

THE THRIVER, SURVIVOR AND DIVER: HOW TO IMPROVE THE VALUE OF YOUR BUSINESS

ACG Middle-Market Insights Webinar

Presented by BKD Capital Advisors, LLC

Tony Schneider, Managing Director

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ABOUT TONY SCHNEIDER







Tony joined BKD Capital Advisors (BKDCA) in 2009 and is responsible for advising clients and executing investment banking engagements, including mergers and acquisitions, debt and equity financing and strategic financial advisory services, for companies in BKD's East Region region.

Tony has more than 35 years of corporate finance experience as a middle-market investment banker. He has been the lead advisor in over \$2 billion in merger and acquisition and capital raising transactions for clients across a broad range of industries, including manufacturing and distribution, business and consumer services, food and beverage, building materials and transportation.

Tony is a graduate of Ball State University, with a B.S. degree in Finance, and earned his M.B.A. from Butler University. Tony previously served as Chairman of the Ball State University Foundation, and served on its Board of Directors for 14 years. He is a guest lecturer at Purdue University, Butler University and Ball State University. Tony is a FINRA registered investment banking representative.

END-TO-END CLIENT SERVICE PROPOSITION

- BKD is the 12th largest accounting firm in the U.S., with 40 offices in 18 states
- BKD’s advisory services and counsel meaningfully contribute to the success of deserving and driven clients
- We are passionate about helping clients drive value creation and, where appropriate, realization
- We thrive on “Monetizing Excellence”
- Wealth today... more tomorrow?
 - Prospective values are critical considerations

Mergers & Acquisitions	Transaction Services	Optics	Succession & Continuity
 <ul style="list-style-type: none"> • Strategic/Financial planning, sell-side, buy-side and capital raising transactions across multiple end markets • Helps support and drive growth initiatives • Leading middle-market sell-side advisor 	 <ul style="list-style-type: none"> • Sell-side and buy-side transaction preparedness and due diligence • Quality of Earnings analysis • Identify potential opportunities and challenges and provide insights into risk mitigation and growth opportunities 	 <ul style="list-style-type: none"> • “Bottom Up” economic modeling • Profitability unit-level segmentation analysis • Pricing sensitivity and forecasting tools to support strategic decision making 	 <ul style="list-style-type: none"> • Employee stock ownership plan, buy-side and sell-side, valuation, family office, strategic management, audit and tax services • Identify goals and connect with specially trained advisors • Identify and prioritize issues and work to implement plan



SETTING THE STAGE

- I am not a “valuation” savant
- However, I do believe that I have a unique perspective... and belief... that:
 - Valuation matters
 - Value can be created
 - Value creation requires commitment, capital and risks
- What factors influenced these fundamental views?
 - “Experience” (a/k/a I’m old)
 - The Thriver, Survivor, Diver
 - The evolution of the Private Equity industry
 - Scoreboard and the Clock
 - Play Now, Play Hard
 - Live and breathe value creation
 - The emergence of valuation advisory disciplines
 - Development of the Value Accretion Plan (“VAP”)



POLLING QUESTION #1:

HOW COMFORTABLE ARE YOU REGARDING THE STABILITY OF YOUR INDUSTRY OVER THE NEXT 5-10 YEARS?

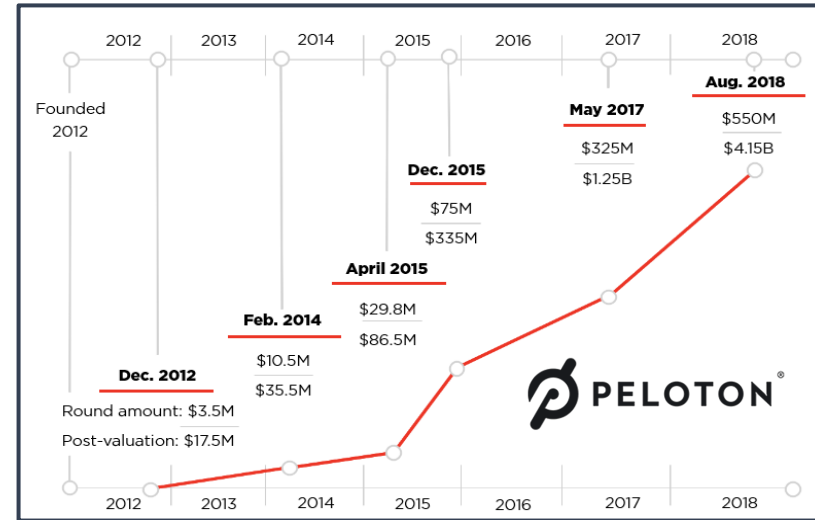
- Rapid Decline
- Modest Decline
- Stable
- Modest Ascent
- Rapid Ascent



