



# **Maximizing Corporate Value**

*Methods and activities to gain a position of strength in future business interactions*

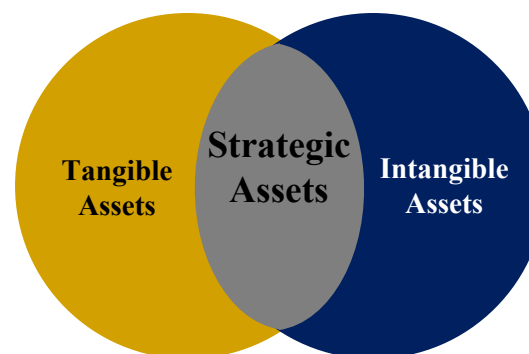
September 19, 2017

# Outline

- **“Strategic Assets” and Evolving Value Drivers**
- Methods to Maximize Corporate Value
- Market Scan and Corporate Readiness
- M&A Sales Process Overview
- Success Factors and Summary

# Concept of Strategic Assets

- Strategic assets ...
  - Create recurring benefits
  - Are unique to a company
  - And difficult to imitate



- Accounting of high profile transactions point to increasing purchase price allocated to goodwill due to **strong strategic asset value**

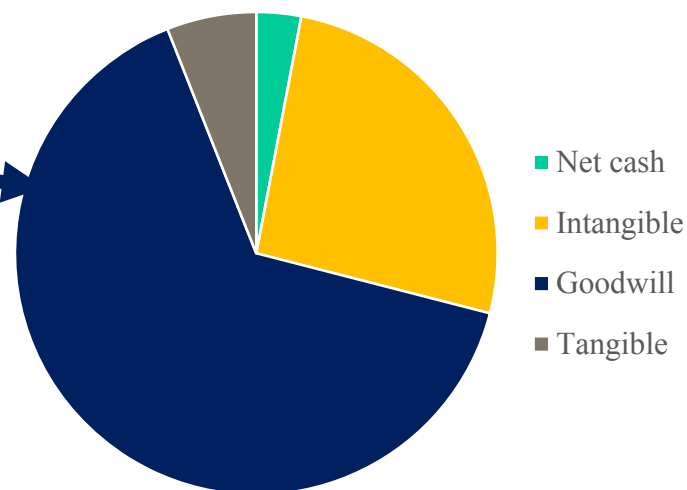


# Strategic Assets and Goodwill



$$\text{Purchase Price} = \text{Cash} + \text{Intangible Assets} + \text{Goodwill} + \text{Tangible Assets} - \text{Liabilities}$$

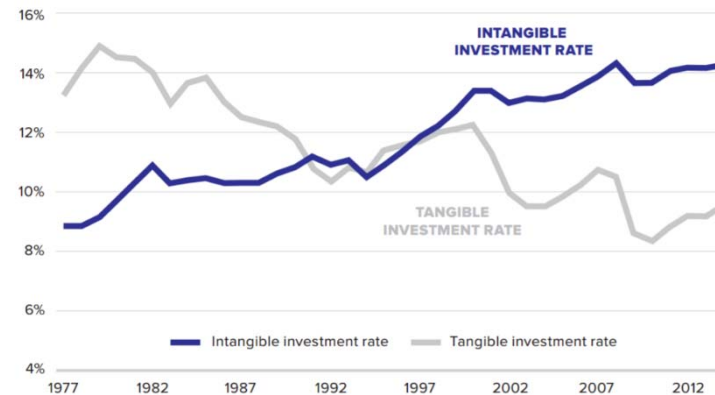
- Magnitude of goodwill in a transaction is indicative of **premium value**
- Premium = amount paid less book value
- Strategic assets have historically been difficult to quantify, but know to make companies more valuable



*Tech sector example*

# Evolving Value Drivers

Corporations have steadily increased intangible asset investment, while decreasing investment in tangible assets



From: Lev and Gu, "The End of Accounting and the Path Forward for investors and Managers," 2016.



