Creating Long-Term Sustainable Value

Double Your Value in 3 Years

"A trap is only a trap if you don't know about it.

If you know about it,

it's a challenge."

China Mieville, King Rat

Discussion Outline

- Building Sustainable Value
  - Know Your End Game
  - Case Study
- EBITDA x Multiple = Value
  - Understand the math and the Power of the Multiple
- How to Win the Game
  - Using the Sustainable Value Wheel

Exercise

What's the Group's Potential?

Current Company Value:

- Current EBITDA x 6:

EBITDA: $ ____________.

Multiple: X 6

Value: $ ____________.

Future Company Value:

- Future EBITDA x 8:

(EBITDA x 1.5)

EBITDA: $ ____________.

Multiple: X 8

Value: $ ____________.

Increase in Company Value: $______

Exercise

What's the Group's Potential?

Current Company Value:

- Current EBITDA x 6:

EBITDA: $ 5.0m.

Multiple: X 6

Value: $ 30.0m

Future Company Value:

- Future EBITDA x 8:

(EBITDA x 1.5)

EBITDA: $ 7.5m.

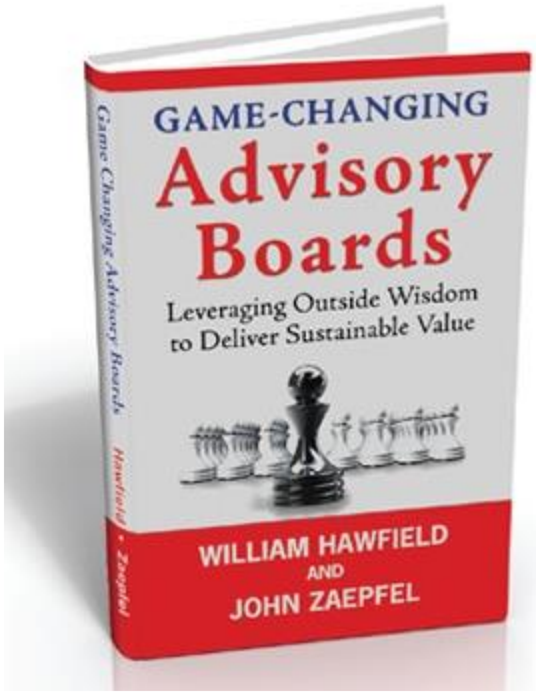
Multiple: X 8

Value: $ 60.0m

Increase in Company Value: $30.0m

The Board Group

- Based on the work of The Board Group
  - Bill Hawfield and John Zaepfel, co-authors of: Game-Changing Advisory Boards
- Experience with over 200 advisory boards
- Created over $2.2 billon in company value



Know Your End Game

There Will be a Time in the Game of Running a Business

for a

Change in Control,

and/or a Liquidity Event

- Keep Running it
  - As long as I can …
- Hand Off the business
  - To the next generation
- Sell Part of the business
  - Taking some chips off the table.
- Sell All of the business
  - And leave shortly thereafter

Sustainable Value

"The Quantifiable Trust that Investors have in a Company's Ability to Generate Long-Term Profitability, Value and Success."

Case Study of Two Companies

Back Pack, Inc.

- $60 M in revenue
- $5 M in EBITDA
- No Debt
- Growing 15%/ year
- Long customer connection
- Large stable industry: packs
- Long term management
- Family owned
- Manufacturing processes good

Plane Parts , Inc.

- $25 M in revenue
- $5 M in EBITDA
- Debt $7 Million
- Growing 20%/year
- Long customer connections
- Large, cyclical industry: Aerospace
- New/old management
- Family owned
- Strong processes

With Two Very Different Valuations

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$15 Million

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$65 Million

WHY?

Value is a Formula

What factors drive EBITDA?

x EBITDA

X Multiple

What factors drive the Multiple?

= Value

Both EBITDA and the Multiple are impacted by the factors in the Sustainable Value Wheel

Power of EBITDA x Multiple

Base Case:
EBITDA = $3.0 m
Multiple = 6 x

	Base EBITDA	+20%	+40%	+60%	+80%	+100%
Base Multiple	$18	$22	$25	$29	$32	$36
+1	$21					
+2	$24					
+3	$27					
+4	$30					
+5	$33					

