The Valuation Amplification Process

How to Quickly Increase Your Valuation

A Proven 5 Step Process

By Mike Rogers

President & CEO

Tel: +1 (925) 914-7033

Email: mike@therevenuegroup.net

www.therevenuegroup.net

The Revenue Group

There are opportunities to increase your company's valuation hiding right in front of you.

But the opportunities with real value are not the ones you've been looking at.

Is your goal to increase your company's valuation? Maybe you received an offer for your company or an investment banker gave you a valuation that is lower than you think you're worth.

You may even start to think, "Is that really all the company is worth after all I've put into it?"

You expected the valuation to be higher. You have a number in mind, the "Magic Number" where you would think about selling the company.

You are asking "what are they seeing that is suppressing my value and what can I do about it?"

Or maybe, "what can I do to help them see the value of the company and generate a higher valuation?"

In the technology sector it's all about growth. However just because you are hitting your numbers does not mean your sales are helping your company's value.

Huh?

Increasing your revenue doesn't necessarily mean your "valuation multiple" will increase.

You also need to find a way to increase your multiple, which measures your company against the "average" with the minimum possible investment to get the maximum possible result. If your product isn't "hot" or "sexy", how do you make your multiple more than average?

You know what's not enough. But you're not clear about what **WILL** move the needle to really increase your value. You don't need someone telling you the obvious things like hire 10 more sales people and you don't need to teach old dogs new tricks.

I'm not going to recommend you do any of the common things. I recommend you look at your business the way a potential investor will look at your business. Let's be clear, potential acquirers are really investors. They're just making their investment in the form of an acquisition. Do you see what they see?

When you look at your company do you see value or do you see growth?

Investors and potential acquirers look at your company from a certain perspective. One may be looking for value. The other may want to invest in growth.

To spot opportunities quickly you just need to look at your company the way an investor does.

Private Equity (PE) firms are very active investors. While PE firms may have a bad reputation because they look for buying opportunities, their main objective is to grow companies, improve them and sell them for more than they paid. This perspective, if applied by existing management to their own companies, can be used to sell the company to a strategic buyer for a premium rather than to a PE firm.

PE firms carefully choose each target company and explicitly define how they will create incremental value and by when.

PE firms look for a few easy changes to what you're already doing that they can make that will have an immediate impact on both the top line and the bottom line. After all, the objective of every PE firm is to increase a company's valuation with as little investment as possible in as short a time period as possible.

A firm I know well, SonicWALL, a leader in advanced network security, was acquired by a PE firm, Thoma Bravo, in June 2010 for $717 MM. Thoma Bravo saw an opportunity. It fixed inefficiencies and created incremental value.

The PE firm then sold SonicWALL in July 2012 for $1.2 billion to Dell; a 68% increase in value in just 2 years.

Thoma Bravo acquired Entrust, an identity based security company focused on digital certificates, in July 2009 for $124 million.

Entrust was acquired in December 2013 by Datacard for $500 million; a 400% increase in value in under 4 years.

The last company I worked for as SVP Strategy and Corporate Development was Lumension, an endpoint security company. It was acquired by a PE firm, Clearlake Capital, in May 2014. The firm has identified opportunities for greater efficiency and is implementing the plan for creating incremental value. Clearlake has merged Lumension with another company to form HEAT Software to leverage each company's technology and create greater mass and market share. The goal is to sell for a significantly higher valuation within 3-5 years.

Looking at your company from a PE approach means you're going to identify two or three hidden strengths that can be dusted, polished and turned into glaring Valuation Amplifiers.

The Valuation Amplification Process

The Valuation Amplification Process boils down to 5 essential steps, each one building on the other. It's important to have a good foundation to build upon, and to constantly measure your results against your objectives.

1. **<u>Step 1: The Starting Line</u>** – Our clients typically have received an offer or a valuation that is less than desired or they want to be sure that they will receive offers that meet their exit target. Those valuations are influenced by a number of factors and probably do not reflect the future value of the company.

   A Starting Line analysis of a business involves analyzing its financial statements and health, its management and competitive advantages, and its competitors and markets. It identifies the **POTENTIAL** of the company.

You realize that what you need most is a plan that you can be confident will get you to that valuation, a plan that identifies opportunities to maximize future value, that provides a roadmap for capturing those opportunities, and estimates the increased valuation if the roadmap is successfully followed. That is why we designed our **Value Amplification Plan (VAP)** to help them with precisely that.