Fewer companies pursuing acquisitions for production facilities



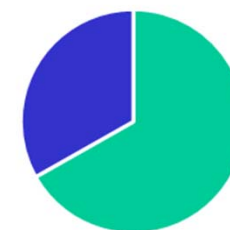
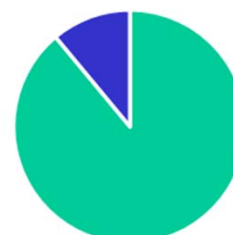
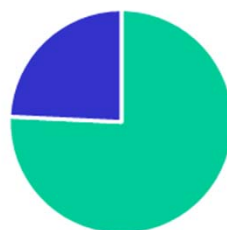
More than \$2.5 trillion in goodwill on corporate balance sheets



Investments in **strategic assets** can provide a better ROI than efforts focused solely on earnings growth!

# Tech Segment Example

Over 500 M&A deals from 2010-2016 in “Tech” were analyzed to uncover **strategic asset characteristics** and **goodwill drivers**



■ Goodwill ■ Other

- Sector analysis helps determine characteristics that influence “above-market” value
- For Gates and Company’s Tech sector analysis, identified goodwill drivers included strengths in **social media**, **web advertising**, and **data analytics**
- Additionally, **an active user/subscriber base** was a driver in over 60% of acquisitions

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# Why Maximize Corporate Value?

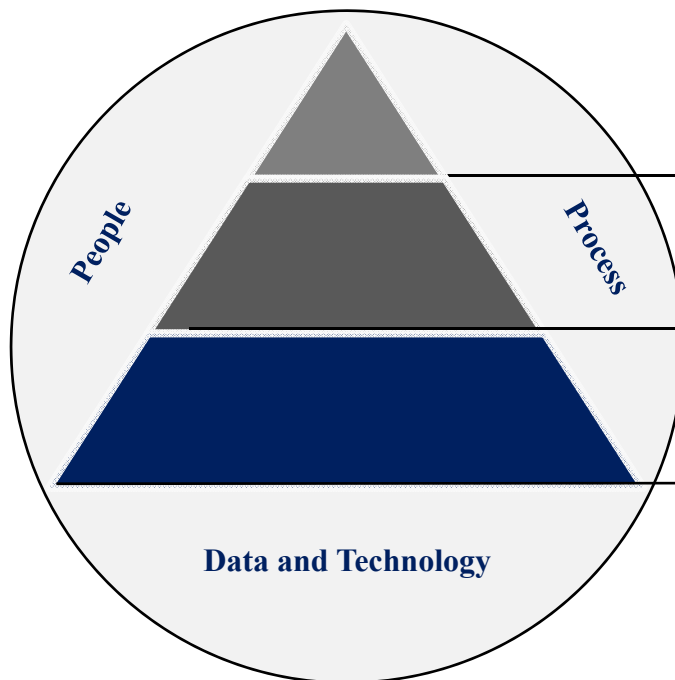
- Maximizing value – and tightening operations and governance – puts companies in a **position of strength** for:
  - Raising capital
  - M&A ... both buy-side and sell-side
  - Joint ventures
  - Strategic partnerships
  - Supply agreements
  - Purchase agreements





# Methods to Maximizing Value

Begin with some traditional “blocking and tackling”



## Phase 1: Planning and strategic asset development

- Goal setting, corporate and market assessment, competitive analysis, gap analysis, etc.
- Strategic Plan – prioritized objectives to support growth and **strategic asset** development
- Tactical Plan – roadmap of activities, resources, and timing ... “inspect what you expect”

## Phase 2: Predictable and transparent processes

- Process maps, process improvement initiatives, and metric tracking
- Implementation of intellectual property initiatives and proprietary process refinement

## Phase 3: Strategic asset monetization

- Financial analysis and valuation – recasting historic results and developing *pro forma*
- Preparing for an eventual transaction in direction most desired by other parties

# Strategic Asset Development



- Define sector attributes and representative companies
- Analyze a significant number of transactional data sets
- Uncover recurring themes to identify **strategic asset characteristics** and **goodwill drivers**
- Overlay findings with trending buyer objectives



## Strategic Asset Development

Address challenging strategic issues from innovation approaches to product designs, from technology assessments to portfolio management.