Power of EBITDA x Multiple

Base Case:
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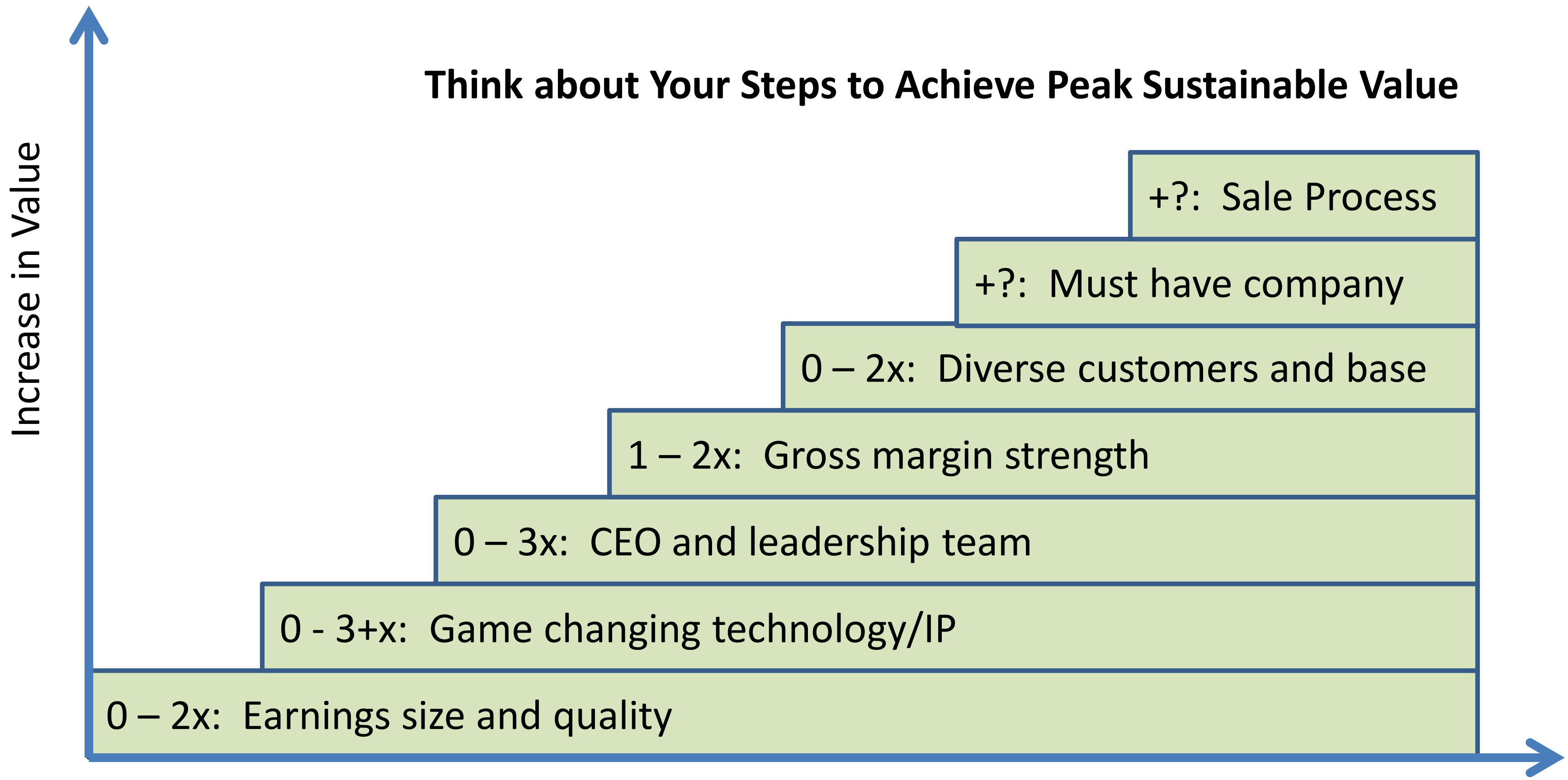
Base Multiple	$18	$22	$25	$29	$32	$36
+1	$21		$29			
+2	$24		$34			
+3	$27	$32	$38	$43	$49	$54
+4	$30		$42			
+5	$33		$46			

