

Would You Buy Your Business?

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Intersection of Personal and Business Matters

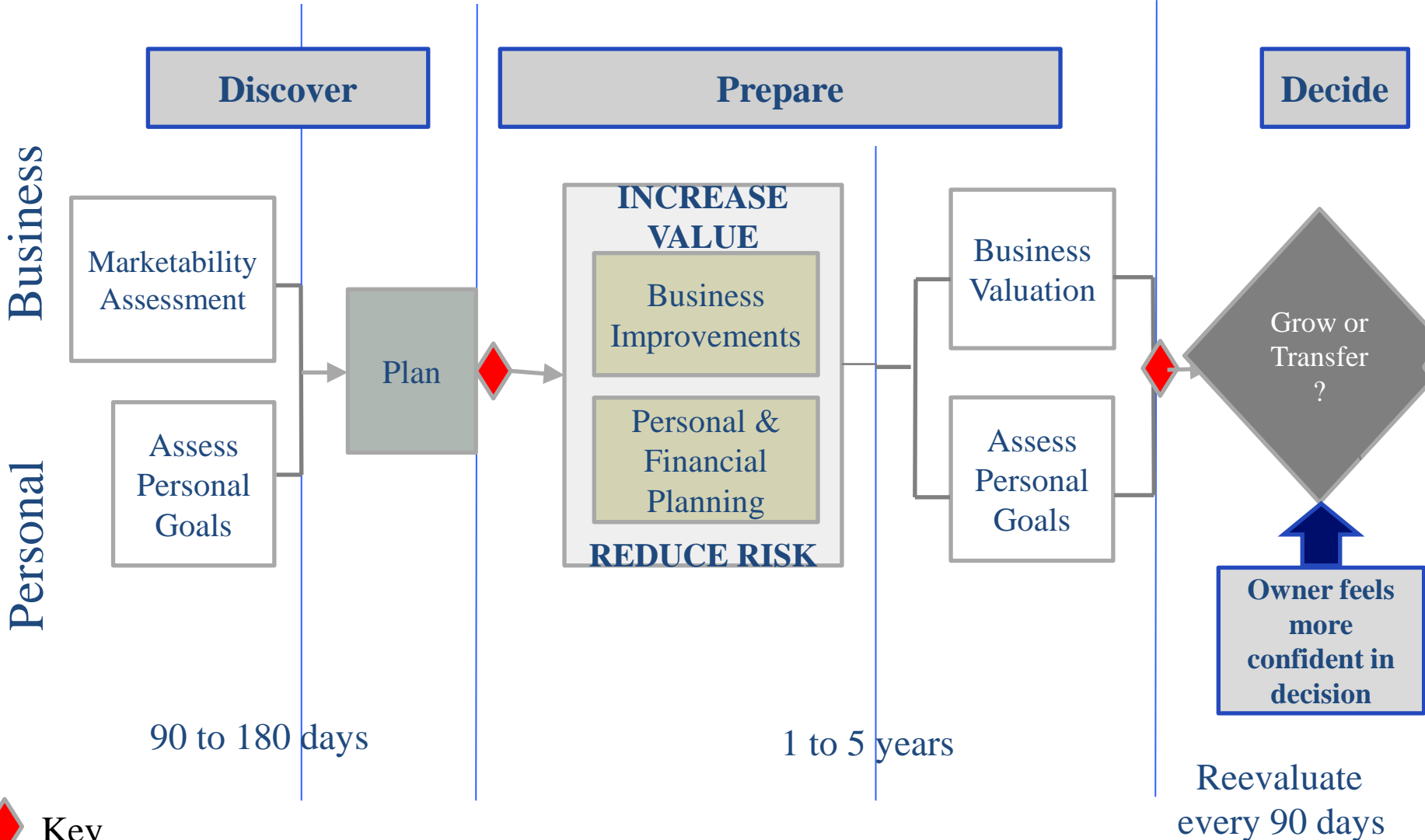
Business

- Marketability Assessment
 - Financial Performance
 - Customer Analysis
 - Market Analysis
 - Senior Management Team Analysis
 - Growth/Opportunity Analysis

