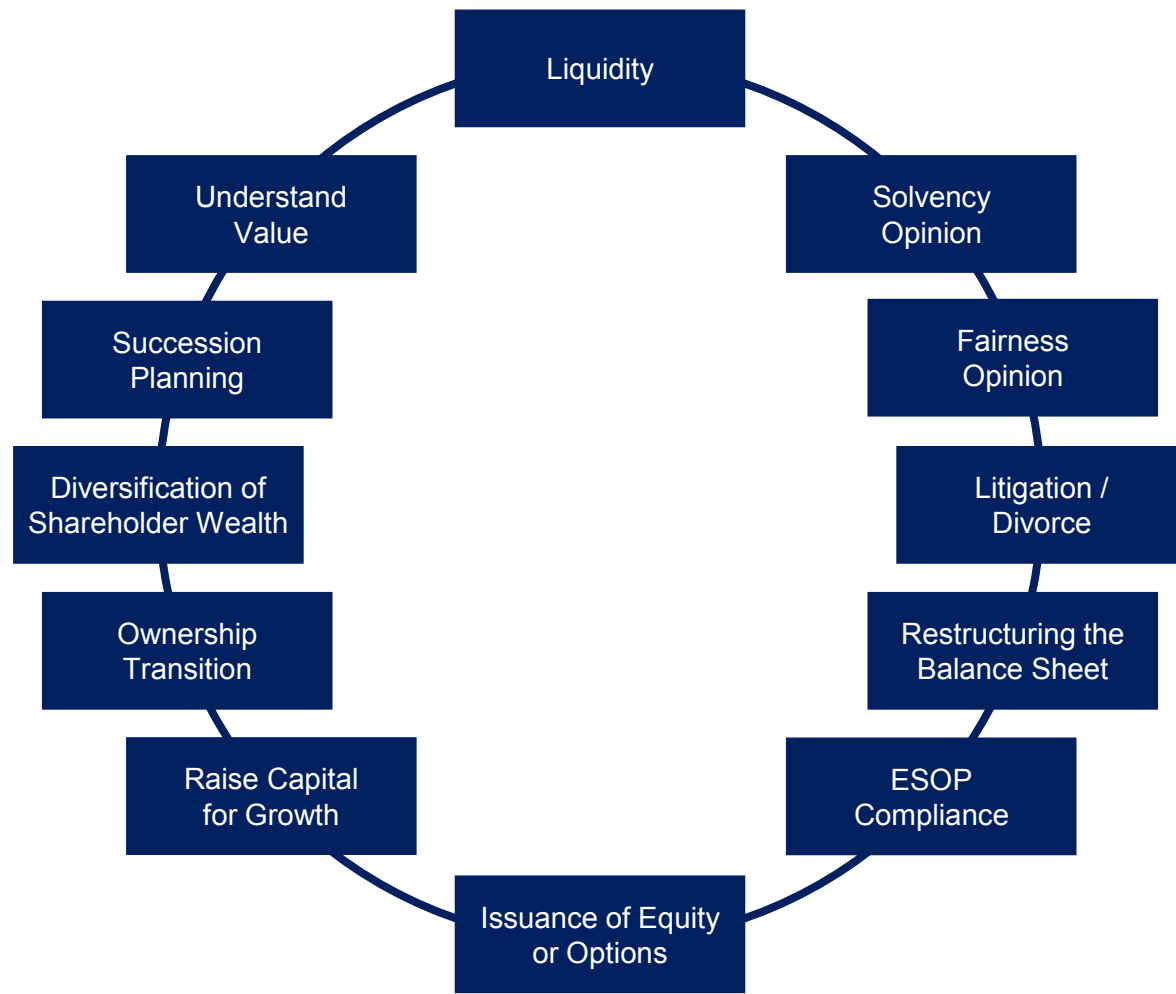


Valuation in M&A

Art versus Science

 **FOURBRIDGES**
CAPITAL ADVISORS

Use of Valuations



Valuation Methods

Income Approach

- Capitalization of income
 - Multiple of EBITDA
- Discounted cash flow (DCF)
 - Based on future cash flows discounted at the cost of capital (required rate of return)

Market Approach

- Multiples: transaction comparables
 - May overstate value given size premium
- Multiples: publicly traded comparables
 - May overstate value given size and liquidity premiums

Hybrid Approach

- Leveraged buyout (LBO)
 - Methodology used by private equity firms
 - Backs into purchase price required to achieve a target IRR

Asset Approach

- Estimated value of asset in a liquidation scenario
 - Current assets
 - Market value of fixed assets
 - Less current liabilities
 - Less debt and debt-like instruments

