

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

A person wearing a blue and white striped shirt and dark trousers is sitting on a white bench. They are holding a tablet in their left hand and a white pen in their right hand, pointing at the screen. The tablet displays a dashboard with a pie chart, a bar chart, and a table. The text "Valuation Methodologies" is overlaid in the center of the image.

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 on the image in a large, black, sans-serif font.

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

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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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