Patents Proprietary processes  
Relationships Trade secrets  
Trademarks Brands



## Monetization and Valuation

Align the strategy and the most qualified leaders, project managers, and analysts to implement plans by turning vision into execution.

# Understanding M&A Drivers



## Financial buyers

- Buy, build or bolt, and flip
- Pricing: ROI and EBITDA
- Concerns: financial return and deal structure
- Provide vehicle for secondary transaction



## Strategic buyers:

- Fill product/service gaps, achieve vertical integration, diversify
- Consolidation or buildup
- Pricing: “accretive” and provide additional value through synergy
- Concerns: integration, strategic fit, and culture – but may not want you!



## Sellers:

- Achieve liquidity
- Access additional growth resources
- Sell into consolidation
- Concerns: pricing, liquidity, and lifestyle

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# Market and Corporate Considerations

- **Valuation Influencers**
  - Robust set of strategic assets
  - Business performance and trajectory
  - Market trends and market value drivers
  - Financial/capital markets
- **Corporate Readiness**
  - Product and/or service relevance
  - Strength and scope of intellectual property
  - Physical asset condition
  - Operations and processes mapped and optimized
  - Sales and marketing
  - Organizational structure and corporate culture
  - Governance and legal issues
  - Appropriate advisors in place



# U.S. M&A Activity in Q2 2017

## PE deals in \$10-\$250 million range ...

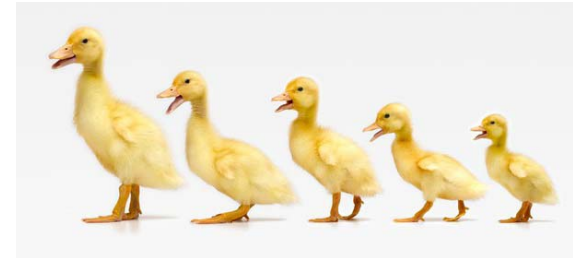
- An extended seller's market with high valuations and strong debt availability (driven by non-bank lenders)
- Average EBITDA multiple reached 7.4x (highest quarterly mark in the 15-year history of the database)
- Average total debt at 4.2x
- Senior debt pricing increased, as did sub-debt coupon pricing
- Deals with above average revenue growth and adjusted EBITDA margins captured a 33% premium compared to other deals
- Manufacturing deals averaged 6.7x multiples in 1H 2017



Source: *GF Data*

# Agreements and Governance

- Supplier and customer agreements
- Rental/lease agreements
- IP ownership
- Contract terms and assignment clauses
- Employment agreements and compensations plans
- Creditor terms and covenants
- Shareholder consents and approval requirements
- Buy-sell agreement
- Board meetings, committees, and meeting minutes