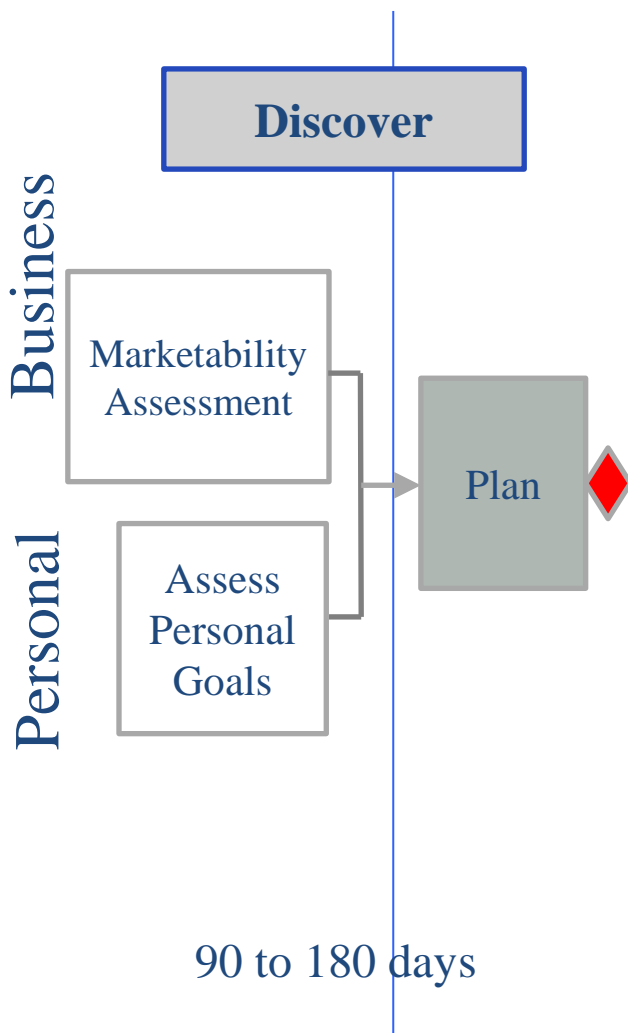
Personal

- Succession Planning
 - Discover
 - Prepare
 - Decide
- Grow or Transition?
 - You can't sell me **BUT** you can make me want to buy.

Succession Planning



Discover



Advisory team:

- CPA
- Attorney
- Insurance Advisor
- Business Valuation Expert

Develop business goals and personal goals:

- Business = maximizing value
- Personal = succession plan

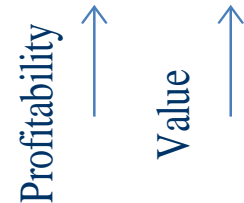
 Key Milestone

Increase Value

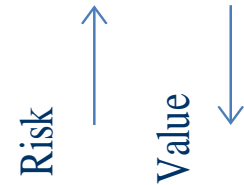


Key Value Drivers

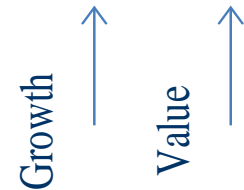
Profitability Increasing profitability leads to higher valuations in both the income and market approaches by resulting in higher cash flow to the owner in the income approach and higher income metrics in the market approach.



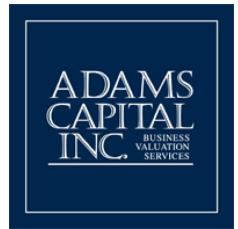
Risk Decreasing risk results in higher valuation in both the income and market approaches. In the income approach, the risk of receiving future cash flows is reduced, which increases the present value of those cash flows. In the market approach, a company with less risk will trade at or receive a higher valuation multiple.



