



VALUE SCOPE

Focusing analytics through experience.

Case Study

Maximizing Enterprise Value Through Defensive Acquisition

Executive Summary

Client: *Direct Sales Flooring and Distribution Company*

Challenge: *Valuescope's clients owned a family business that they wanted to divest in a manner that would not only allow them to retire comfortably, but would also be significant enough to conduct multi-generational wealth transfer planning. With only a single realistic buyer for the business, 4% EBITDA margins, and less than \$1 million in annual net profit, the owners had little hope of achieving their financial goals.*

Solution: *ValueScope analyzed the larger rival's business and discovered where they were concentrating their efforts. ValueScope then created a multi-faceted strategy that their client readily implemented and began taking significant share in critical markets of their rival. ValueScope then created a financial damages model that was presented to the rival that showed how from a financial perspective, they would be MUCH better off buying ValueScope's client than allowing them to continue competing on a market-by-market basis.*

Results: *Rival paid 315X TTM Net Income for ValueScope's Client and closed the transaction in less than 6 months. Needless to say, ValueScope's clients retired happy! Traditional valuation metrics & divestiture methods would have made this impossible.*

Measuring & Improving Value

We value things - nearly everything, in fact - and we're often called upon to improve value. The things we value range from business interests to financial and intangible assets. We value esoteric things, too: derivative instruments, loan guarantees, human capital, corporate damages, and even life itself. Additionally, we do all things relating to financial economics: predictive and probabilistic modeling, financial econometrics, determining economic substance, characterizing debt or equity, structuring transactions. Asset, liability, or equity, we can measure it, structure it, or help improve its value.

Challenge

ValueScope's client, a multi-generational, family-owned business, had a more established, larger rival against which they were gaining significant market share in their primary regional market. The owners, however, were aging and looking for a divestiture that would not only allow them to retire comfortably, but also conduct multi-generational wealth transfer and estate planning.

Unfortunately, the then current multiples of 8.5 to 12 times trailing twelve-month EBITDA would not have yielded an exit valuation anywhere near what was needed to accomplish these goals, as the company was only achieving 4% EBITDA margins at the time. Compounding their dilemma was the fact that prevailing market conditions made it such that their larger rival was really their only reasonable buyer; there would be no auction process run between multiple strategic buyers.

The client engaged ValueScope to create a strategy that could be readily implemented and would deliver the exit valuation the owners needed to achieve their financial goals.

Solution

Given the state of the client and the downward pricing pressure on the entire market segment, growing EBITDA margins was not a likely solution for the client. After reviewing the possible options, ValueScope determined the best option would be to force the rival into an acquisition. Since framing the acquisition in the typical value creation framework would not yield the exit value the client desired, ValueScope reframed the acquisition in terms of the rival's economic loss that would be realized if the rival did not acquire their client. ValueScope began by analyzing & understanding the market conditions that would force the larger rival from a financial perspective to purchase their client.

The execution of this strategy began with understanding where the client could inflict the greatest financial damage to the rival's business, and that began with understanding the rival's most valuable markets. Since the rival was a private company, no public records could be used to identify the rival's key markets into which their client should enter and compete. Consequently, ValueScope took an alternative approach to discovering the rival's key markets; they actually analyzed the rival's national advertising buys and discovered they were concentrating their efforts on two key markets along the east coast between DC and Boston.

As part of their strategy to drive exit value, ValueScope advised their client to open competing sales & distribution operations in these two key markets. Within 12 months, ValueScope's client was capturing significant market share from their larger rival in the new markets. This provided the ideal opportunity for ValueScope to create an economic loss model illustrating how their client would continue to erode valuable market share, profit, and value in excess of the cost of acquiring their client.

Implementation

When this model was presented to the larger rival, they were convinced that ValueScope was right and that making the acquisition was the best financial decision for them. Consequently, they paid 315 times TTM Net Income for ValueScope's client! The then current EBITDA multiples were a healthy, but insufficient, 8.5 - 12X TTM EBITDA. The deal closed in less than 6 months, and both ValueScope's client and their larger rival walked away with positive financial results. ValueScope's client received far more than their intrinsic value, and the buyer paid less than their expected losses.

ValueScope: Measuring & Delivering Value

ValueScope is so much more than a regional valuation and damages analytics firm. We can be your strategic partner in creating new thinking around maximizing portfolio value for your investors and shareholders. We challenge you to present us with the details of an underperforming or orphaned asset that we can't help you maximize in your portfolio. We are so confident we can help; we will gladly meet with you and present an initial analysis of your situation at our expense. We are here to help - please let us prove it to you.