

Don't Leave Value on the Table

Risk Management and Efficiency Tools That Maximize Shareholder Value



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Don't Leave Value on the Table

Our Road Map ...

*A Brief Tour of
Valuation Basics ...*

Value Drivers ...

*Specific
Considerations . . .*

*Risks That Affect
Share Value ...*

*Tools to Maximize
Share Value by
Increasing Efficiencies or
Mitigating Risk*

Valuation Basics

Value Derived from Multiple Approaches

Income Approach

The Company's projected future cash flows are discounted at the "weighted average cost of capital" or "WACC" to arrive at a value.

The WACC is determined based on multiple factors including market interest rates and company risk.

Market Approach

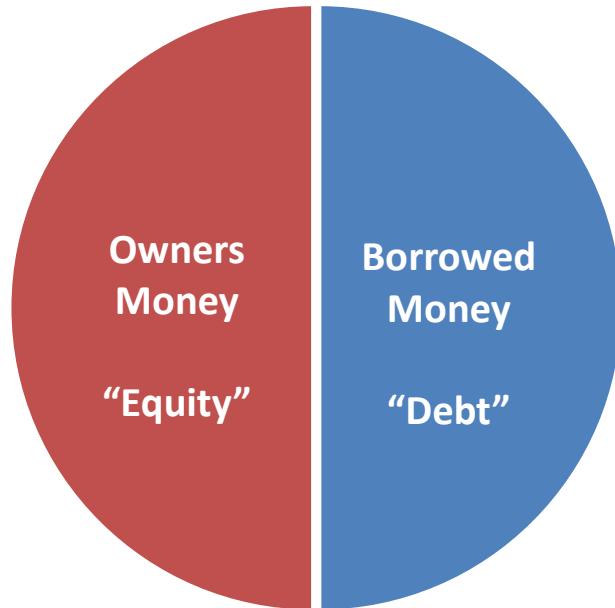
Company's value is determined by comparing it to similar public companies and to transactions involving companies in the same industry.

Valuation Multiples and Transaction Multiples are applied to the company's financial metrics.

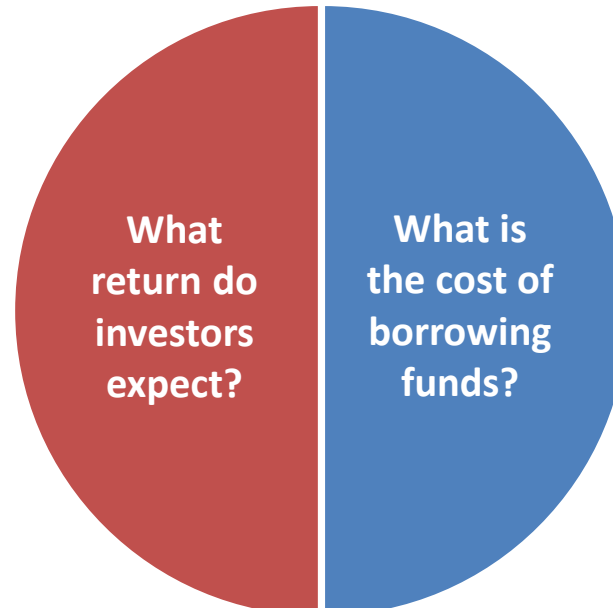
Income Approach - Calculating the WACC

- The weighted average cost of capital is a market-based rate that reflects the inherent risks associated with an investment in a company.

How is the company financed?



What is the cost financing?