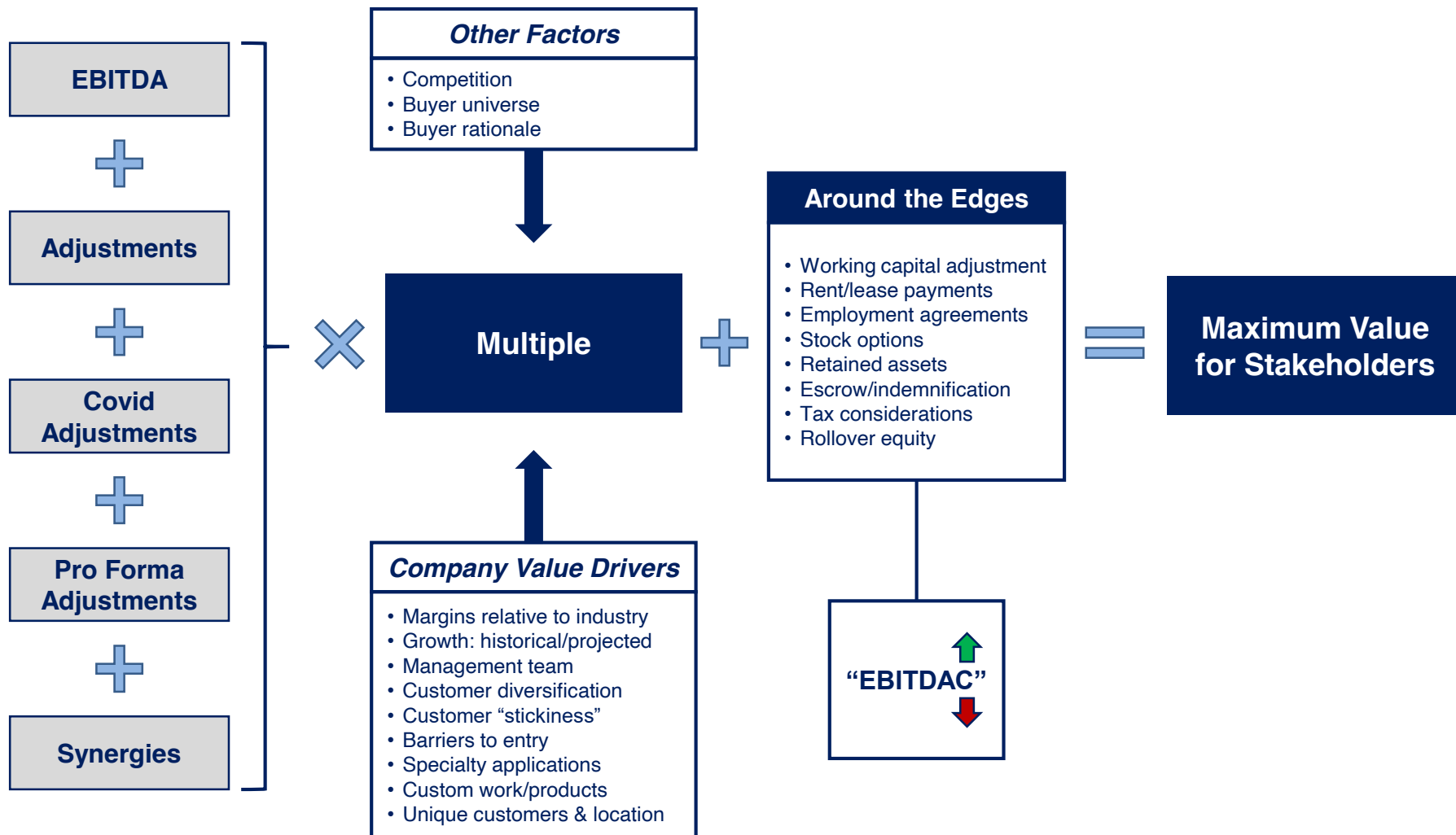
Used in M&A

Seller Perceived Valuation Formula

$$\boxed{\text{EBITDA}} \times \boxed{\text{Multiple}} = \boxed{\text{Price}}$$

“My buddy at the country club told me he sold his business for 8x”

The “Real” Valuation Formula



EBITDA and Typical Adjustments

EBITDA is Earnings Before Interest, Taxes, Depreciation, and Amortization

- EBITDA is a proxy for cash flow
- Typical adjustments to EBITDA include:
 - One-time, non-recurring expenses (e.g. settlement for unexpected lawsuit)
 - Personal expenses (e.g. the business pays for the Seller's personal boating expenses)
 - Covid adjustments to normalize the financials (e.g. lost sales due to customer shutdowns)
 - Pro forma adjustments to normalize the financials (e.g. contractual price increases)
 - Synergies (e.g. shared back office resources)
- CapEx considerations
 - EBITDA less CapEx is a better cash flow proxy for asset intensive businesses given the relatively predictable need to invest in repair and replacement of assets
 - CapEx is ultimately viewed as a drag on EBITDA and can be challenging to underwrite

Transition for Privately Held Businesses

The “Old Days”

- A family member
- A competitor
- An employee
- Liquidate

2021

- A family member
- A competitor
- An employee
- Liquidate
- Strategic buyer
- Private equity-backed strategic
- Private equity fund
- Independent sponsor
- Search fund
- Family office
- Business development company

Previous options

Modern options

Modern sellers benefit from an increasingly vast, ever more complex buyer universe.

Value Drivers and Risk Factors

Macro

Macro Factors
 Legal, Tax, and Insurance Environment

- No control
- Difficult to predict

Industry

Industry-level Factors
 Barriers to Entry

- No control
- Somewhat observable

Company

Margins Relative to Industry
 Growth (Historical and Projected)
 Management Team
 Customer Diversification
 Physical Assets
 Financial Reporting and Controls
 Customer "Stickiness"
 Advisory Team

- Ability to plan in advance and "control own destiny"
- Ability to observe and improve

Buy-Side Case Study

Section V

Case Study Overview

- FourBridges was engaged by the Client, who wanted to acquire a company that was being marketed by an investment bank
- The sell-side investment banker was running an auction process and soliciting competitive bids
- The Client viewed the acquisition as an opportunity to enter a new segment in their existing market
- FourBridges was engaged to conduct a valuation of the target. Valuation methods included:



Income Approach

- Discounted cash flow (DCF)



Market Approach

- Multiples: transaction comparables
- Multiples: publicly traded comparables



Hybrid Approach

- Leveraged buyout (LBO)

~~Asset Approach~~

- ~~Estimated value of asset in a liquidation scenario~~

Value Drivers and Risk Factors

Key Drivers and Risk Factors



Other Drivers and Risk Factors



Discounted Cash Flow (DCF) Required Return Build Up

Discount Rate Buildup

	Client	Project XYZ
Risk free rate ⁽¹⁾	3.50%	3.50%
Equity risk premium ⁽¹⁾	5.00%	5.00%
Industry risk premium ⁽¹⁾	-3.00%	-3.00%
Size premium ⁽²⁾	1.60%	5.37%
Company-specific premium ⁽³⁾		
Concentrated revenue & contribution	0.00%	0.00%
Risks of contract interruptions	0.00%	0.00%
Limited depth of management	1.00%	5.00%
Total Cost of Equity	8.10%	15.87%

An appropriate discount rate to evaluate the contemplated acquisition is likely in the range of **12% to 15%**

Footnotes

(1) Duff & Phelps

(2) Duff & Phelps based on market capitalization:

Decile	Mkt Cap	Premium
5	\$1.8 B+	1.60%
6	\$1.2-1.8 B	1.58%
9	\$50 - 300 M	2.50%
10	< \$50 M	5.37%

(3) Based on company-specific elements, freq. 2-6% for smaller companies.