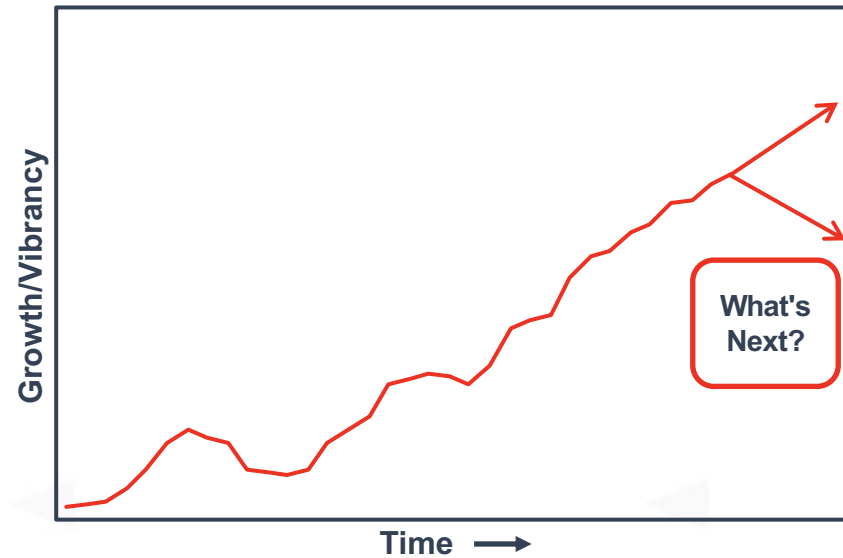
VALUATION MATTERS

- Why does your business exist?
- Valuation Matters!!
 - Whether you are a:
 - Potential Seller
 - Planned long-term or generational owner
 - Fiduciary (Legally or Implied)
 - Potential Buyer
- Measure of Success?
 - For whom? The team?
- Opportunity to support one's life goals/needs
 - Self
 - Family
 - Community
 - Society
- "Cause of a Lifetime"

Valuation Timeline



Source: PitchBook



MONETIZING EXCELLENCE

- In the big scheme of things.... I view my role with clients as helping them “MONETIZE EXCELLENCE.”
- Excellence is earned and valued. The more excellent you are, the more you are rewarded.
- Be assured, you can alter your excellence profile. I will share a few examples.

Buyers want...
<ul style="list-style-type: none">• Cash flow that is:<ul style="list-style-type: none">• High• Increasing• Durable• Safe• Consistent/Predictable• Cheap• Impactful• Strategic attributes that protect or perpetuate FCF

