers to learn about the history and operations of the business. We realized that the forecast that they developed was aggressive and had a low probability of achievement.
- We valued the company from the standpoint of a strategic buyer by eliminating certain overhead and synergistic expenses and from a financial buyer's standpoint as well. This gave our client a solid foundation to negotiate.

OVER  
**2,000**  
ANNUALLY  
COMPLETED  
ENGAGEMENTS  
(2018)

OVER  
**1,300**  
GLOBAL  
PROFESSIONALS  
ACROSS FIVE  
CONTINENTS

INVOLVED IN  
**600+**  
DEALS

VALUATION OF  
DEBT & EQUITY  
OF OVER  
**3,000**  
COMPANIES &  
**5,000**  
INVESTMENTS

WE HAVE  
SERVED MORE  
THAN  
**1/2**  
OF THE  
**FORTUNE**  
**500**

NAMED  
VALUATION FIRM  
OF THE YEAR  
**7**  
CONSECUTIVE  
YEARS BY THE  
INTERNATIONAL  
M&A ADVISOR

OUR CLIENT  
BASE CONSISTS  
OF  
**1/3**  
PUBLIC  
COMPANIES

**1/3**  
PRIVATE EQUITY  
FUNDS

**1/3**  
HEDGE FUNDS  
AND BDC'S

## ABOUT VRC

[VALUATIONRESEARCH.COM](http://VALUATIONRESEARCH.COM)

**VRC**



### **Bryan Browning** Managing Director

Bryan Browning currently devotes most of his time to valuing the intellectual property, intangible assets, capital stock, and business enterprise values of both publicly traded and privately held companies. Mr. Browning is also actively involved in VRC's opinion practice, regularly working with VRC's clients assisting them with solvency, fairness, and capital adequacy opinion needs. He has significant experience providing valuations for the retail, manufacturing and distribution, food, healthcare, and financial and professional services industries. Mr. Browning also has considerable experience providing litigation support. He has testified as an expert witness in various circuit and federal courts where the valuation of assets was at issue.

Mr. Browning holds the designations of Chartered Financial Analyst (CFA) and Accredited Senior Appraiser (ASA) from the American Society of Appraisers. He holds a master's degree in economics and finance from the University of Wisconsin-LaCrosse and a bachelor's degree in economics from the University of Wisconsin-Platteville.



### **Paul Hultgren** Vice President of Business Development

Paul Hultgren is responsible for VRC's business development in Wisconsin, Minnesota, Missouri, and Texas. He has significant experience providing corporate advisory services specifically to publicly traded, privately held, and private equity firms. Prior to joining Valuation Research, Mr. Hultgren was a Founder and Director of a Milwaukee-area Private Equity and Venture Capital firm. He was also a Senior Vice President and Director of BMO Harris Bank and has extensive experience in financing, advising, and enhancing value for companies of all sizes, types, and industries.

Mr. Hultgren holds an MBA from Marquette University's Graduate School of Business, and a bachelor's in finance and marketing from Marquette University's College of Business Administration.

**THANK YOU!**

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