Value Escalators

Goal multiple of EBITDA

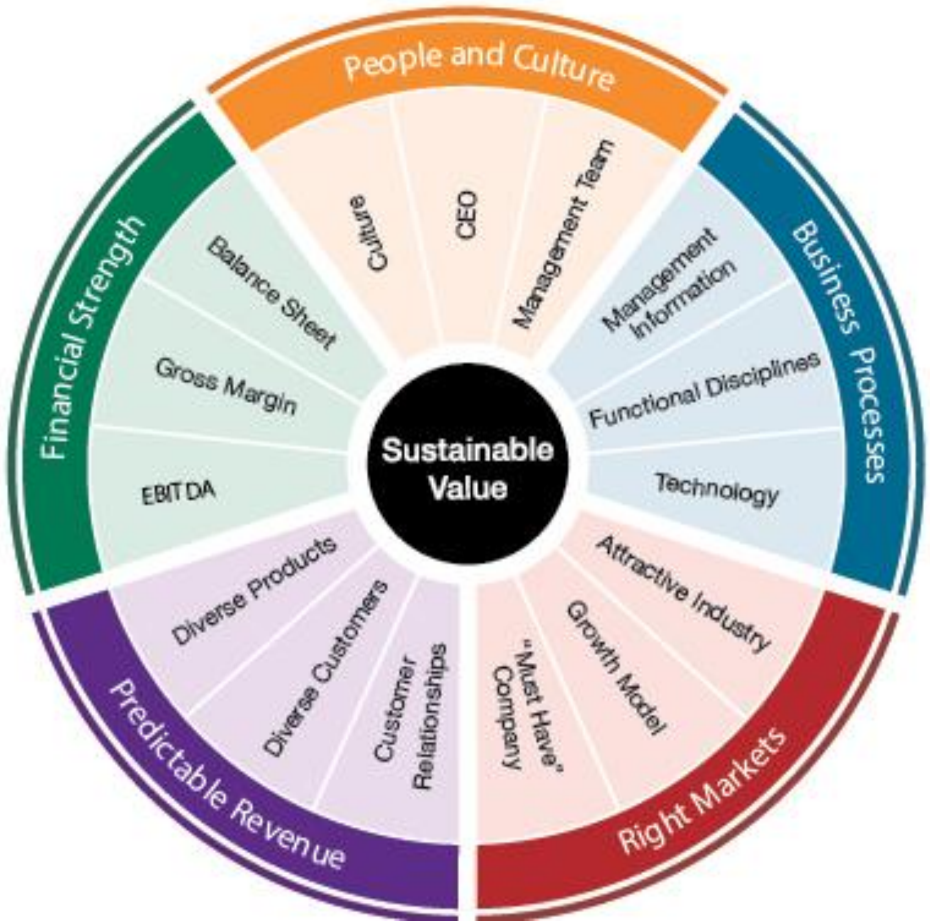


Current base multiple of EBITDA

Value Multipliers

Sustainable Value Wheel

Sustainable Value Factors



Sustainable Value Factors

People & Culture	Business Processes	Right Markets	Predictable Revenue	Financial Strength
Culture	Management Information	Attractive Industry	Customer Relationships	EBITDA
CEO	Functional Disciplines	Growth Model	Diverse Customers	Gross Margin
Management Team	Technology	“Must Have” Company	Diverse Products	Balance Sheet