Growth Higher potential growth leads to higher valuations in both the income and market approaches. Higher growth results in greater future cash flows in the income approach and warrants a higher multiple in the market approach.



Reduce Risk



Risk	Mitigation
Demand	Strong, documented sales pipeline
Technology	Patents, R&D budgets, and plans
Financial Risk	Hedging instruments, lines of credit, liquid assets, audit
Management Risk	Non-compete agreements, key person insurance, employee ownership
Competition	Sales contracts, recurring revenues
Legal Risk	Contracts, liability insurance, directors' insurance, settle lawsuits/disputes
Safety Risk	Safety audits, crisis contingency plans
Supplier Risk	Supply contracts, facility leases
Regulatory/Tax Risk	Good inspection/compliance records. Good tax records. Make sure all inspections and tax liabilities are current.

Discover – Would You Buy Your Business?

- Marketability Assessment
 - Can value be increased?
 - Can risk be reduced?
 - Quantify and understand current and future value
 - Develop a strategy to achieve future value

- Would you buy your business?

Marketability Assessment – Financial Performance

Financial Performance

- Trends
 - Revenue, expense, margin, and cash flow trajectory?
- Growth
 - Revenue and margin growth relative to:
 - Peers?
 - Industry?
- Revenue:
 - Recurring?
 - New Customers?
 - Predictable?

Marketability Assessment – Customer Analysis

Customer Distribution

- Are there customers in excess of 10.0% of revenues?
- Presence of customer contracts?
- What is the length of key customer contracts?
- Is there recurring revenue from current customers?
- Is there growth from new customers?

Marketability Assessment - Market Analysis

- Barriers to entry
 - What is stopping someone from entering the market?

- Market share
 - Absolute – what is your market share in the entire industry (global)?
 - Relative – what is the market share in the space you currently operate?

- Positioning/differentiation
 - What makes you different?

Marketability Assessment – Management Analysis

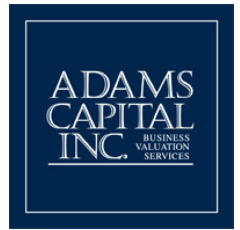
- What are the ages of the management team?
- How long has the management team been with the company? In the industry?
- Is there a succession plan in place?
- Are there non-compete and/or confidentiality agreements in place?
 - Especially with key employees?