DCF Example

Discount Rate Calculation	Target Return	Weight	Weighted Return		
Equity	15.0%	56.7%	8.5%		
Subordinated Debt	11.0%	8.7%	1.0%		
Senior Debt	6.0%	34.6%	2.1%		
Discount Rate		100.00%	11.54%		

	2019	2020	2021	2022	2023
PROJECTED EBITDA	\$ 2,995.2	\$ 3,264.0	\$ 3,546.2	\$ 3,842.4	\$ 4,153.1
Adjustments					
(-) Tax Distributions	11.5	(91.9)	(203.6)	(326.0)	(453.7)
(-) Change in Working Capital	(25.5)	(18.7)	(17.4)	(16.0)	(14.4)
(-) Capital Expenditures	(34.7)	(35.8)	(36.9)	(38.0)	(39.1)
Total Adjustments	(48.7)	(146.3)	(257.8)	(379.9)	(507.3)
FREE CASH FLOW TO INVESTED CAPITAL	2,946.5	3,117.6	3,288.4	3,462.5	3,645.9

CALCULATION OF TERMINAL VALUE		
2023P Cash Flow to Invested Capital		3,645.9
Long-Term Growth Rate		3.00%
Terminal Cash Flow (2023P cash flow adjusted by the growth rate)		3,755.2
Implied Multiple from Capitalization Rate		11.71
Terminal Value		43,977.3

CASH FLOWS					
Annual Free Cash Flow to Invested Capital/Equity	2,946.5	3,117.6	3,288.4	3,462.5	3,645.9
Terminal value					43,977.3
SUM OF CASH FLOWS	2,946.5	3,117.6	3,288.4	3,462.5	47,623.2
Present Value of Cash Flows	2,764	2,621	2,479	2,340	28,852
ENTERPRISE VALUE (NPV OF CASH FLOWS)					\$ 39,055

Implied purchase price

Comparable Transactions

Target (Parent / Ticker)	Acquiror / Investor	Target Description	Date Announced	Enterprise Value	LTM Financials		Enterprise Value / LTM		
					Revenue	EBITDA	Revenue	EBITDA	
<i>\$ in millions</i>									
U.S. Baking Business of the J.M. Smucker Company (NYSE:SJM)	Brynwood Partners	Brands acquired include Pilsbury baking mix, Hungry Jack pancake mix, White Lily and Martha White baking products, and Jim Dandy quick grits	Aug 2018	\$375.0	\$375.0	-	1.0x	-	-
Brazi Bites	San Francisco Equity Partners	Top U.S. producer of naturally gluten-free Brazilian style cheese bread snacks	Aug 2018	-	-	-	-	-	-
Pinnacle Foods (NYSE:PF)	Conagra Brands (NYSE:CAG)	Portfolio of grocery (e.g. Vlasic, Wish Bone, Duncan Hines), frozen (Bird's Eye) and better-for-you brands (e.g. Udi's, Glutino) can be found in 85% of U.S. households	Jul 2018	\$10,900.0	-	\$660.6	-	-	16.5x
New England Confectionery Company, Inc. (d/b/a NECCO)	Round Hill Investments, LLC (Metropoulos family)	Manufacturer of Sweetheart candies and NECCO wafers (acquired out of bankruptcy)	Jul 2018	\$17.0	-	-	-	-	-
Mademoiselle Desserts	Alphaone International	France-based manufacturer and supplier of frozen bakery products	Jul 2018	\$383.0	-	-	-	-	-
Tate's Bake Shop (The Riverside Company)	Mondelēz International, Inc. (NASDAQ:MDLZ)	Premium cookie and baked goods brand; achieved a 4x increase in sales and earnings since 2013	May 2018	\$500.0	-	-	-	-	-
U.S. Confections Business of Nestle	Ferrero S.p.A.	Acquired portfolio of 20+ brands includes BabyRuth, Butterfinger, Crunch, and Nerds ranks #3 in the U.S. candy market share behind Mars and Hershey	Mar 2018	\$2,800.0	-	-	-	-	-
Green Isle Foods Ltd.	Nomad Foods Limited (NYSE:NOMD)	Irish manufacturer and distributor of frozen pizzas under the Goodfella's Pizza brand	Mar 2018	\$276.0	-	-	-	-	-
Amplify Snack Brands (NYSE:BETR) (TA Associates)	The Hershey Company (NYSE:HSY)	Manufacturer of Skinny Pop popcorn; Amplify / Skinny Pop is the latest in a series of better-for-you snack acquisitions by Hershey including barkTHINS (2016) and Krave (2015)	Jan 2018	\$1,600.0	\$390.2	\$86.5	4.1x	18.5x	-
Snyder's-Lance	Campbell Soup Company	Owns numerous packaged snack brands including Snyder's of Hanover, Lance, Kettle Chips, Cape Cod, Late July and Pop Secret	Jan 2018	\$6,000.0	\$2,222.2	\$281.7	2.7x	21.3x	-
Sandwich Bros. of Wisconsin	Conagra Brands (NYSE:CAG)	Milwaukee-based provider of better-for-you prepared frozen sandwiches, from Kangaroo Brands	Jan 2018	-	-	-	-	-	-
Raybern Foods (TSG Consumer Partners)	Premium Brands Holdings	Provider of pre-packaged sandwiches	Dec 2017	-	-	-	-	-	-
Ferrara Candy Company, Inc (L Catterton)	Ferrero S.p.A.	Global candy company	Nov 2017	-	-	-	-	-	-
Bob Evans Farms (excluding restaurant division)	Post Holdings, Inc. (NYSE:POST)	Producer and distributor of prepared foods for grocery retailers	Oct 2017	\$1,500.0	-	\$107.1	-	-	14.0x