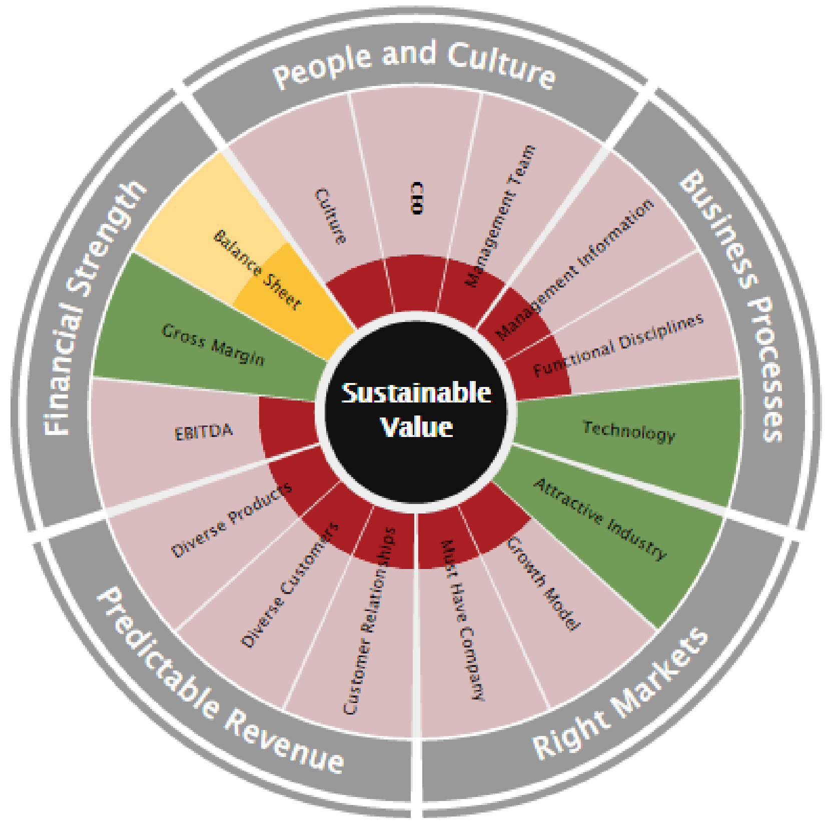
Value Factor Descriptions

	Category	Description
People & Culture	Culture	Our culture supports growth, professional management and accountability. It rewards performance and alignment with our values. People want to work here.
	CEO	Our CEO can prove to others that he/she has the skills, experience, ethics and passion to double the value of this business in the next 3 years.
	Management Team	Our team can demonstrate its success. It can convince an outside investor that it has the skills and experience to grow the business.

See page 6 in your handout for a complete set of the questions

How the Model Works

- **Green**
  - Adding Value
- **Yellow**
  - Little Value added
- **Red**
  - Detracting from Value



How the Model Works

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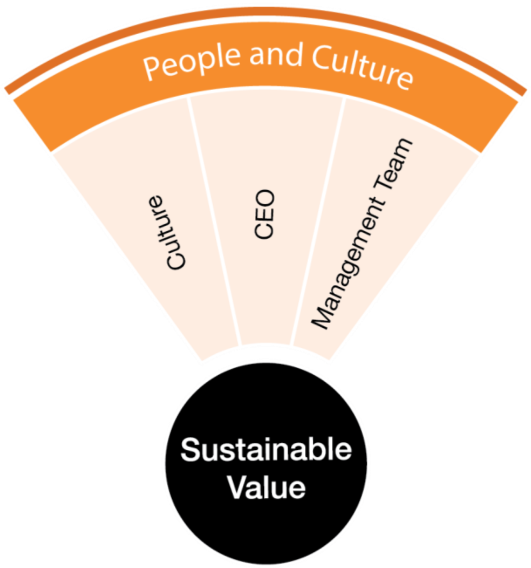
Sustainable Value Factors

Sustainable Value Factors

People & Culture

- **CEO**
- **Culture**
- **Management Team**



"Talent wins games, but teamwork and intelligence wins championships"

Michael Jordan

Sustainable Value Factors

Business Processes

- **Management Information**
- **Functional Disciplines**
- **Technology**

"If it can be measured, it can be improved."