# Financials and Recasting

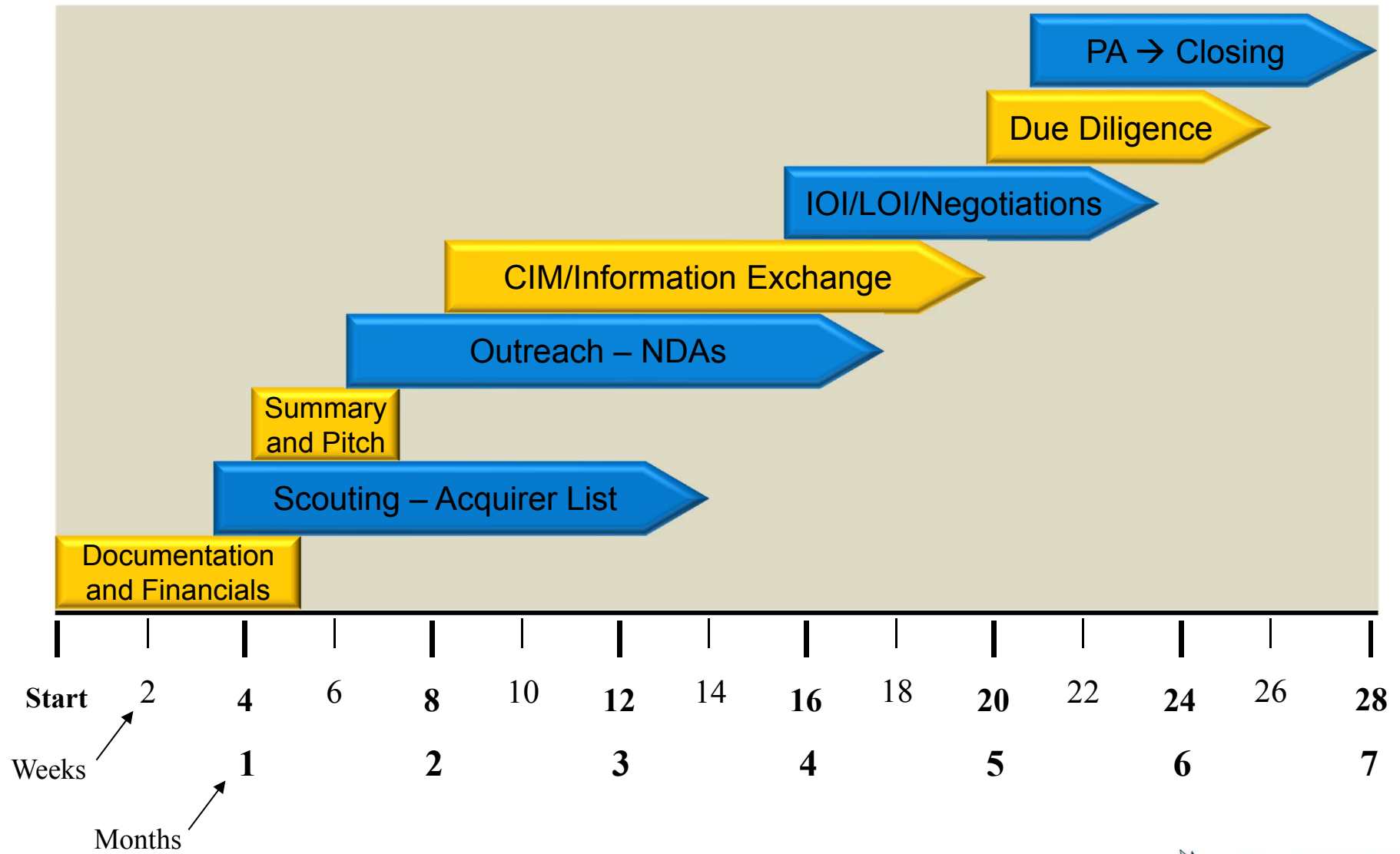
- Privately held companies' financials are recast to accurately represent cash generation
- Typical add-backs include:
  - Owners' salary in excess of market
  - Management perks in excess of market
  - One-time extraordinary expenses
  - Operational/accounting policies for foreign subsidiaries
  - Other
- Balance sheet issues
- Clean "cap table"