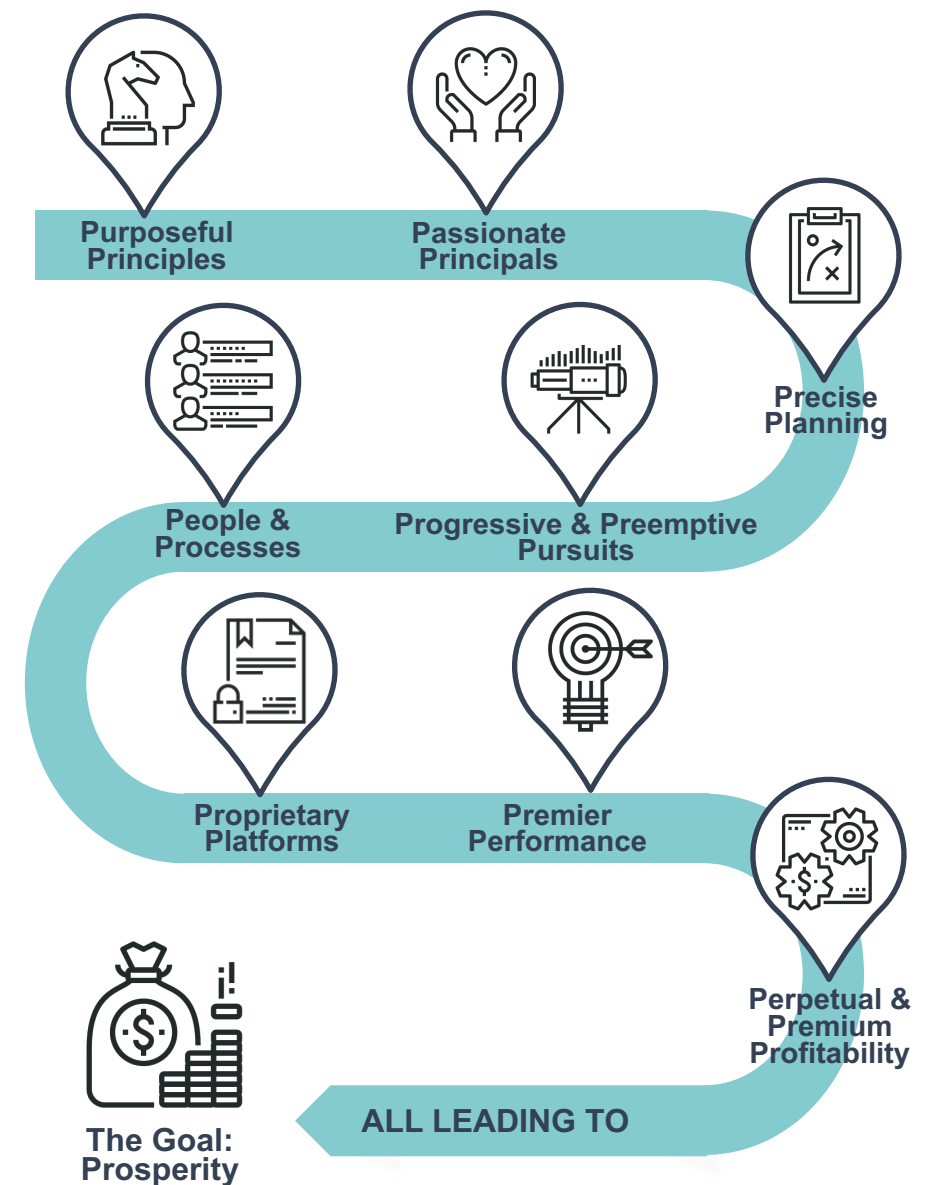
WHERE DO YOU FIT ON THE EXCELLENT METER?

Q1: Are you excellent?
Q2: Have you always been excellent?
Q3: Can you become excellent?
Q4: Can you become “more” excellent?



THE “PATHWAY TO PROSPERITY”

- There are some fundamental and common “P” terms that line the prepared company’s path toward prosperity.
- There is a fresh wave of business owners (and advisors) who have accepted the challenge to grow and prosper. They are often handsomely rewarded.
- The message continues to grow... being “persistently purposeful”... pays.