Comparable Transactions

Target (Parent / Ticker)	Acquiror / Investor	Target Description	Date Announced	Enterprise Value	LTM Financials		Enterprise Value / LTM	
					Revenue	EBITDA	Revenue	EBITDA
<i>\$ in millions</i>								
Back to Nature Foods Company (Brynwood Partners)	B&G Foods (NYSE:BGS)	Provider of natural and non-GMO snack foods	Sep 2017	\$162.8	\$80.0	\$17.0	2.0x	9.6x
AdvancePierre Food Holdings, Inc. (NYSE: APFH)	Tyson Foods, Inc. (NYSE: TSN)	Producer and distributor of ready-to-eat sandwiches, sandwich meats, and snacks	May 2017	\$4,200.0	-	\$300.0	-	14.0x
Atkins Nutritional Holdings (Roark Capital)	The Simply Good Foods Company (NasdaqCM: SMPL)	Manufacturer and marketer of low-carbohydrate packaged foods of the Atkins diet	May 2017	\$856.0	-	\$73.8	-	11.6x
Fannie May Confections Brands (1-800-FLOWERS.COM) (NasdaqGS: FLWS)	Ferrero S.p.A.	Producer of gourmet chocolates, fudges, and candies	Apr 2017	\$115.0	-	-	-	-
THANASI Foods	Conagra Brands, Inc.	Manufacturer of snack foods	Apr 2017	-	-	-	-	-
Uncle Wally's Bake Shoppe	Give & Go (Thomas H. Lee Partners)	Pure-play producer and marketer of muffins; key supplier of branded and private label products for in-store bakery programs in the grocery, club and superstore channels	Feb 2017	-	-	-	-	-
Hill & Valley, Inc.	J&J Snack Foods Corp. (NasdaqGS:JJSF)	Provider of cakes, cookies, pies, and other desserts and a leader in the sugar free category	Feb 2017	\$31.0	\$44.3	-	0.7x	-
Nustef Foods Limited	The Riverside Company	Provider of Italian-inspired pizelle waffle cookies and artisan crackers marketed under the Reko brand	Feb 2017	-	-	-	-	-
Love & Quiches Ltd.	Indulge Desserts Holdings (AUA Private Equity)	Provider of gourmet desserts and quiches	Feb 2017	-	-	-	-	-
Delacre	Ferrero S.p.A.	Comprises the Delacre and Delichoc biscuit brands	Jan 2017	-	-	-	-	-
Nothing Bundt Cakes	Levine Leichtman Capital Partners	Franchisor of gourmet bakeries	Nov 2016	-	-	-	-	-
Wetzel's Pretzels (Levine Leichtman Capital Partners)	CenterOak Partners	Owner and franchisor of soft pretzel stores	Oct 2016	-	-	-	-	-
Metcalfe's skinny Ltd.	Snyder's-Lance, Inc. (Nasdaq-GS: LNCE)	UK based marketer of ready-to-eat popcorn	Oct 2016	-	-	-	-	-
Tyrrells Potato Crisps	Amplify Snack Brands (NYSE:BETR)	UK based marketer of hand cooked potato crisps	Sep 2016	\$390.0	-	\$23.8	-	16.4x

Comparable Transactions

Target (Parent / Ticker)	Acquiror / Investor	Target Description	Date Announced	Enterprise Value	LTM Financials		Enterprise Value / LTM	
					Revenue	EBITDA	Revenue	EBITDA
<i>\$ in millions</i>								
Lawler Foods, Ltd.	The Original Cakerie, Ltd.	Provider of gourmet cheesecakes, cakes and pies	Aug 2016	-	-	-	-	-
Dianne's Fine Desserts	Geneva Glen Capital	Provider of frozen thaw-and-serve desserts to the foodservice industry and in-store bakeries	Jul 2016	-	-	-	-	-
Krispy Kreme Doughnuts, Inc. (NYSE:KKD)	JAB Holdings	Retailer and wholesaler of doughnuts, coffee and other complementary beverages, and packaged sweets	Jun 2016	\$1,350.0	-	-	-	-
Superior Cake Products (New England Capital Partners)	Hostess Brands (Apollo Global Management and Metropoulos & Co.)	Producer of distinctive sweet baked goods including premium iced cookies, éclairs, madeleines and brownies; markets its products on a branded and private label basis within the in-store bakery departments of grocery chains, club stores and superstores	Jun 2016	-	-	-	-	-

High	\$10,900.0	\$2,222.2	\$660.6	4.1x	21.3x
Average	1,875.3	628.3	196.8	2.3x	14.7x
Median	678.0	382.6	107.1	2.4x	14.0x
Low	17.0	44.3	17.0	0.7x	9.6x

Sources: Capital IQ, BusinessWire, Company filings

Comparable Transactions Conclusions

Based on available comparable transactions and observed and estimated size premiums, the valuation range is **\$30.0M to \$35.8M**

Comparable Multiple

Median EV / EBITDA Multiple from M&A Comps: **14.0x**

Less: Size Premium Discount ⁽¹⁾ -2.2x

Less: Size Premium Discount ⁽²⁾ -0.5x

Comparable EV / EBITDA Multiple: 11.3x

← Appropriate for Project XYZ size

Valuation Summary

\$ in millions

EV / EBITDA Multiple		10.3x	10.8x	11.3x	11.8x	12.3x
Implied Enterprise Value ⁽³⁾	\$2.9	\$30.0	\$31.4	\$32.9	\$34.3	\$35.8

Footnotes

(1) Based on GF Data observed size premium for \$25M to \$50M deals versus \$100M to \$250M deals

(2) Based on FourBridges estimated size premium for \$100M to \$250M deals versus \$500M+ deals

(3) Based on 2018E Adjusted EBITDA

Publicly Traded Comparables

(\$ in millions)