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# Sales Process Example



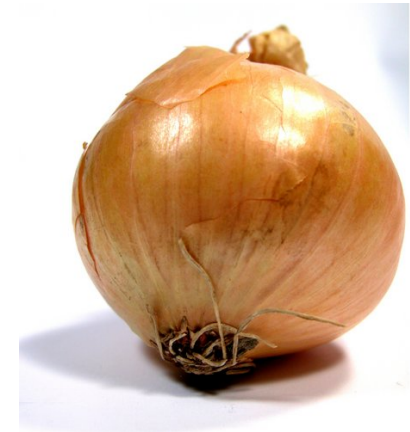
# Scouting

- Various sales methodologies
- Criteria development
  - Strategic and/or Financial
  - Size (revenue, number of employees, etc.)
  - Target market sectors
  - Geographic considerations
  - Product/service offering
  - Seek *fits* and/or *gaps*
- Methods for identification and tracking
  - Proprietary database
  - Internal professionals and contact network
  - Venture capital and private equity firms
  - Trade associations
  - Market research



# Outbound Phase

- Blueprint target buyers
- Anonymous contacting
- Peeling of the onion:
  - Phone pitch
  - Anonymous executive summary
  - NDA → Information memorandum
  - Meetings/conversations with management
  - Simple due diligence to submit IOI
  - Additional diligence for LOI
  - Signed LOI triggers **detailed** due diligence
- “No Shop” periods
- Concept of **preemptive offer**



# Letter of Intent

- Starts with “Non-Binding”
- Form of transaction (deal structures)
- Purchase price
- Definitive agreement
- Access to company
- Representations and warranties
- Exclusivity (a.k.a. “No-Shop”)
- Conditions to closing
- Confidentiality
- Disclosure



# Definitive Purchase Agreement

- Purchase and sale of ...
- Purchase price
  - Cash
  - Note
  - Stock
  - Earn-out
- Representations and Warranties
- Covenants (negative and affirmative)
- Conditions to Closing
- Indemnification
- General Provisions



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# Business Success Factors

- Understand M&A market dynamics – for which assets will buyers pay a premium
- Understand valuation approaches and set reasonable expectations
- Map and optimize all key business processes
- Utilize performance metrics wherever possible
- Robust sales management and opportunity tracking
- Make strategic planning and innovation a standard, evergreen business process
- Expand (and maintain unencumbered ownership of) intellectual property
- Consider *Reviewed* or *Audited* financials





# Summary

- Build for the future
- Monitor market dynamics and trajectory
- Routinely update strategic plans
- Work proactively on expanding the corporation's set of strategic assets
- Lock down on processes, governance, and intellectual property
- Build quality support team early
- Keep your eye on the ball
- Be prepared!





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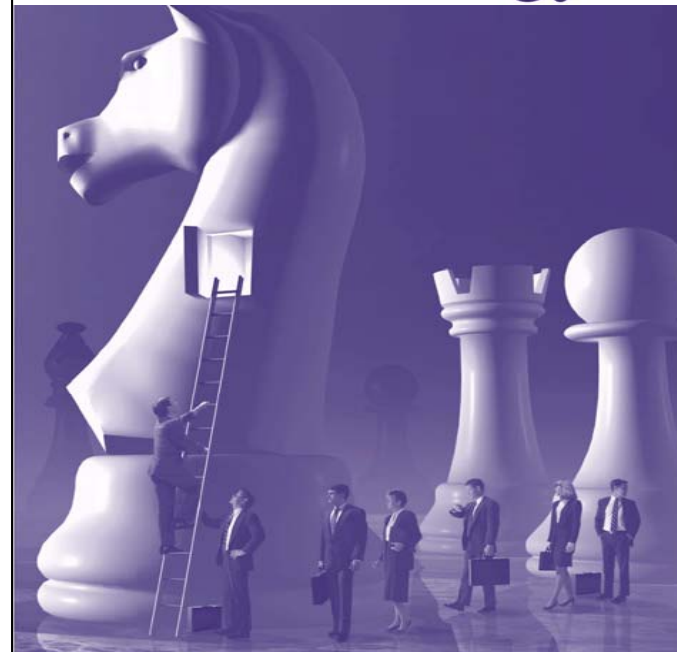
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# What's Your Attack Strategy?



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