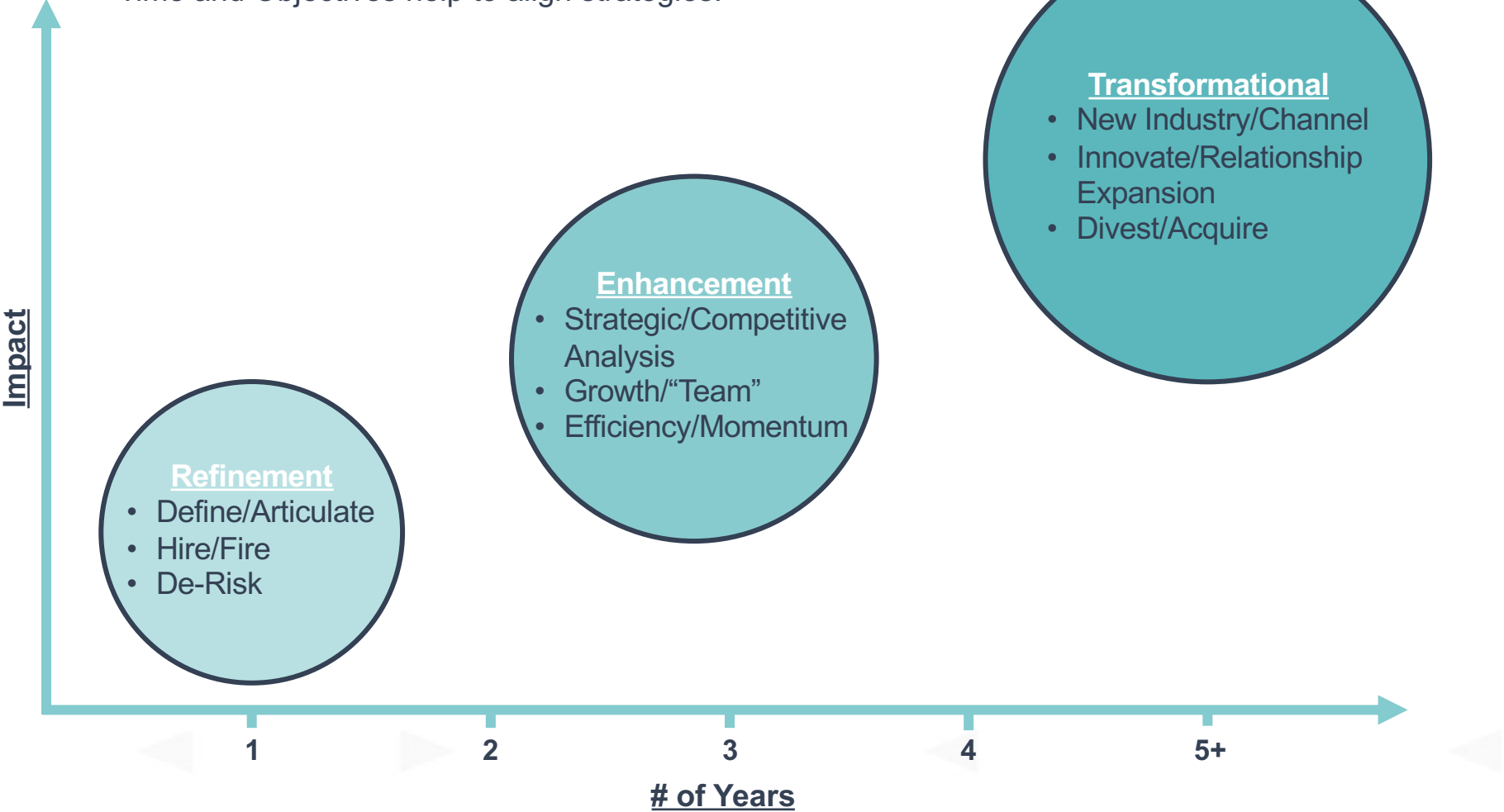
POLLING QUESTION #2:

WHAT ARE YOUR MARKET SHARE EXPECTATIONS OVER THE NEXT 1-5 YEARS?

- Meaningful Decline
- Modest Decline
- Maintain Market Share
- Modest Gains
- Meaningful Gains

VALUE CAN BE INFLUENCED

- Time and Objectives help to align strategies.



POLLING QUESTION #3:

IS ENTERPRISE VALUE A METRIC THAT YOU ASSESS IN YOUR BUSINESS?

- Never
- Rarely
- Occasionally
- Regularly



TRANSACTION SAMPLE

Industry	Mfg. – Building Products
Industry Profile	Mature/Cyclical
Company Age	50+ (Re-Made Business)
Leadership	New Leadership – Transformation Catalyst
Culture	Marketing/Cost-Control
Growth	Unmatched
Profitability	2X Industry
Reinvestment	Modest and Efficiency Driven
Future	Stable Growth



Key Catalysts of Value Creation	
Purposeful Principles	
Passionate Principals	✓
Precise Planning	
Progressive & Preemptive Pursuits	✓
People & Processes	
Proprietary Platforms	
Premier Performance	✓
Perpetual & Premium Profitability	✓



Comments:

- Family business, boldly recruited outside CEO
- Survivor, on a path of Diver... became a THRIVER
- Significant operational and new marketing emphasis

TRANSACTION SAMPLE

Industry	Industrials Service Company
Industry Profile	Emerging/Innovative Niche
Company Age	10+ (Created Business)
Leadership	Founder – Visionary/Driven; Built Premier Executive & Ops. Team
Culture	Performance/Speed & Precision Outcomes
Growth	Explosive
Profitability	3X Industry
Reinvestment	Modest (Technology); People and Talent; Scale
Future	Sky's the Limit