Sustainable Value Factors

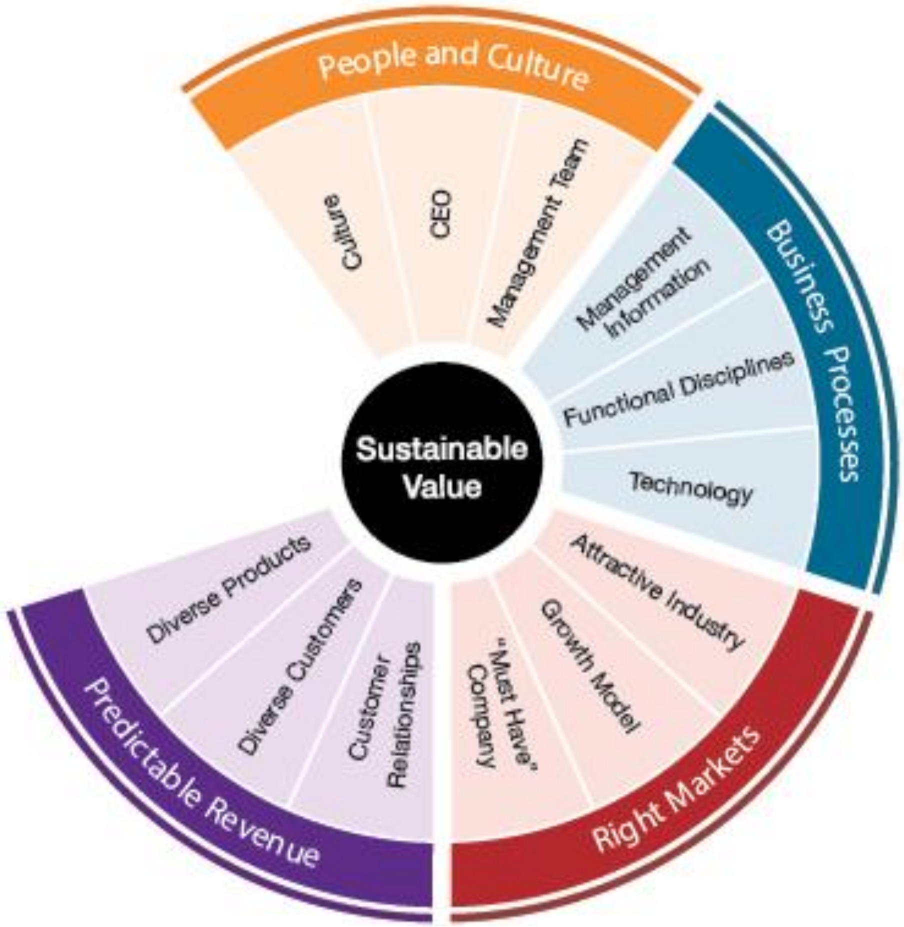
Right Markets

- **Attractive Industry**
- **Growth Model**
- **"Must Have" Company**

Sustainable Value Factors

Predictable Revenue

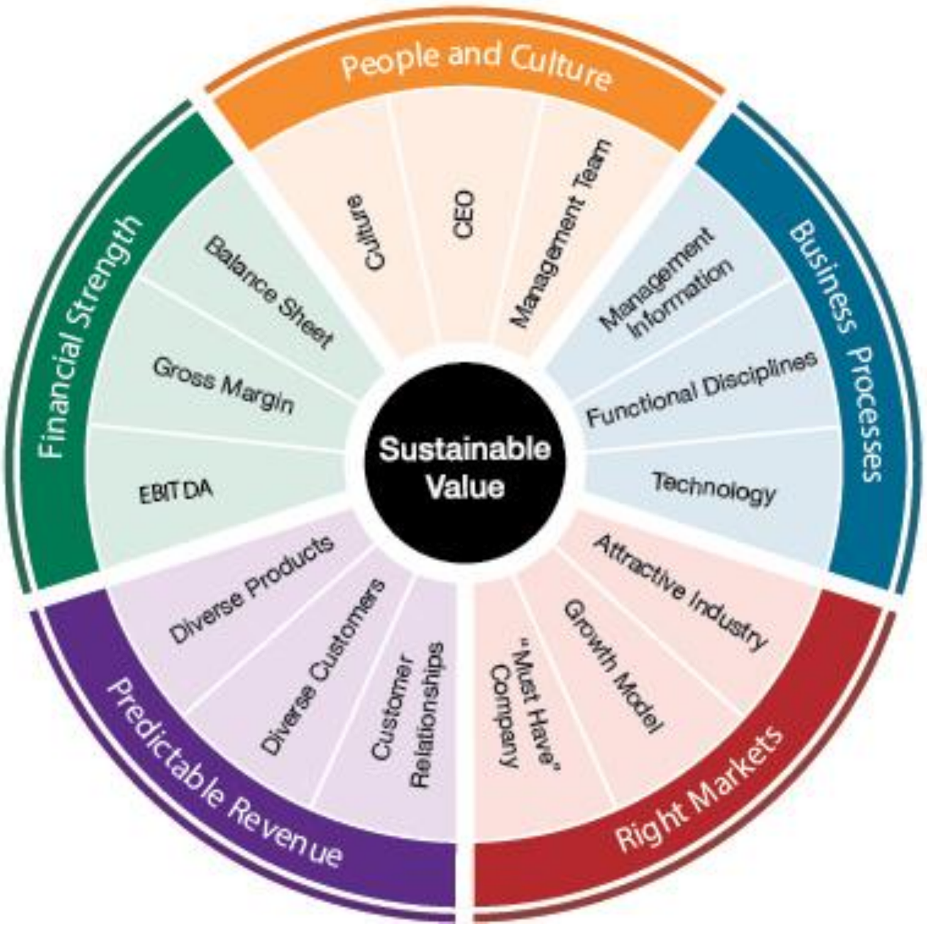
- **Diverse Products**
- **Diverse Customers**
- **Customer Relationships**