The VAP measures the incremental value that the company could create at its existing level of sales and profitability by completing the entire roadmap of initiatives, reducing its risk, increasing its revenue multiple, and improving the quality of the company.

We create your VAP by undertaking a one-day strategy session where we conduct a detailed examination of your company in order to determine your position in comparison to others in the industry and your resulting valuation. The VAP provides a cost effective way to identify, prioritize, and implement initiatives that will maximize your business value over the next 3 – 5 years.

The VAP is a **Roadmap to Maximum Valuation**. It creates a clear plan to increase your valuation through operating efficiencies and key strategic projects that will lead you toward the desired valuation for your company, possibly increasing its value by 80% - 100%, or more, over a several year period.

2. **Step 2: Quick Wins** – In the VAP we identify Short Term Amplifiers, a few items that can be addressed quickly with tangible results that hit the top and/or bottom lines in 1 or 2 quarters. This is the essence of finding inefficiencies and doing more with what you've already deployed.

   Research shows that when companies are able to identify quick wins and create momentum the entire team feels like they're making progress and everyone is encouraged. And it's not just your team that needs to see momentum but also your Board and your investors. Making quick wins happen is like adding fuel to a fire; what was once a smoldering business now becomes a raging bonfire. This amplifies the process producing a much better result.

   The issue is most executives are too close to the problem and can't see the hidden benefits right under their nose.

   The first thing a PE firm looks at is working capital. Before any additional new capital is invested toward growth, a PE firm will make sure that they're maximizing the return on working capital already invested. After all, the cheapest form of capital is internally generated cash flow.

   Analyzing the return on working capital allows investors and managers to have a clear picture of how working capital is currently being spent on customer acquisition and retention. This analysis enables you to reallocate working capital to activities with higher yields, and employ working capital in ways that result in higher EBITDA.

   We look at Planning, Sales, People, Finance, Leadership, Marketing, Operations, and Legal. It's like getting a corporate EKG or a physical.

Since every business is in the business of acquiring and retaining customers, knowing yield on working capital per each customer acquisition/retention activity is crucial to efficient working capital allocations.

Standard financial statements (Income Statement, Cash Flow, Balance Sheet) do not provide insight on how efficiently working capital is being deployed, and do not allow to calculate yields on each activity.

We look at the situation objectively and without political influence or agendas so we're able to see and identify the issues clearly allowing you to benefit from Quick Wins and create momentum.

3. **Step 3: Long Term Amplifiers** – We look for sustained efforts for bigger results. We want quick wins but we also want to create stability and structure for sustained growth because you're tired of strategic plans becoming irrelevant quarter to quarter, always reinventing the wheel.

   PE firms know that simply growing EBITDA is not enough. To really pump your valuation you also need to find ways to accelerate revenue growth.

   Valuation multiples are directly linked to a company's growth prospects. That is why PE firms may try to enhance a company's exit multiple by shifting the company to a more attractive mix of business lines (potentially by targeted acquisitions) during the investment period, thereby allowing the company to be potentially sold for a higher EBITDA/earnings multiple than it was acquired for.

   In addition to the Quick Wins, the VAP identifies opportunities to be undertaken over a 6 to 24 month period that result in increased valuation. These amplifiers may take longer to implement or be an ongoing process.

   We will look at items like the product development process, market positioning, incentive programs, and geographical sales reach.

   The process includes a future valuation that results from a "what-if" analysis of the possible options available to every company in 3-5 years.

4. **Step 4: Racing to the Exit** – In the Valuation Amplification Process we will identify the right time to exit, and if you are hitting on all cylinders in your implementation of the Valuation Amplifiers an opportunity to exit may come sooner than planned.

   It is not uncommon for strategic plans to be drawn up annually, and to have no impact on the organization as a whole.

   Strategy implementation almost always involves the introduction of change to an organization. Frequently this strategy is announced to the organization with the expectation that organization members will automatically see why the plan chosen is the best one and will begin immediate implementation.

In many organizations, implementation isn't even discussed in the strategic planning process. The plan is seen as an end in itself.

Many others get mired in the day-to-day, consumed by daily operating problems and lose sight of long-term goals.

Still more encounter issues with the fact that the plan is out of the ordinary course of business and is therefore treated as something separate and removed from the management process.