Key Catalysts of Value Creation	
Purposeful Principles	
Passionate Principals	✓
Precise Planning	
Progressive & Preemptive Pursuits	
People & Processes	✓
Proprietary Platforms	✓
Premier Performance	
Perpetual & Premium Profitability	✓



Comments:

- Industry expert, visionary
- Created inimitable service offering
- High impact service

TRANSACTION SAMPLE

Industry	Mfg. – Components for Industrial OEMs
Industry Profile	Mature/Cyclical
Company Age	50+
Leadership	MBO
Culture	Innovation – Engineering Prowess
Growth	Modest
Profitability	Superior - 30% EBITDA Margins
Reinvestment	Modest
Future	“Engineered” Growth



Key Catalysts of Value Creation	
Purposeful Principles	
Passionate Principals	✓
Precise Planning	
Progressive & Preemptive Pursuits	✓
People & Processes	✓
Proprietary Platforms	
Premier Performance	
Perpetual & Premium Profitability	✓



Comments:

- MBO, invested life savings
- Created process that virtually buried competitors
- Expanded product suite with adjacent components

TRANSACTION SAMPLE

Industry	Mfg. – Rubber & Plastic Components
Industry Profile	Mature/Cyclical
Company Age	50+
Leadership	L/T President; New CFO
Culture	Customer Centric; Quality
Growth	Negligible
Profitability	Committed to Enhancement
Reinvestment	Moderate
Future	New Focus on Optimization



Key Catalysts of Value Creation	
Purposeful Principles	✓
Passionate Principals	
Precise Planning	
Progressive & Preemptive Pursuits	✓
People & Processes	
Proprietary Platforms	✓
Premier Performance	✓
Perpetual & Premium Profitability	



Comments:

- Capacity challenged
- New CFO and new ERP system impetus for assessing customer profitability
- Embarked on impactful customer rationalization; 200bps margin improvements

TRANSACTION SAMPLE

Industry	Service – Residential Repair & Maintenance
Industry Profile	Steady Growth; Fragmented
Company Age	20+
Leadership	Founder President; “Inspired”; Developing
Culture	Growth; Transparent; Inclusive
Growth	Organic, Double-Digit
Profitability	25% Higher than Public Comps
Reinvestment	Modest
Future	Multi-State Provider with High Growth



Key Catalysts of Value Creation	
Purposeful Principles	
Passionate Principals	✓
Precise Planning	✓
Progressive & Preemptive Pursuits	
People & Processes	✓
Proprietary Platforms	
Premier Performance	
Perpetual & Premium Profitability	✓



Comments:
<ul style="list-style-type: none"> • Leader committed to growth • Disciplined – protect “Quality” image and superior pricing • Natural progression – infrastructure for next wave of growth

TRANSACTION SAMPLE

Industry	Consumer Electronics
Industry Profile	Dynamic; Competitive
Company Age	20+
Leadership	President was Strategic and Inclusive
Culture	Engaged; Collaborative
Growth	Superior
Profitability	Improving
Reinvestment	R&D Intensive
Future	Needed Growth to Compete



Key Catalysts of Value Creation	
Purposeful Principles	✓
Passionate Principals	✓
Precise Planning	✓
Progressive & Preemptive Pursuits	
People & Processes	
Proprietary Platforms	✓
Premier Performance	
Perpetual & Premium Profitability	



Comments:

- Culture was on my leaderboard
- Visionary and resourceful executives
- Noteworthy presence that attracted the attention of a global automation company

POLLING QUESTION #4:

HOW WOULD YOU DESCRIBE YOUR APPROACH TO VALUE ACCRETION?

- No Attention – Leadership focus is on day-to-day activities
- Incidental – Focus on earnings, which impacts value
- Moderate – Striving to advance our standing in our industry
- Aggressive – Planned, measured and managed



REFINEMENT; ENHANCEMENT; TRANSFORMATIONAL...

Aim small, miss small!



Aim big, achieve big!