Marketability Assessment - Growth

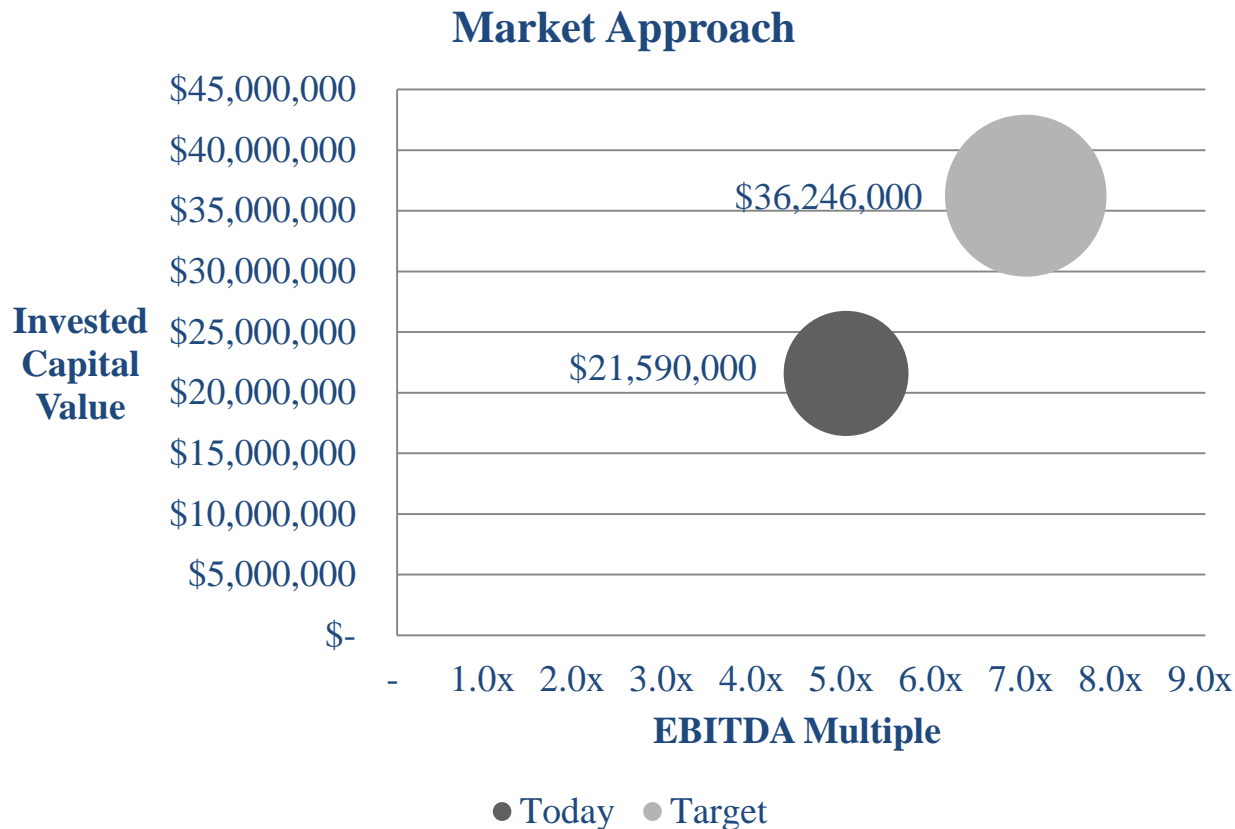
- Are there opportunities for growth?
 - New products or services?
 - New customers?

- Are there opportunities for margin improvement?

What Does a Marketability Assessment Show Us?



Shifts thinking from current income to future value



What Does a Marketability Assessment Show Us?



- Comparison to the industry and how it can drive the increase in value:

	Revenue	EBITDA	EBITDA Margin	EBITDA Multiple	Invested Capital
Today	\$ 26,403,653	\$ 4,317,997	16.4%	5.0x	\$ 21,590,000
Target	\$ 31,270,194	\$ 5,177,967	16.6%	7.0x	\$ 36,246,000
Difference	\$ 4,866,541	\$ 859,970	0.2%	2.0x	\$ 14,656,000
% Change	18.4%	19.9%		40.0%	67.9%

Grow or Transition?

Grow or Transition?

- Grow?
 - Let's get to work building shareholder value.

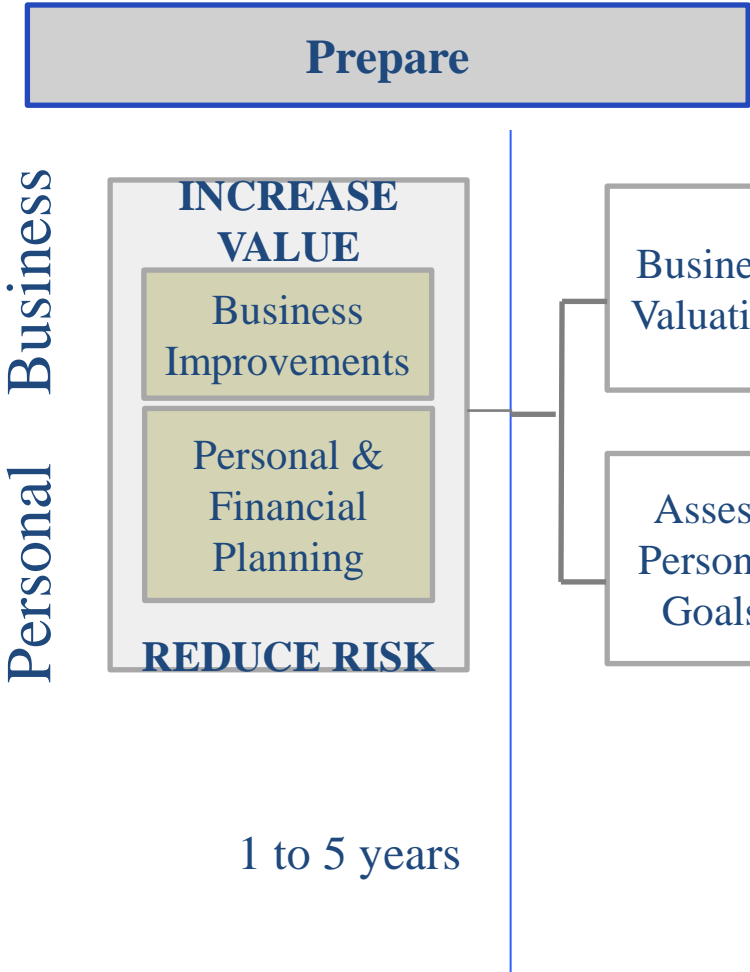
- Transition?
 - Let's get to work building shareholder value.

