

# Make Your Business Valuable And Plan for its Continued Success

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GROWTH SYSTEMS



# The Model

- Seasoned operating managers with manufacturing expertise
- Keeping businesses in their communities
- Protecting family legacies
- Buy, build, and hold model



- Profitability Experts
- Our brand promise to double your valuation in 3 years
- Our mission is to impact the lives of our clients through better business performance.
- Decades of experience in manufacturing



# Understanding your business's value, or planning for its life after you leave it, can be complicated.

Beanstalk Collaborative Community Wealth and EBITDA Growth Systems will share the finer points of increasing the value of your company, and planning for its next generation of leadership.


Whatever future plans you have for your business (whether internal succession or a sale), we will give you the insights to make it happen.



# How are businesses valued?

<p><b>Liquidation Value:</b> Determines the value of the company's assets if it were forced to sell all of them in a short period of time (usually less than 12 months).</p>	<p>Worst value indicator for a going concern. If your business is worth more liquidated than operating, then you have bigger problems than succession planning.</p>
<p><b>Discounted Free Cash Flow:</b> Future estimated net cash flows are discounted to a net present value (today's dollars).</p>	<p>Generally not used by sellers and buyers for small to mid-size companies.</p>
<p><b>Comparable EBITDA Multiples:</b> The EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) of a business is subject to a multiple (based on qualifying conditions) to arrive at a selling price.</p>	<p>This is the preferred method used by sellers and buyers.</p>

# Multiple Risk Adjustments

	Company Uniques	
		
Small, Shrinking (Obsolescence), Highly Discretionary/Cyclical	<b>MARKETS SERVED</b>	Large, Growing, Technology Driven, Downturn Resistant
High Concentration of Sales with Few Customers, Few Barriers to Exit, Poor Sales Infrastructure to Add New Customers, Quality Certifications Lacking	<b>CUSTOMERS</b>	High Barrier to Exit, Strong Sales Organization, Growth in New Customers, Customer Valued Quality Certifications and Performance (KPI's)
Commodity Products, Low Margin and EBITDA %'s, Many Competitors, Low Market Share	<b>PRODUCTS MANUFACTURED</b>	Competitive IP (Patents or Processes), High Margin and EBITDA %'s, Market Share Leader
Few available suppliers, Cost & Delivery of Critical Materials/Services Compromised	<b>SUPPLIERS</b>	No Barrier to Exit, Plentiful Quality Suppliers
Cash Basis, Financial Statements Not Audited/Reviewed, Limited Information Systems, Operations Run with Spreadsheets	<b>FINANCIALS &amp; SYSTEMS</b>	GAAP Basis, Audited/Reviewed Financial Statements, ERP System, Management Operating System (KPI Driven)
No Management Depth, No Professional Accounting on Staff, Employees Not Fully Engaged in the Business	<b>MANAGEMENT &amp; EMPLOYEES</b>	Well-Rounded Management Team, Engaged Employees with Depth at Key Positions

# Climbing the Valuation Ladder



2x – 3x

- Little to No Accounting System(s)
- Unauditable Books and Records
- One Person Operation / No Management Team Depth
- No Professional Accounting Staff

3x – 4x

- Limited Information Systems
- Unaudited Financials with Ability to Audit
- One or Two Person Senior Management Team
- Controller on Staff

4x – 5x

- Adequate Information Systems for Financial Reporting
- Reviewed or Audited Financials
- CPA on Staff
- Conservative Balance Sheet
- Late Model Well Maintained Plant Equipment
- Attractive EBITDA Margins
- Appropriate Quality Certifications

5x +

- ERP / MRP Software System
- Management Operating System
- Well-Rounded Management Team
- Automation Implemented for Competitive Advantage
- Customer / Product Diversification
- Proprietary Products /Processes
- Demonstrated Growth
- Superior EBITDA Margins
- US GAAP Accounting



# Planning for the Next Generation of Leadership

## *Internal Succession*

- Family succession
- Management Buy-Out (MBO)
- Employee Stock Ownership Plan (ESOP)



# Internal Succession Options

Type of Internal Succession	Benefits to Seller	Disadvantages
<b>Family Succession</b> means keeping the business in the family.	<ul style="list-style-type: none"> <li>• Legacy protected</li> <li>• Business will continue operating</li> </ul>	<ul style="list-style-type: none"> <li>• Not always easy to find the right leader</li> <li>• Purchase price might not be high, or immediately available</li> <li>• Could be a long exit</li> </ul>
<b>Management Buy-Out</b>	<ul style="list-style-type: none"> <li>• Legacy protected</li> <li>• Business will continue operating</li> <li>• Leadership already in the company</li> </ul>	<ul style="list-style-type: none"> <li>• Purchase price might not be, or immediately available</li> <li>• Possible long exit</li> </ul>
<b>ESOP / Staff Sale</b> allows the business to sell to the employees or managers	<ul style="list-style-type: none"> <li>• Legacy and Employees are protected</li> <li>• Likely to keep business operating</li> </ul>	<ul style="list-style-type: none"> <li>• Legally and economically complex</li> <li>• Lower selling price likely</li> <li>• Possible long exit</li> <li>• Legacy not necessarily protected</li> </ul>



# Planning for the Next Generation of Leadership

## *External Succession*

Selling to:

- Individual Buyer
- Strategic Buyer
- Private Equity Buyer
- Community Wealth Buyer

# Size Matters to Buyers

Type of Buyer	Target Revenue Range	Benefits to Seller	Disadvantages
<b>Individual Buyers</b> are focused on their earnings potential as it pertains to EBITDA	Small (\$1M-5M)	<ul style="list-style-type: none"> <li>• Might be versed in the industry</li> <li>• Likely to keep business operating</li> </ul>	<ul style="list-style-type: none"> <li>• Difficulty in financing might mean lower selling price</li> <li>• Legacy not protected</li> </ul>
<b>Strategic Buyers</b> are focused on the strategic and financial benefit of adding one business to another.	Small to Large (\$3M – 100M)	<ul style="list-style-type: none"> <li>• Potentially high selling price</li> <li>• Knowledge that business will continue operation in some form or another</li> </ul>	<ul style="list-style-type: none"> <li>• Employee downsizing</li> <li>• Legacy not protected</li> <li>• Business may fundamentally change</li> </ul>
<b>Private Equity Buyers</b> are focused on the short-term financial benefit that purchasing a company can bring to their investors.	Medium to Large (\$25M – 100M)	<ul style="list-style-type: none"> <li>• Potentially high selling price</li> </ul>	<ul style="list-style-type: none"> <li>• Employee downsizing</li> <li>• Legacy not protected</li> <li>• Business may not continue</li> </ul>
<b>Community Wealth Buyers</b> employ a combination of finance and manufacturing expertise to keep the business in the community.	Small to Medium (\$3M – 25M)	<ul style="list-style-type: none"> <li>• Legacy and Employees are protected</li> <li>• Keeps business operating</li> <li>• Strong selling price</li> </ul>	<ul style="list-style-type: none"> <li>• Immediate exit not always possible</li> </ul>

# Make Informed Decisions

Whether you Sell or Not,  
Partner with Qualified M&A  
Counsel and Tax Accountants  
to do things right.

"If you don't know your  
diamonds, know your  
jeweler."