Sustainable Value Factors

Financial Strength

- **EBITDA**
- **Gross Margin**
- **Balance Sheet**

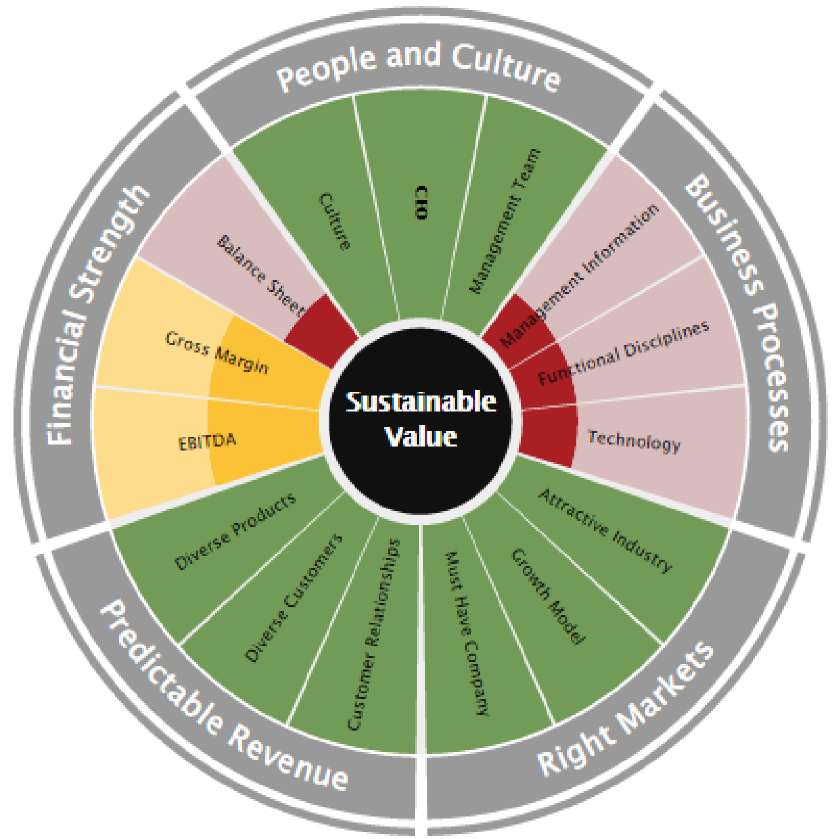


Case Study

$1.2 Billion Company

- Fast growing, added $300M this year, with low margins.

- Strengths?
- What could go wrong?
- What questions would you have of the CEO?