Company Name	Market Cap	Enterprise Value	Enterprise Value /			Forward P/E Ratio	Gross Margin %	EBITDA Margin %
			Revenue	EBITDA	EBIT			
Food Production								
Nestlé S.A.	\$252,825	\$283,247	3.1x	14.9x	17.8x	20.2x	50%	20%
Unilever N.V.	\$151,889	\$180,891	3.0x	15.3x	17.8x	20.5x	42%	20%
The Kraft Heinz Company	\$73,155	\$104,149	4.0x	12.8x	14.6x	16.1x	38%	31%
Mondelez International, Inc.	\$61,830	\$80,760	3.1x	15.2x	18.0x	16.9x	40%	18%
Danone	\$51,054	\$67,043	2.3x	10.8x	12.9x	17.9x	49%	18%
General Mills, Inc.	\$26,862	\$43,409	2.8x	12.7x	15.4x	14.8x	35%	21%
Tyson Foods, Inc.	\$21,846	\$34,095	0.8x	7.7x	9.7x	10.5x	13%	10%
Associated British Foods plc	\$24,989	\$31,843	1.3x	10.2x	14.7x	17.9x	23%	12%
Grupo Bimbo, S.A.B. de C.V.	\$9,996	\$27,065	1.0x	8.5x	12.0x	25.7x	53%	12%
Kellogg Company	\$24,718	\$24,939	2.6x	10.6x	12.4x	15.8x	40%	23%
The Hershey Company	\$20,374	\$24,522	3.2x	12.8x	14.9x	17.8x	46%	25%
ConAgra Foods, Inc.	\$14,377	\$22,362	2.3x	11.4x	13.5x	16.4x	30%	19%
George Weston Limited	\$10,291	\$20,828	0.7x	8.7x	13.7x	14.1x	31%	8%
Hormel Foods Corporation	\$19,692	\$20,245	2.2x	14.8x	16.6x	20.2x	21%	14%
JBS S.A.	\$6,158	\$18,635	0.4x	6.0x	9.6x	7.2x	15%	7%
Campbell Soup Company	\$12,711	\$18,145	2.8x	11.3x	13.7x	17.2x	37%	24%
The J. M. Smucker Company	\$12,568	\$17,208	2.3x	10.3x	13.6x	13.3x	39%	23%
McCormick & Company, Incorporated	\$15,858	\$14,766	4.0x	19.4x	22.0x	23.9x	43%	20%
Saputo Inc.	\$12,213	\$14,330	1.6x	15.4x	19.3x	21.7x	10%	10%
Pilgrim's Pride Corporation	\$4,345	\$13,329	0.6x	5.3x	6.9x	8.7x	12%	11%
Post Holdings, Inc.	\$6,262	\$6,403	2.2x	11.6x	17.6x	18.4x	30%	19%
Flowers Foods, Inc.	\$4,104	\$4,900	1.2x	11.5x	17.2x	17.9x	48%	11%
The Hain Celestial Group, Inc.	\$3,089	\$5,040	1.3x	14.4x	19.6x	23.4x	19%	9%
Fresh Del Monte Produce Inc.	\$1,901	\$4,055	0.6x	13.4x	23.5x	15.3x	7%	5%
ARYZTA AG	\$930	\$3,870	0.7x	6.5x	32.9x	10.8x	17%	9%
Treehouse Foods, Inc.	\$2,767	\$3,721	0.8x	9.5x	18.2x	20.0x	17%	9%

Source: Capital IQ

Publicly Traded Comparables

(\$ in millions)

Company Name	Market Cap	Enterprise Value	Enterprise Value /			Forward P/E Ratio	Gross Margin %	EBITDA Margin %
			Revenue	EBITDA	EBIT			
Lancaster Colony Corporation	\$4,057	\$2,827	3.2x	19.3x	22.3x	29.0x	25%	17%
B&G Foods Inc.	\$2,044	\$2,621	2.4x	12.5x	14.8x	14.5x	27%	19%
J&J Snack Foods Corp.	\$2,698	\$2,573	2.2x	15.7x	21.7x	28.8x	30%	14%
Sanderson Farms, Inc.	\$2,330	\$2,563	0.6x	4.3x	5.6x	21.7x	17%	14%
Tootsie Roll Industries Inc.	\$2,030	\$1,934	3.7x	20.6x	25.8x	0.0x	36%	18%
Lotus Bakeries NV	\$2,479	\$2,003	4.2x	21.6x	24.3x	31.2x	39%	20%
Cal-Maine Foods, Inc.	\$2,281	\$1,958	1.3x	8.1x	10.4x	19.4x	24%	16%
Dean Foods Company	\$780	\$1,624	0.2x	5.6x	13.1x	21.8x	23%	4%
Calavo Growers Inc.	\$1,694	\$1,715	1.6x	22.8x	27.5x	29.7x	11%	7%
John B Sanfilippo & Son Inc.	\$875	\$970	1.1x	13.9x	17.7x	19.0x	16%	8%
Seneca Foods Corp.	\$278	\$636	0.5x	26.3x	NM	0.0x	5%	2%
Food Production Median	\$6,262	\$14,330	2.2x	12.4x	16.0x	17.9x	30%	14%

Source: Capital IQ

Private Equity Transaction Leveraged Buyout (LBO) Example

Capital Structure				Int. Rate	Ownership	Term	Points	Fees	Amort.
Sources:	Amount	Multiple of EBITDA	Percent						
Cash	\$0.0	0.00x	0.0%	2.0%					
Bank Revolver	1,454.0	0.50x	4.3%	6.0%		3.0	1.50%	\$21.8	\$7.3
Bank Term Loan	10,178.0	3.50x	30.3%	6.0%		5.0	1.00%	101.8	20.4
Subordinated Note	2,908.0	1.00x	8.7%	11.0%	0.0%	5.0	1.50%	43.6	8.7
Rollover Equity (non-cash)	0.0	0.00x	0.0%		0.0%				
Sponsor Equity	19,069.2	6.56x	56.7%		100.0%	5.0		0.0	-
Total Sources	\$33,609.2	11.56x	100.0%		100.0%			\$167.2	\$36.4
Uses:									
Cash to sellers	\$31,670.5								
Growth Capital	0.0								
Subordinated Note	0.0								
Other Long Term Liabilities	0.0								
Rollover Equity (non-cash)	0.0								
Refinance Existing Debt	601.0								
Financing Fees	167.2								
Transaction Expenses @ 3.5%	1,170.5								
Total Uses	\$33,609.2								

Implied value
at 25% IRR

Transaction Structure	
2018 EBITDA	\$2,908.0
Purchase Multiple	11.5x
Enterprise Value	\$33,442.0
Less: Debt	(601.0)
= Asset Value	\$32,841.0