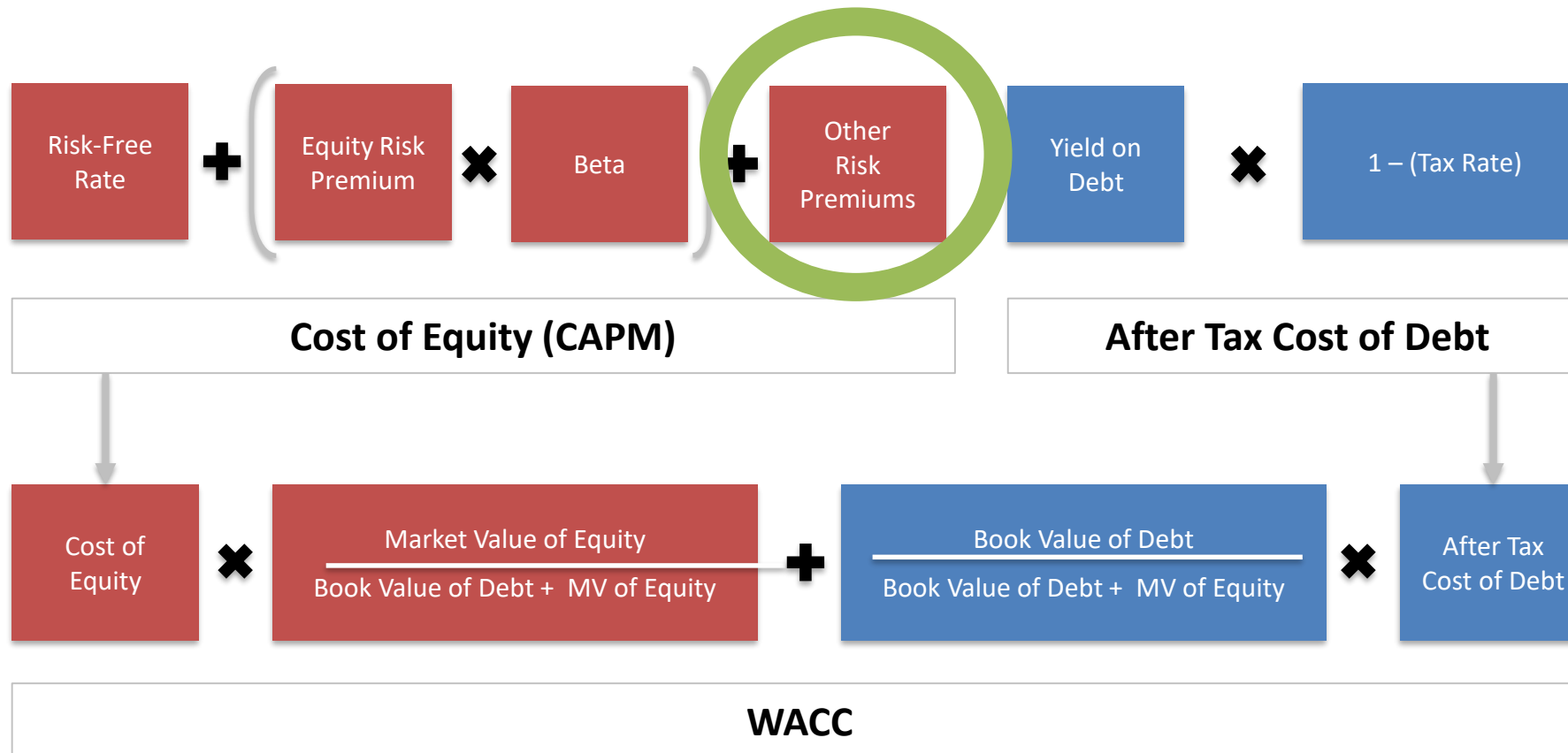
Weighted Average Cost of Capital

What affects these costs?

- Monetary policy
- Stock market
- Lending environment
- Company characteristics
- Economic environment

Income Approach - Calculating the WACC

- The WACC blends the cost of capital across all sources. The cost of each type is weighted by its percentage of total capital and are then added together.



Market Approach

Two Widely Accepted Methods

Guideline Public Comparables

The primary focus is to assess the subject company relative to a group of similar, publicly traded companies.

Valuation multiples derived from this public company group is applied to the subject company's financial metrics.

Guideline Transactions

The primary focus is to examine the terms, prices, and conditions found in sales of companies in the subject company's industry.

Transaction multiples are screened and then applied to the subject company's financial metrics.

How are Valuation Multiples Calculated?

