

## Tools For Building Value in an Economic Downturn

Presented by  
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BKD Corporate Finance, LLC



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## BKD Corporate Finance, LLC

- Subsidiary of BKD, LLP
- FINRA-registered broker dealer
  - ❖ Investment bankers
  - ❖ Financial analysts
- Corporate finance services
  - ❖ Mergers, acquisitions, divestitures, management buyouts, recapitalizations
  - ❖ Debt & equity financing
  - ❖ Strategic options analysis



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## Breadth & Depth of Resources

- 31 practice units in 12 states
- Approximately 250 partners
- Over 2,000 employees
- 6 industry niche groups
- Clients in all 50 states & 25 countries
- End-to-end client service proposition
  - ❖ Audit & Tax
  - ❖ BKD Corporate Finance
  - ❖ BKD Wealth Advisors
  - ❖ Forensics & Dispute Consulting
  - ❖ Risk Management Group
  - ❖ Special Tax Services



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## Current Conditions

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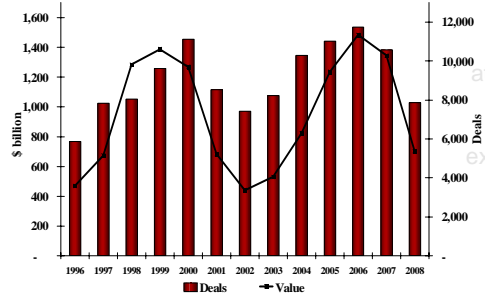
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## M&A Activity: U.S. & U.S. Cross-border Transactions



Source: Mergerstat



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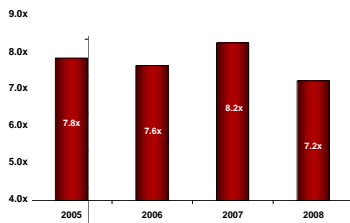
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## EBITDA Multiples

U.S. Middle Market Deal Statistics <sup>1</sup>



Source: WYCC Market Analysis

<sup>1</sup> Transactions between \$10 & \$250 million with EV/EBITDA multiples < 15x; excludes technology, media & telecom



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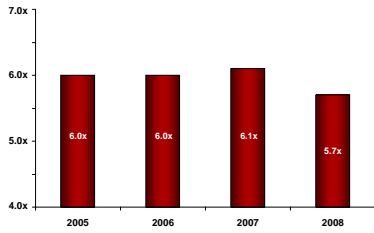
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## EBITDA Multiples

U.S. PEG Middle Market Deal Statistics <sup>1</sup>



Source: GF Data Resources  
<sup>1</sup> Transactions between \$10 & \$250 million



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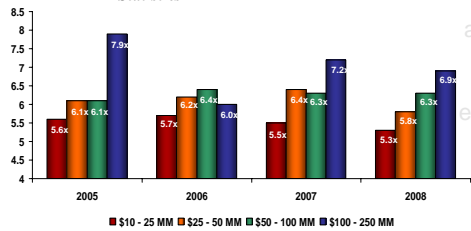
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## EBITDA Multiples

U.S. PEG Middle Market Deal Statistics



Source: GF Data Resources



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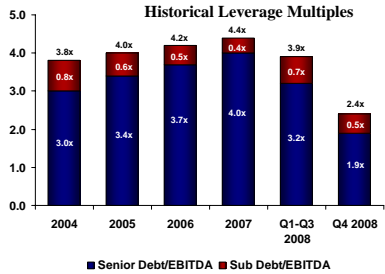
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## Credit Markets

Historical Leverage Multiples



Source: GMS&B, S&P



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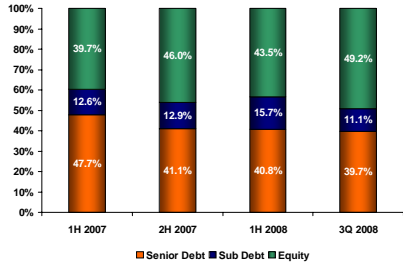
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## Credit Markets

Equity & Debt Contributions



Source: GF Data Resources



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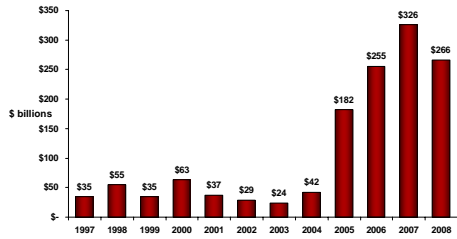
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## Private Equity Group Fundraising



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## Tools for Building Value

- Identify personal goals
- Mold strong management team
- Financial statements
- Invest in future
- Customer concentration
- Balance sheet
- Controlled ownership
- Pruning
- Think like buyer
- Timing
- Team of advisors



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## Identify Personal Goals

- Retain some ownership or complete exit
- Will impact type of buyer/investor (strategic, financial, management/employees, family)
- Will impact deal structure

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## Mold Strong Management Team

- Success of company should depend on entire organization, not a few people
- Loss of one or two key personnel should not negatively affect company
- Need strong second in command & junior level management
  - ❖ Everyone that answers to President/CEO should have known successor

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## Financial Statements

- Effective financial controls
  - ❖ Audited or reviewed financial statements
  - ❖ GAAP internal financial statements
  - ❖ Dependable accounting department
- Gives sense of security
- Lowers holdbacks

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**Invest in Future**

- Putting off needed expenses does not add value
- Make improvements & upgrades, give best appearance possible
- Also applies to management, other personnel
  - ❖ Benefits, pay package, etc.

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**Customer Concentration**

- Too much revenue with too few customers give appearance business may be risky
- 80/20 rule
- Attempt to get sales contracts or agreements
- Be prepared for holdbacks in transaction

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**Balance Sheet**

- Clean up
  - ❖ Excess working capital
  - ❖ Obsolete inventory
  - ❖ Non-essential assets
  - ❖ Loans to shareholders

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### Controlled Ownership

- Different owners = different objectives
- Beneficial to buyout minority shareholders
- Not as important in recapitalization (different topic)

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### Pruning

- Eliminate unprofitable products &/or customers
- Write off bad debt
- Sell divisions or locations if they significantly lower earnings

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### Think Like Buyer

- Very difficult
- Outsource for objective viewpoint
- Allows time to fix what might impact value later
- Should have annual 'checkups'

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**Team of Advisors**

- CPA, financial planner, M&A experienced attorney, investment banker
- Help minimize taxes, ensure legal issues are covered & amount you get is enough to meet your objectives
- Start working with team early on to cover all your bases

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**Timing**

- If selling your company is your exit plan, timing can be single most important factor to consider
- Buy low, sell high applies to business sales as well
- Time market rather than personal event

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**Why This Is Important**

- Baby Boomer effect
- Private equity
  - ❖ Soon to be sellers
- Can be long process

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**Exit Planning Time Table**

1. Prepare exit plan	6 months to 1 year
2. Execute value enhancement & tax planning	1 year or more
3. Execute exit plan	1 year
4. Transition process	1 year or more
<b>Total Time</b>	<b>3 to 7 years</b>

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**Maximizing Company Value**

- Because of increased number of companies coming into market, it is important to
  - ❖ Time exit properly
  - ❖ Improve business fundamentals & value drivers
  - ❖ Manage exit process properly

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**Maximizing Company Value**

- Operating profit margins as good or better than industry average
  - ❖ Industry benchmarking
- Sustainable, repeatable cash flow
- Clean balance sheet

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# Thank You

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