Rollover Equity Calculation	
Sponsor Equity	\$19,069.2
x Rollover Equity Ownership Percentage:	0.0%
+ (1 - Rollover Equity Ownership Percentage)	100.0%
= Rollover Equity	\$0.0

Goodwill Calculation: Asset Purchase	
Purchase of Assets	\$33,442.0
Less: FMV of Fixed Assets	(82.0)
Less: Current Assets	(6,223.0)
Less: Noncurrent Assets	(255.0)
Plus: Assumed Current Liabilities	3,541.0
Plus: Assumed LT Liabilities	--
= Total Goodwill Created	\$30,423.0

Summary Financial Ratios			
	PF 2018	2019	2020
EBITDA	\$2,908.0	\$3,198.8	\$3,722.7
EBITDA/Cash Interest	2.9x	3.3x	4.4x
EBITDA-CapEx/Cash Interest	2.8x	3.3x	4.4x
Senior Debt/EBITDA	4.0x	3.0x	2.0x
Total Debt/EBITDA	5.0x	3.9x	2.7x
Equity as % of Total Capitalization	56.7%	60.4%	66.0%
Cumulative Bank Debt Paydown		Year 6	Year 7
		100.0%	100.0%

Returns Summary to Financial Sponsor			
EBITDA Exit Multiple:	4 Year	5 Year	6 Year
10.0x	23.3%	22.6%	21.9%
11.0x	26.5%	25.0%	23.7%
12.0x	29.4%	27.2%	25.4%

LBO Conclusions

The valuation range based on what a private equity buyer might bid (and making certain assumptions outlined below) is **\$30.5M to \$33.4M**

\$ in millions

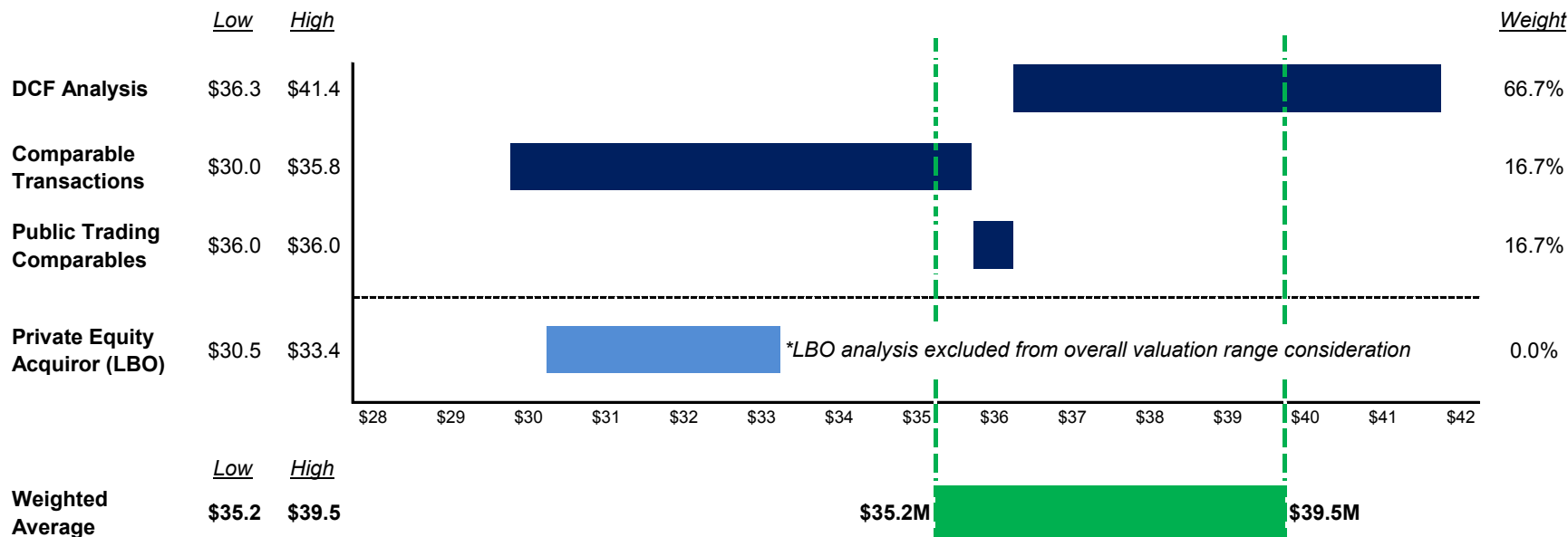
Purchase Price EV / EBITDA Multiple	10.0x	10.5x	11.0x	11.5x	12.0x
Implied Return	31.4%	29.1%	26.9%	25.0%	23.2%
Implied Enterprise Value	\$29.1	\$30.5	\$32.0	\$33.4	\$34.9

Key Assumptions

- 5.0x total debt to EBITDA at closing
- 5 year hold period
- Structured as Asset Purchase (Goodwill amortization)
- Management Case growth rates
- No SG&A synergies
- 3% long-term growth rate
- 11.0x exit multiple