- A valuation multiple presents the value of a business as a multiple of a particular financial metric.
- Since all businesses are different, we do not compare absolute values, rather multiples are used to standardize the comparison.
- When calculating multiples, it is critical the level of value (equity or enterprise value) is matched with the correct financial metric.

$$\frac{\text{Value of Business}}{\text{Financial Metric}} = \text{Valuation Multiple}$$

a	Enterprise Value	\$ 12,000
	Less: Total Debt	(2,000)
b	Equity Value	\$10,000
x	Net Income	\$1,000
y	EBITDA	\$2,000

$$\text{EBITDA Multiple Calculation} = \frac{\text{a } \$ 12,000}{\text{y } \$ 2,000} = 6.0x$$

$$\text{P/E Multiple Calculation} = \frac{\text{b } \$ 10,000}{\text{x } \$ 1,000} = 10.0x$$

Market Approach

Example of Guideline Public Comparable Analysis

ABC Company	Market Data			Financial Data		Valuation	
	Share Price	Market Cap	Enterprise Value	EBITDA LTM	EBITDA Projected	EV/ EBITDA LTM (x)	EV/ EBITDA Projected (x)
Guideline Comp Summary in \$mil, expect per share							
Apple, Inc.	\$ 188.74	927,683	961,583	84,605	87,570	11.4x	11.0x
Microsoft Corporation	100.86	774,927	731,275	50,963	57,651	14.3x	12.7x
Alphabet Inc.	1,183.58	822,054	724,471	58,876	69,371	12.3x	10.4x
Oracle Corporation	46.52	189,909	180,736	19,666	20,436	9.2x	8.8x
HP Inc.	23.65	38,089	38,893	4,827	5,102	8.1x	7.6x
Median						11.4x	10.4x
Low						8.1x	7.6x
High						14.3x	12.7x
Size Discount: 35%							
Median						7.4x	6.8x
Low						5.2x	5.0x
High						9.3x	8.2x

Comparable Multiple Ranges

Subject LTM EBITDA: \$2.6 million

	<u>LTM</u>	<u>Value</u>
Low	5.2x	\$13.6 million
High	9.3x	\$24.3 million
Median	7.4x	\$19.2 million

Comparable Multiple Ranges

Subject Projected EBITDA: \$2.8 million

	<u>Projected</u>	<u>Value</u>
Low	5.0x	\$13.9 million
High	8.2x	\$23.1 million
Median	6.8x	\$19.0 million