Case Study

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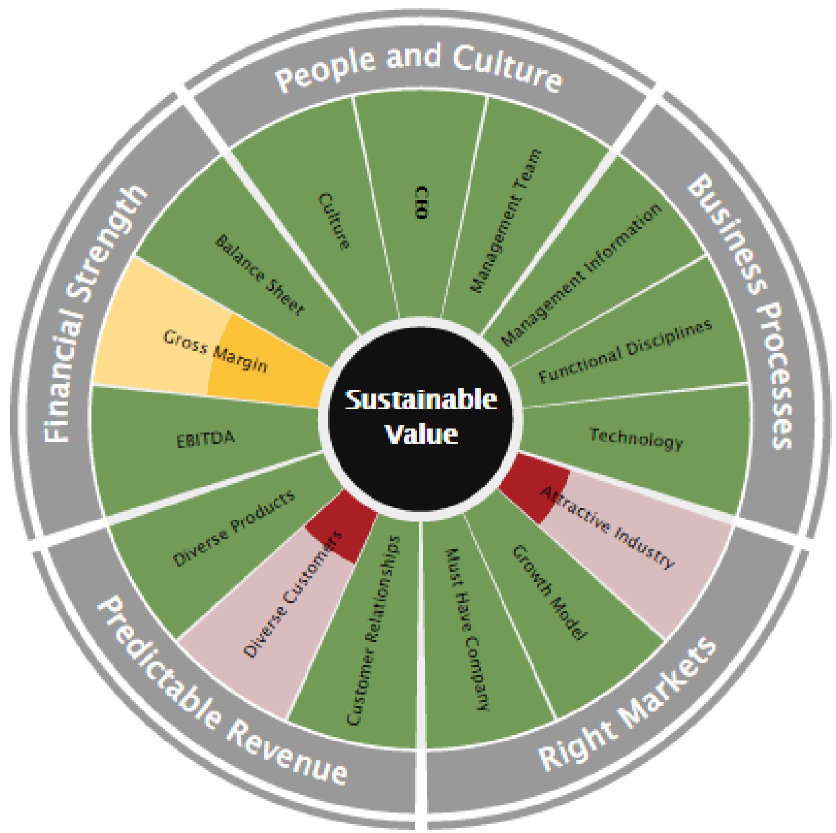
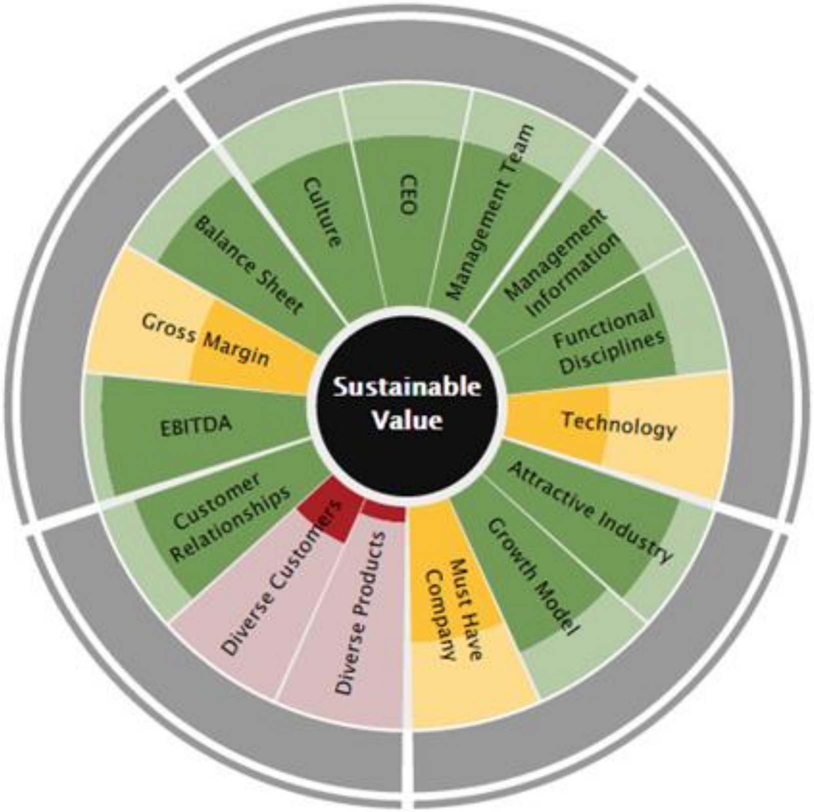
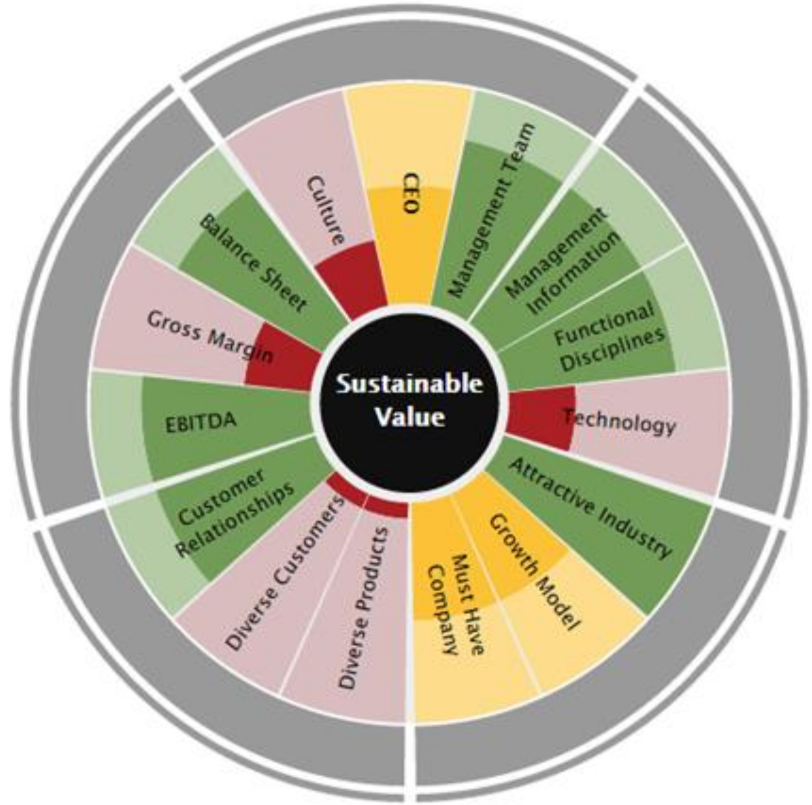


Comparing Team Members

Composite



Team Member



What Steps Can You Take?

- To Increase EBITDA
- To Increase your Multiple
  - Set up a simple action plan
  - Assign responsibility and a due date
  - Follow-up

	Value Factor	Actions to Improve	Who	When
People and Culture	CEO			
	Culture			
	Management Team			
Business Processes	Management Information			
	Functional Disciplines			
	Technology			
Right Markets	Attractive Industry			
	Growth Model			
	Must Have Company			
Predictable Revenue	Diverse Customers			
	Diverse Products			
	Customer Relationships			
Financial Strength	EBITDA			
	Gross Margin Strength			
	Balance Sheet			