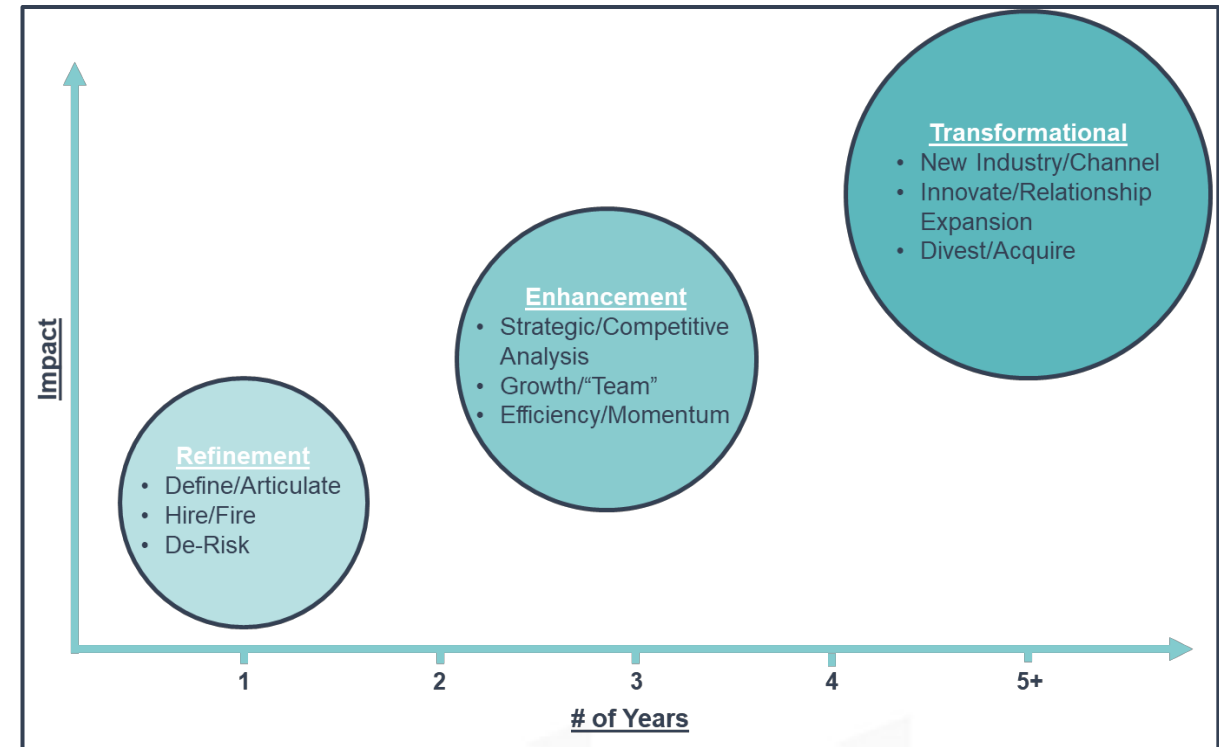
Same Process...

- Discovery
- Plan
- Execute
- Measure



...However, Different...

- Costs
- Durations
- Risks
- Outcomes



DISCOVERY

Research

Meet with professionals.

- Q1:** What is being sought in my industry? What is being valued?
- Q2:** How might the landscape change over the next few years, i.e., product development; marketing; consolidation?

Industry Assessment

Honestly assess your industry and your position/standing within it.

- Q1:** Are there emerging groups/processes/technologies that could threaten the growth and standing of the segment?
- Q2:** Who is emerging and why? Who is declining and why?
- Q3:** What, if any, transformational moves could you make to protect/enhance your position? Resources? Creativity?

Growth & Profit Drivers

What drives growth, profitability and resource deployment?

- Q1:** Do you know (not think you know) where you make money?
- Q2:** Can you enhance the value drivers?
- Q3:** Can you mitigate the value “divers?”

Team Evaluation

Carefully evaluate your team.

- Q1:** Has your vision been thoughtfully developed, articulated and embraced?
- Q2:** Do you have voids or misaligned roles in your leadership and operational personnel? Any “Team” trouble spots?
- Q3:** Prepare “the list” of 3 – 5 professionals who you would love to have on your team and what you think they would contribute.