Valuation Summary

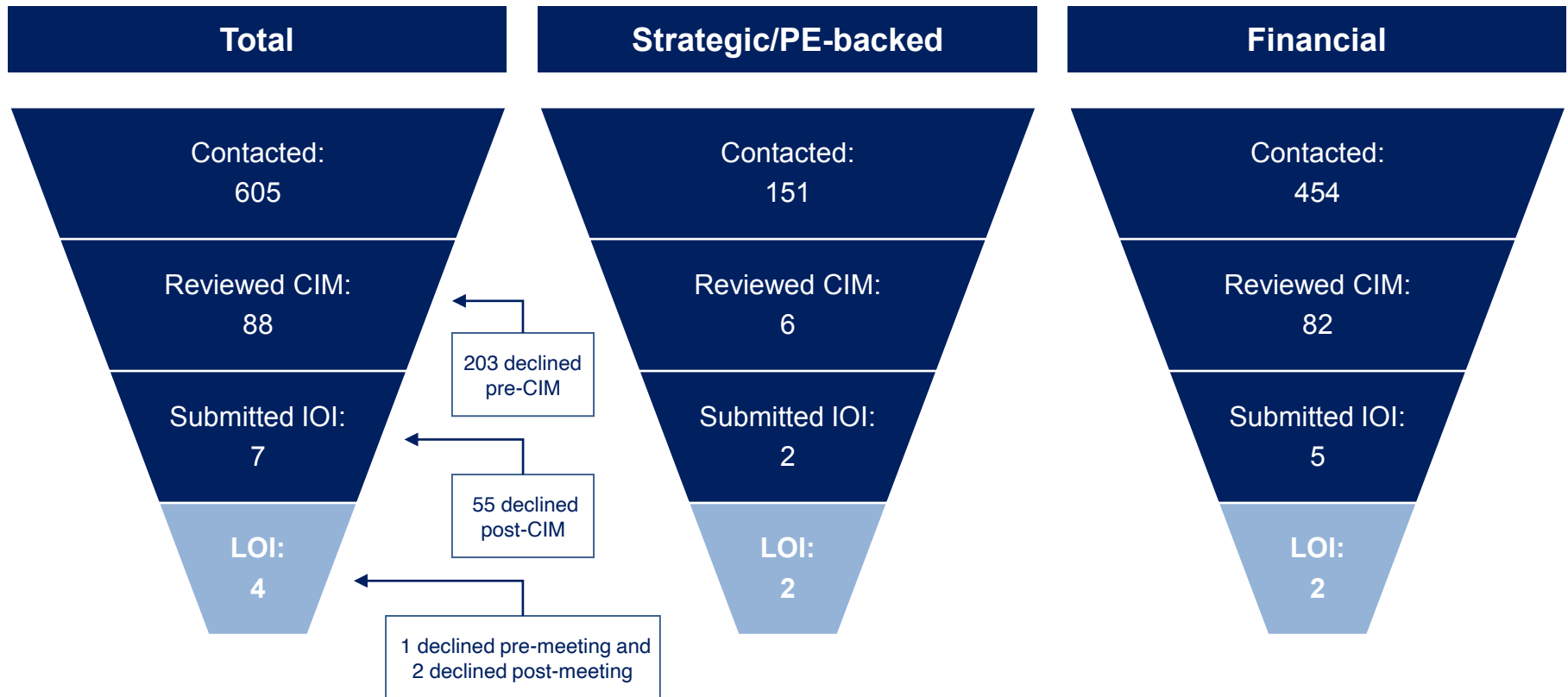
DCF, comparable transactions, and trading comparables suggest a valuation range of **\$35.2M to \$39.5M**