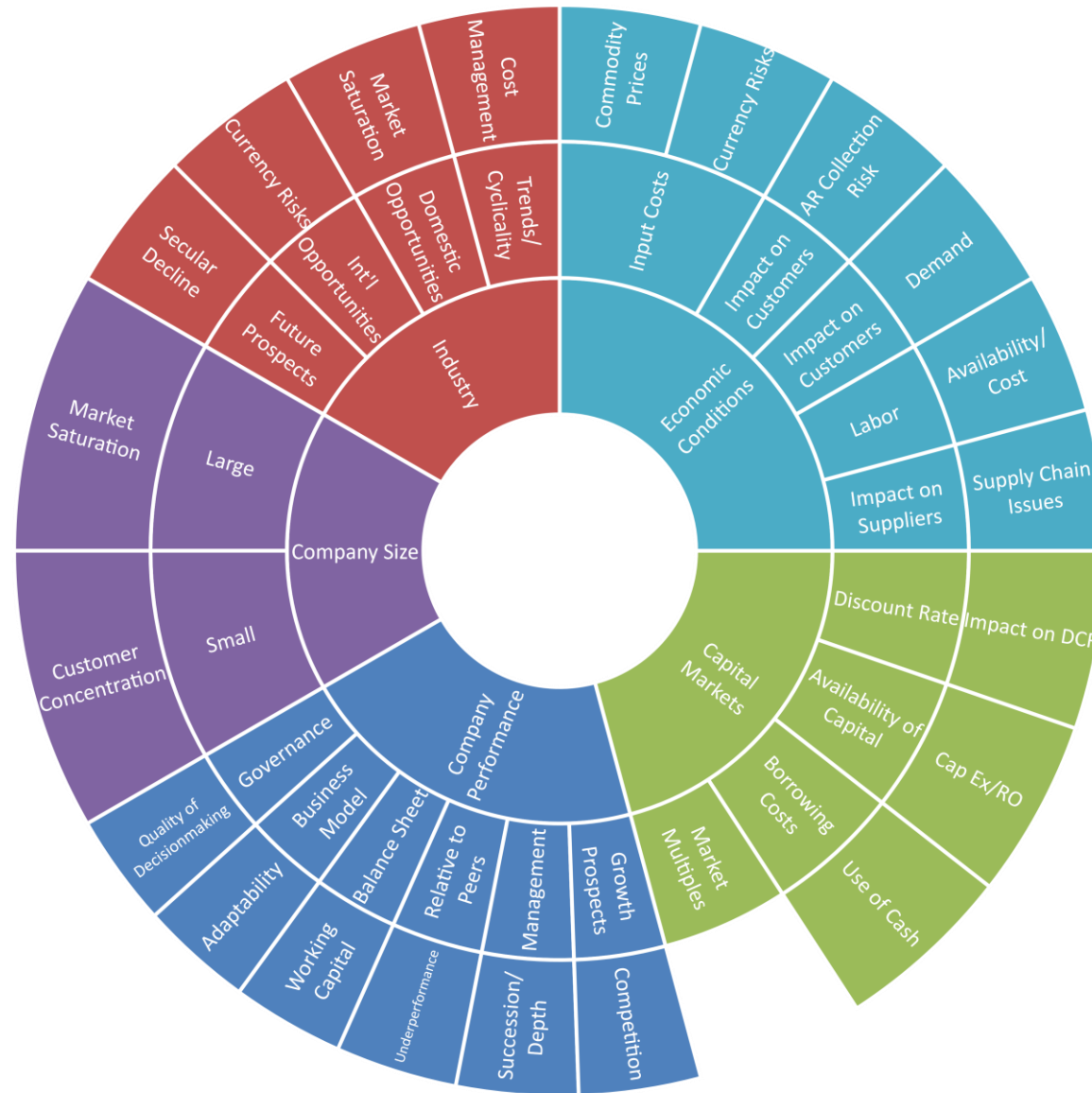
What Drives Share Value



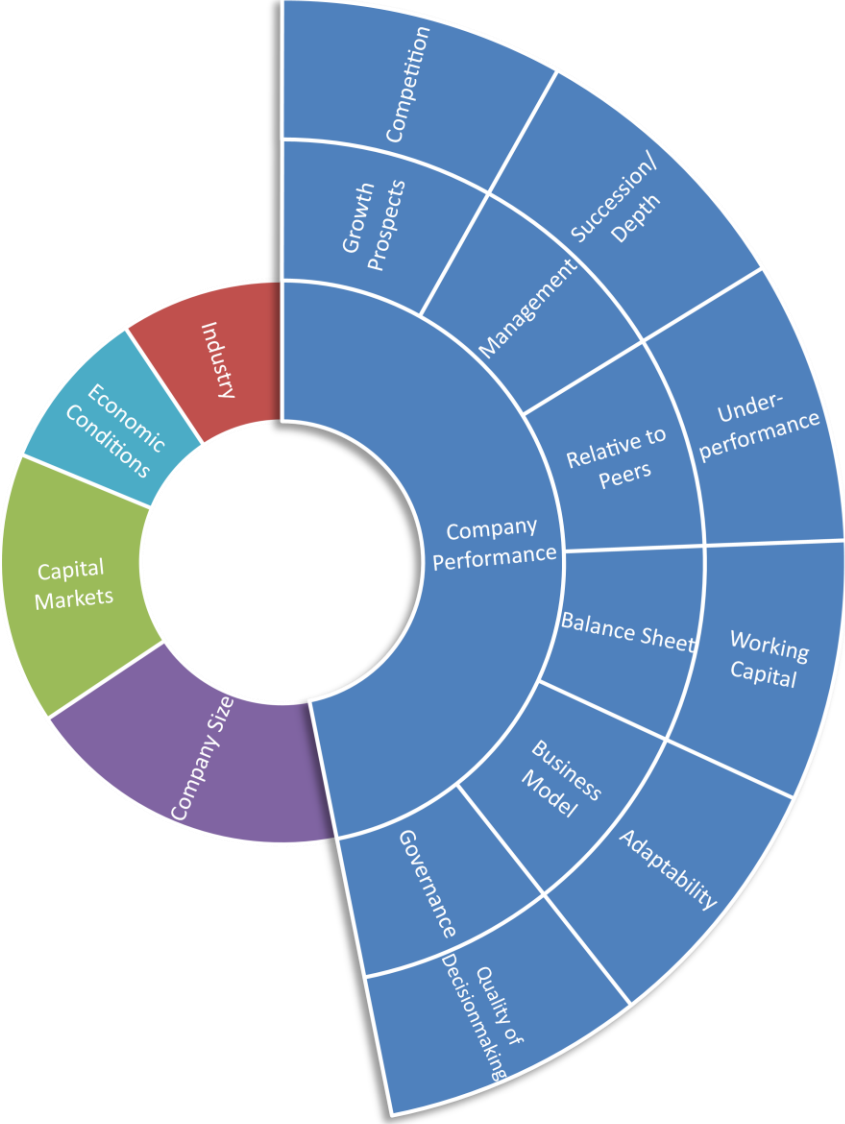
Specific Considerations in Valuing the Company