Our clients bring us in to keep the team focused and keep the plan on track by directing discussions to ensure objective, strategic thinking around key issues, tapping everyone's knowledge and expertise, raising pertinent questions for discussion and debate, managing conflict, and handling group-think and other group dynamics issues.

The identified Quick Win and Long Term Amplifiers are broken down into monthly and quarterly implementation targets.

Some items are very easy to implement and require nothing more than a reallocation of working capital. Other items are more strategic, requiring longer term vision and very complex implementation plans.

Once we've identified what you can do to quickly and strategically increase your valuation, the implementation plan delivers the "how".

5. **Step 5: Valuation Maximization**– It's imperative to monitor the progress of the plan and to measure the right things.

   When you're measuring the right things you can see how it's keeping everyone on track to your goal of amplifying your valuation and maximizing your outcome in a potential sale.

   If you don't measure the right things, no one feels any forward momentum and goes off and gets focused on the wrong things; things that may not be aligned with maximizing your valuation.

   You'll want to make sure the person doing the implementation has the required skillset. If not, then getting the right person is part of the plan.

   Our project leadership creates a dashboard illustrating your progress against the desired results, displaying the status of your valuation multiple and the progress being made toward maximizing your valuation in a future transaction, enabling you to continue to do what you do best, run your company.

Example

Jack is the CEO of a high-tech company that found he had hit a growth wall. Work wasn't fun anymore and growth had stalled despite the fact the company had grown 50% year over year just a little while ago. He dreaded what he called his "3:00 am walk." He dreaded that walk to the bathroom in the middle of the night, saying to himself over and over, "Just don't think. Just don't think." Ultimately he would think about work and be up for a long time, unable to go back to sleep.

Jack tried all of the usual fixes to increase valuation. He changed his sales compensation plan to incent his sales teams to sell more. He offered big sales incentive programs (spiffs). He tweaked his marketing spend to add more social media activities in order to generate more leads. These activities initially showed some promise but soon began to stall and ultimately failed to change behavior and delivered no long term benefits.

Jack was able to get over that wall to a place where work is fun again, and not surprisingly, the company is growing again and the valuation of the company has increased because he and his team followed a blueprint for growth designed to overcome those barriers and create greater value in the company.

The blueprint contained a prioritized project plan with milestones and timeframes that identified foundation blocks necessary to create and sustain long-term growth like developing the management team, enhancing the marketing strategy, and the development of a financial strategy.

It also identified mid-term opportunities to improve the value of the company's existing operations. Projects undertaken included improving the system of communication by the management team, expanding the company's geographic sales reach, and strengthening the company's finance team.

The blueprint also laid out longer term initiatives designed to leverage the company's strategic assets, differentiating itself from its peers. This included recalibrating the organizational structure to support growth, engaging in M&A activity to fill product gaps and expand its market reach, and to enhance the company's sales team.

With this blueprint, Jack and his team had the confidence to undertake the changes necessary to turn his good company into a great company. He knew what projects needed to be done and in what order. He also knew what the impact of successfully completing each project would be on the value of the company.

Now work is fun again. The management team is focused and aligned because the company's direction is clear with agreed upon goals and targets.

The wind is at his back - he's reached “escape velocity” and is over that growth wall.

Building and implementing the Valuation Amplification Process is an exciting journey because all your hard work and aspirations are finally channeled into a single focus with a roadmap to the valuation you want.

Issues regularly occur that weren't anticipated in the original plan and decisions need to be made that are in keeping with the desired objective. The Valuation Amplification Process provides the framework for those decisions.

Often those inside the company are too close to the problem and therefore unable to see how to apply these simple processes or how to refine them when the situation changes. Typically these companies have started with an idea but discover they're not sure how to implement the steps or the results were not to the level of impact desired until they brought us in.

With bigger companies come increased complexity, and opinions, and fog. Sometimes the best opportunities are buried away just waiting to be uncovered.

We are able to help our clients because we've been there; we've worked companies out of stagnation and into a higher valuation.

We look at a company the way an investor does and we see the potential of what it can be, and we know how to make that a reality.

The trickiest part is identifying the correct amplifiers to focus on and leverage. They're different in each company and identifying them is the most important part.

To create your own **personal Valuation Amplification Plan** to increase your valuation, call or email me with your contact details and a suitable time to speak.

Mike Rogers
President & CEO
The Revenue Group
+1-925-914-7033
mike@therevenuegroup.net
www.therevenuegroup.net