Don’t Take The Journey by Yourself

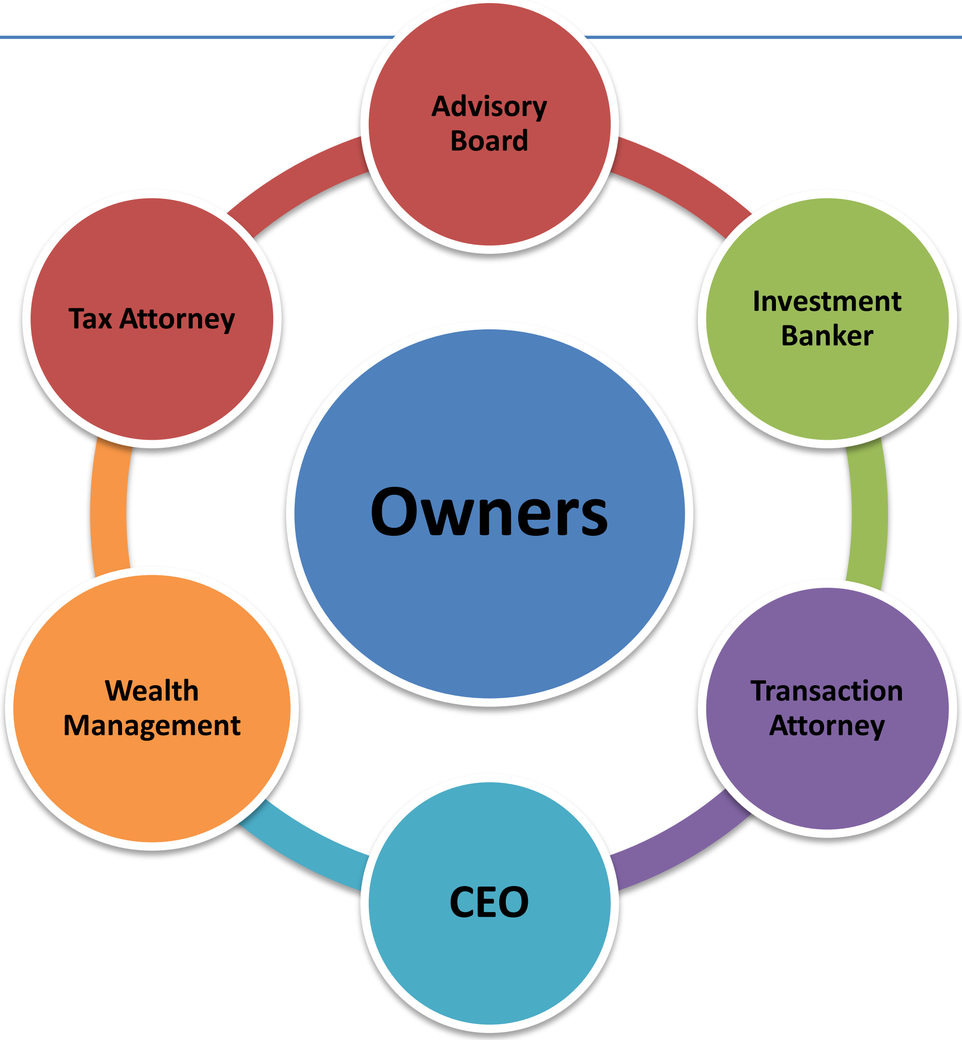
Surround Yourself with a Strong Value Building Team

If You're Going to "Hold"

The Value Building Team

If You're Going to "Exit"

The Value Creation Team



Disciplines that Drive Value

- Strategic Plan
- Operating Plan
- Compensation Plan
- KPI’s and a Dashboard
- CEO
- Mgmt Development
- Financial Information
- Management Info
- Transparency
- Alignment
- Communications
- Ethics
- Engagement
- Accountability
- Risk Levels
- Decision Making
- Board Effectiveness
- Owner Contentment

Define Your Plan

- Define your success
  - Personal, Business and Financial
- Build a game plan to deliver it
  - And get it in writing so you can keep score
- Instill financial and operational disciplines
- Build a game-breaking organization
  - Cultivate a "play hard and fair" culture
- Keep score based on facts
  - *"If it can be measured, it can be improved"*
- Avoid trouble

“The things that got you to where you are today, are not the things that will get you to the future.”

Peter Drucker

Would You Like to Take the Assessment

- Send an email to:

  Kude@TheBoardGroup.com

- I'll send you:
  - Copy of this presentation
  - Link to take the Sustainable Value Wheel assessment with your team
  - Chapter from the book that addresses the Sustainable Value Wheel

Thank You for Your Attention

"You can't cheat the game.
You have to be prepared."

Mike Krzyzewski, Duke