Process Results Example: Project Freezer

Section VI

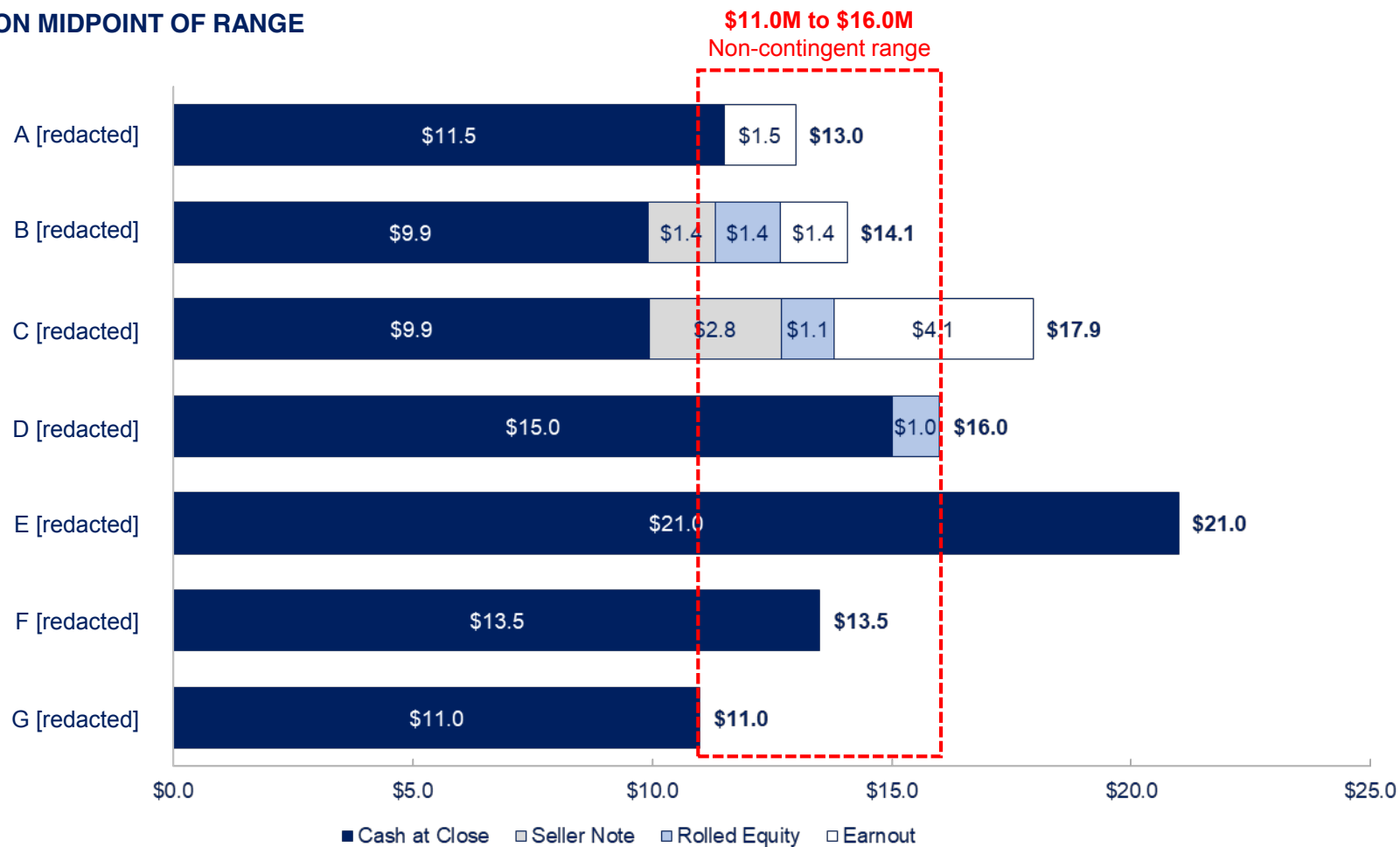
Process Overview



Indications of Interest

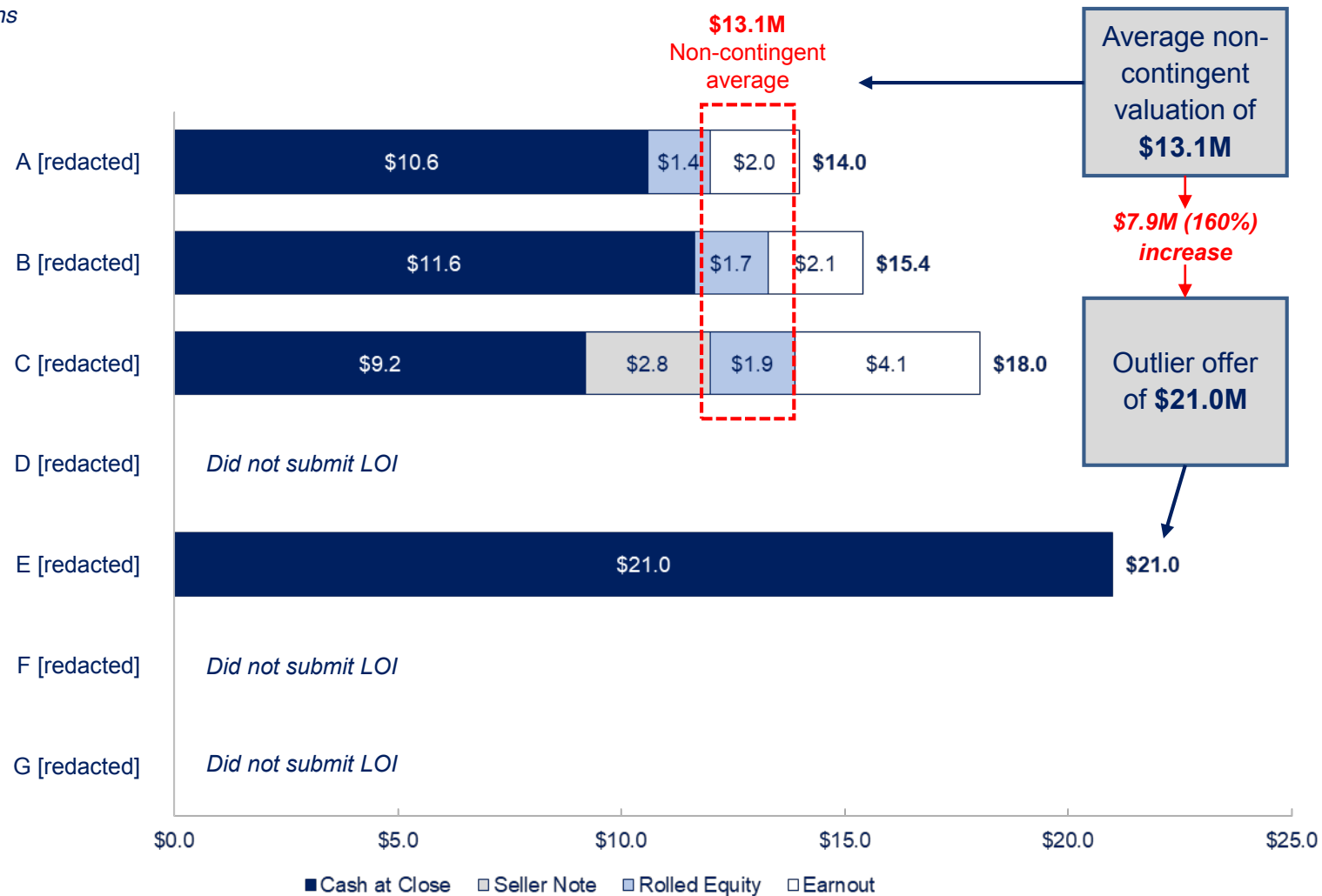
\$ in millions

BASED ON MIDPOINT OF RANGE



Letters of Intent

\$ in millions



More Art than Science

- Valuations are very useful tools but are handicapped by their “academic” approach
 - Valuations serve as a basis for further evaluation of macro, industry, and company-specific factors
 - Valuations inherently struggle to consider “real world” factors
- An M&A process typically yields a true valuation
 - Competition and variability of the buyer universe elevate and diversify valuations
 - Different buyers will ascribe different valuations to the same business based on their “angle”
 - Different valuations are neither “right” or “wrong”

Ultimately, a business is worth what someone is willing to pay for it.

Tools to Increase Value

1

Improve Financial Controls, Reporting, and Management

- Get reviewed or audited financial statements
- Improve internal reporting and track key performance indicators (KPIs)
- Build a growth plan that incorporates strategic initiatives and acquisition targets

2

Mitigate Concentration Risks

- Diversify customer concentrations
- Diversify products (reduce reliance on one product or line)
- Diversify vendors

3

Strengthen Leadership and Supporting Personnel

- Develop a clear succession plan
- Build management “bench strength”
- Review HR policies

4

Increase Awareness of Macro Factors

- Review environmental regulations and potential issues
- Get meaningful certifications (e.g. ISO)
- Understand upcoming changes in tax and business law

Creating Value in a Sale

Preparation + Perception + Positioning = Price

Preparation

- Assessment of value drivers and risk factors
- Accentuate value and mitigate risk
- Tax planning
- Clarity of ownership objectives
- Recasting financial information

Perception

- Understand buyers' objectives
- Clear, credible and consistent communication to prospective buyers
- Historical and projected financial information
- Qualitative information

Positioning

- Negotiate from a position of strength (BATNA)
- Real competition or perceived threat of competition
- Type of buyer and buyer motivation
- How does buyer view risk and reward of ownership?
- Does buyer have ability and motivation to pay market price or better?