Risks That Affect Share Value



Risks that Affect Share Value – Company Performance



Tools to Address Company Performance - Related Risks

Management/Board Level Actions:

- Add outside board members to expand perspective, build board strength, increase board expertise
- Develop and implement succession plan for key management/leadership roles
- Continuous review of business model
- Carefully analyze acquisitions – use of management/personnel resources to integrate; alignment with existing expertise/knowledge

Tools:

- Optimize working capital investment through
 - Supply chain financing
 - Use of purchasing card to extend AP days without hurting vendors
 - Accept purchasing card to reduce cash conversion cycle and minimize revolver usage
 - Use of vendor discounts
 - Negotiation of payment terms
- Optimize accounting software and use embedded tools to track working capital and cash
- Take advantage of external supports (e.g., governmental supports such as PPP and tax credits)

Risks that Affect Share Value – Company Size



Tools to Address Company Size – Related Risks

Board level/management actions:

- Add value by making an acquisition
 - Decrease customer concentration
 - Increase purchasing power
- Decrease customer concentration risk
 - Broaden customer relationships (more points of contact on both sides)
 - Emphasis on diversifying customer base
- Pursue different types of contracts (private sector, government)

Tools:

- Reduce customer concentration risk through use of credit insurance
- Take advantage of growth/acquisitions in negotiating insurance costs (e.g., employee benefits)

Risks that Affect Share Value – Economic Conditions



Tools to Address Risks Related to Economic Conditions

Management/Board Actions:

- **Maintain competitive compensation/benefit package**
- **Identify/rectify drivers of employee turnover**

Tools:

- **Evaluate purchasing terms (cost with payment in dollars versus cost if payment in local currency)**
- **Foreign currency hedging**
- **Commodity hedging (natural hedges (match purchase and sales contracts); commodity hedge contracts)**
- **Interest rate swaps/caps**
- **Buy real estate to hedge rent increases**
- **Sale-leaseback of real estate**
- **Insurance captive**
- **Address cyber risks**
 - **Insurance**
 - **IT staff**
- **AR insurance**
- **Diversify supply chain (sources, geographically)**
- **Use of employee ownership in recruiting/retention**

Risks that Affect Share Value – Your Industry



Tools to Address Industry Specific Risks

Management/Board Level Actions:

- SWOT analysis
- Identify market saturation issues and solutions
- Use of acquisitions

Tools:

- Foreign currency hedging
- Commodity hedging
- AR insurance

Risks that Affect Share Value – Capital Markets



Tools to Address Capital Markets Risk

Tools:

- **Optimize banking relationship (willingness to provide needed capital, flexibility, availability of resources)**
- **Reduce cash conversion cycle to minimize borrowing costs and maximize revolver availability**
- **Explore all sources of capital (equipment leases, sale leasebacks of equipment and real estate, loans, non-bank financing)**

Questions?

This deck has been updated post-presentation to incorporate audience ideas for managing risk and increasing efficiencies.

Let's Connect



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