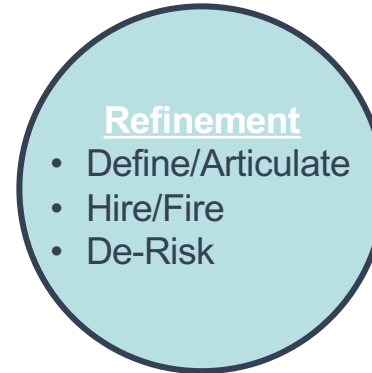
REFINEMENT (OFTEN 0-24 MONTHS)

Objectives

- Enhance value (10%+ would be common target)
 - Validate earnings
 - Show momentum; Predictability
 - Remove “noise”
- Streamline process

Common Strategies

- Build team (internal and external)
- Quality of Earnings
 - Utilize “data” deck and build upon strengths
 - Financial forecasts with reliable assumptions
- Close assessment of Positioning Statements



ENHANCEMENT (OFTEN 24-48 MONTHS)

Objectives

- Enhance Value (50%+ would be common target)
 - Comparable steps to refinement
 - Enhance relevance
 - Build momentum
 - Lower concentrations (markets, customers, employees)
 - Build team depth



Common Strategies (incremental)

- "Optics" assessment
- Fully document strategies, actions and OUTCOMES
- Invest in talent
- Customer assessment/enhancement
- Divestitures

TRANSFORMATIONAL (OFTEN 36+ MONTHS)

Objectives

- Enhance Value (2X+ would be common target)
 - Broaden earnings drivers
 - Modify strategic direction
 - Diversify the business model
 - Migration to a more valued or next-gen business
- Add longevity to your “position of power”
- Advance image of an innovative company

Common Strategies (incremental)

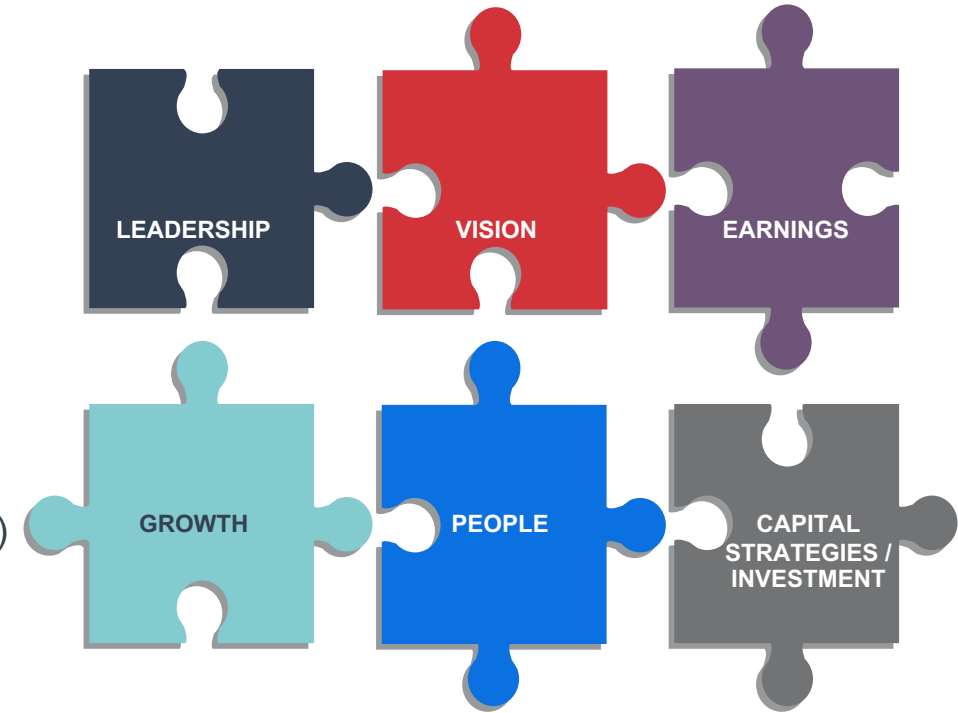
- Change or modify business model
- Enter new industries
- Advance share of wallet
- Innovative investment
- M&A



CLOSING COMMENTS

- Valuation creation rarely just happens. It must be INTENTIONAL!
 - Leadership
 - Planning
 - Commitment
- Not everyone is meant to be (or capable of) being a “Thrivers.”
- Not everyone has the talents, the resources or the risk appetite to orchestrate a Value Accretion Plan (“VAP”).
- What is the answer to the “toughest” question?
- Only you can decide if you want to make the investment(s) (and face the challenges) in pursuit of value enhancement.
- If you are, and you commit to the journey, you stand a great chance of enhancing value. Numerous others have accepted this challenge and won.
- The sooner you start, the greater the impact.

Common Constructs of a VAP



Thank You!

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