Either way, a better business is more valuable.

Prepare

Personal:

- Achieve estate and tax planning goals?
- Contingency planning
- Who depends on me?
- Needs vs. Wants
- Financially secure?



Business improvements:

- Draw from marketability assessment to make improvements:
- governance
- expansion
- efficiency
- culture

Utilize a full business valuation to implement estate plan

Utilize the potential improvements in the marketability assessment to increase value:

- Start with the easy improvements:
 - Patent technology
 - Non-compete agreements for the management team
 - Secure key customers
- Some improvements may be costly, but spending to realize efficiencies should result in a high return on investment
 - Invest now for future dividends
- The risk reduction stage readies business for growth, sale, or transition.

Decide

- Assess market timing, business lifecycle and personal time chart
- This is a major decision point and should be re-visited frequently
- The Marketability Assessment educates the owner and advisory team
 - Equates to informed decision making

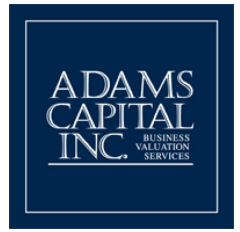
Decide

Grow or
Transition?

Reevaluate
continuously

Owner feels
more
confident in
decision

Grow?



- Risk/Reward
 - Requires time
 - Requires investment
 - Adds complexity to business and personal planning
 - Significant value increase

Transition?

- Explore and compare transition options
 - Sell or gift to the family
 - Sell to management
 - Sell portion to third party
 - Sell all to third party
 - Family succession
 - Timing
 - Now
 - Over time (tiered sale)
- Initiate transition program
 - Delegate to transition team:
 - Accountant
 - Business broker/investment bank
 - Corporate attorney
 - Business valuation expert
 - Insurance

Marketability Assessment

- Where does the marketability assessment fit?
 - **Discovery**
 - Crucial planning tool to make informed personal and business improvement decisions
 - Highlights key risk areas and ways to manage risk
 - Shifts owner focus from income to value
 - **Prepare**
 - The business valuation professional can leverage the marketability assessment for a full valuation to achieve:
 - Transaction planning
 - Estate and gift tax planning
 - **Decide**
 - Grow or Transition?

Timeline



- Discover
 - Personal and business goals 90 to 180 days

- Prepare
 - Increase value 1 to 5 years
 - Reduce risk
 - Really never ends

- Decide
 - Grow
 - TransitionReevaluate every 90 days with a deep dive annually

Where Does Adams Capital Fit?

- Leverage your professional advisors to manage ongoing process
 - Focus on being prepared for anything
 - Have the structure in place to make the decision easy
- Personal or business decision?
 - Owner first then the business
- Process is key - Decision should not matter
 - Need to plan for any decision
- Transition or Grow?
 - Positioned to do either well because you planned

Thanks!



Questions or
Comments?