

NDTMA 2020 Annual Conference



The Value of Your Business: *The Path to Growth – The Pitfalls of Destruction*

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val·ue

/ˈvɑlyoo/

noun

1. the regard that something is held to deserve; the importance, **worth**, or usefulness of something.

"your support is of great value"

Similar:

merit

worth

usefulness

use

utility

practicality



2. a person's principles or standards of behavior; one's judgment of what is important in life.

"they internalize their parents' rules and values"

Similar:

principles

moral principles

ethics

moral code

morals



- Exit/Liquidity Event
- Raising Capital
- Builds Strength & Resilience



Rewind: 2019 NDTMA

Increased valuation	Factors	Decreased valuation
Recurring revenues (e.g., service)	Nature of business	Discretionary, project-based revenues
Diversified customer-base	Customer dynamics	Few customers represent most of sales (e.g., Wal-Mart)
Stable history of profitability (little cyclicity); Satisfactory performance during Great Recession	Earnings history	Inconsistent and volatile history of earnings
Industry not competing on price; History of sustained margins	Industry defensibility	Little to no barriers to entry
Market dynamics expected to be similar 10 years from now	Disruption risk	Industry experiencing rapid disruption (e.g., “Amazon effect”)
Systematized and institutionalized processes and relationships, independent of exiting owner	Key-man risk	Key customer relationships or know-how reside in single person (likely exiting owner)
Senior and middle management team is strong with succession plan for each position	Team strength and culture	Weak senior/ middle management team; Informal organizational structure with poorly defined roles



The Four Focus Areas

■ Management Drivers

- Owner Reliance
- Strategic Planning
- Management Turnover

■ Financial Drivers

- Cash Flow
- Liens
- Creative Tax Practices
- Off-The-Books

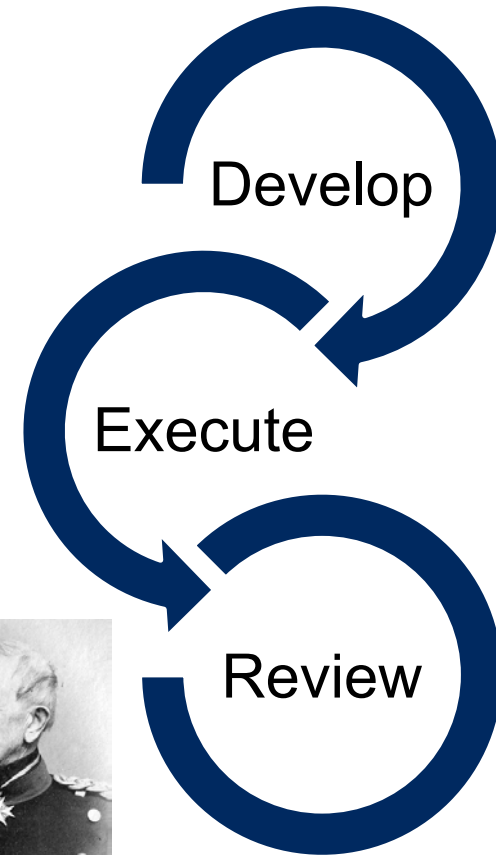
■ Operational Drivers

- Customer Dynamics
- Product/Service Focus
- Sales Pipeline
- Weak Process Management
- Warranty Issues

■ Legal Drivers

- Litigation
- Employee Classification

- Owner Reliance
 - Leadership Development
 - Systems Building
 - Succession Planning
 - Test Your Team
- Strategic Planning
 - Business Plan
 - “One Page Business Plan”
 - Accountability
- Management Turnover



“Imperfect action beats perfect inaction”

Obtain

- Identify the *key* positions
- Create job descriptions
- Create a replacement plan for each position
- Evaluate promotability



Train

- Evaluate training and development needs
- Review the training plans/programs and develop strategy



Retain

- Long-term incentive plan
 - Deferred bonus
- Transition incentives
 - Cash at close
 - Cash after transition period



- Product/Service Focus
 - Distraction
 - Dilution
 - Destruction
- Customer dynamics
 - Concentration
 - Instability
- Sales Pipeline: Protect and Grow
 - Forecast
 - Sales team and processes
- Weak Process/Knowledge Management
- Warranty Issues
 - Design or production flaw?
 - Long-term liability



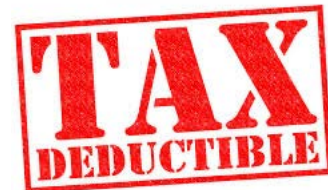
Financial Value Drivers

- Cash Flow
 - Budget
 - Mind your receivables (DSO)
 - Get paid as early as possible
 - Cushion

- Liens
 - Create Uncertainty
 - Loss of Control

- Creative Tax Practices

- ~~Off-the-Books~~ **DON'T**



- Litigation
 - Pending?
 - Recurring?
 - Threat of?



- Employee Classification
 - Costly





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Know & Leverage Your Resources



There are many third-party resources available to assist in your planning. McCombie Group is happy to serve as one of those resources and patiently explain options.

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