



# CASE STUDY: Maximizing Value Begins with a Plan

**DECOSIMO**  
ADVISORY SERVICES

[www.decosimo.com/advisory](http://www.decosimo.com/advisory)

Our client took over his family's manufacturing business in 2001. Several days before Christmas 2005, his phone rang in the middle of the night—his company was on fire. He arrived at the scene at the same time as the firefighters, and he watched the family business go up in smoke. He vowed that if he ever got his company running again, he would never keep all of his eggs in one basket.

A year later, the company was back in production, and our client was confident it was going to survive. He acted on the promise he had made to himself and called Decosimo to discuss how to begin planning for a business transition.

## EVALUATE TRANSITION GOALS

In our initial meeting, we discussed his goals with regard to when he would transition his company, the types of investors who were likely to be interested, the deal proceeds he hoped to receive, and, most importantly, the process of preparing the business for a transition.

At the time, the owner wanted to sell his company in 5 years. Based on his goals for value, he needed to double the size and earnings of his business.

## CONSIDER POTENTIAL BUYERS

His family was not interested in operating the company, and his management team did not possess the financial wherewithal to purchase it from him. That left him considering the prospect of selling to an outside buyer.

Outside buyers are either financial buyers (typically private equity groups or "PEGS") or strategic buyers (those who already have operations in the industry). PEGS have committed funds and are experts in taking well-established and well-run companies to the next level of growth. Strategic buyers are looking to purchase businesses that add to their current operations and allow them to leverage their existing management infrastructure.

## DETERMINE VALUE

With a target equity value in mind, we discussed the plan for getting to that price. We like to say that equity value (or ultimate price) depends on three basic components:

- The money you make.
- The risk you take.
- The capital you stake.

The money a company makes is measured in several ways. There is revenue, there is income, and there is cash flow. While buyers are interested in future cash flow, they typically look at historical profitability in forming their expectations. In analyzing the money a business has made, it is important that the company has a dependable track record. We discussed the importance of having audited financial statements that give the prospective buyer the assurance that historic financial statements present fairly the company's financial condition.

Businesses whose cash flows are less risky are more valuable. Reducing risk means building a strong management team in areas of finance, sales, and manufacturing, as well as eliminating concentrations wherever possible (the reliance on one or a few customers, suppliers, or products). Additionally, we discussed return on investment, reminding our client that sales growth that came at the expense of stretched receivables, compressed margins, or large investments in inventory and fixed assets might not enhance value.

## PREPARE FOR SALE

Once the plan was in place, our client immediately began working to prepare the company for sale. The plan called for a doubling of revenue and cash flow over a three-year period. This growth would be fueled by an investment in a sales force that would expand the number of customers, an expansion of the product line, improvement of the company's internal systems, as well as a focus on reducing risk and increasing margins. Additionally, the business engaged an auditing firm to increase the level of comfort potential buyers would have with the financial statements. In other words, our client was committed to spending the next three years increasing the amount of money a potential buyer would expect to make, minimizing the perceived risk that a potential buyer would take, and maximizing the expected return on the capital a potential buyer would stake.

## SEE THE PLAN PAY OFF

We met quarterly with our client to review his progress. In April, we began the process of shopping the company to potential buyers. Our work of preparing the company for sale paid off, resulting in several quality offers and no negative surprises in due diligence. Ultimately, the transaction involved a private equity group for a price that comfortably exceeded our client's goal. As a result of the transaction, our client continued as CEO, retained minority interest in the new company, increased the likelihood that his management team and employees would have jobs well into the future, and gained a financial partner committed to doubling the size of the company again within the following three years.

## IT ALL BEGAN WITH A PLAN

If you or someone you know is in a similar situation as our client, we would be pleased to discuss how a plan might maximize value.

## FOR MORE INFORMATION

Tom Decosimo, CPA•ABV, ASA  
423.266.0471 | tomdecosimo@decosimo.com

---

**DECOSIMO**  
ADVISORY SERVICES

## THREE PHASES OF SELLING A BUSINESS

Based on Decosimo's experience with over \$20 billion in transactions, the firm has developed a three phase selling process. Our process maximizes deal proceeds, while minimizing closing time and the likelihood of deal failure.

### PHASE ONE

- Prepare a business valuation. The foundation on which the sell-side process rests is an understanding of the company's value. Prepared in accordance with industry best practices, the valuation is an independent opinion of value prepared by an experienced business appraiser. The process involves information requests that include historical and prospective financial statements, comprehensive interviews, and industry research. The other phases heavily rely on the understanding of the business gained during the valuation.

### PHASE TWO

- Find and qualify potential buyers.
- Prepare an executive summary. The summary does not name the company, but it provides a broad description of the business and the market.
- Prepare a confidential information memorandum (CIM). This document explains the investment opportunity and is based in part on the information gathered in performing the business valuation.
- Prepare a data room. The room contains supporting information a serious interested party will want to review during the due diligence process. Much of the information for the data room will have been acquired and organized during the valuation.

### PHASE THREE

- Send a procedures letter and CIM to buyers who sign a non-disclosure agreement. The procedures letter details the required terms and deadline for indications of interest.
- Analyze competing offers. Select finalists.
- Conduct management interviews and preliminary due diligence. Negotiate a single letter of intent from the ultimate buyer.
- Conduct due diligence.
- Close.