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VALUE

In the Eye of the Beholder



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ROCG
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How an Owner Sees the Value





How a Buyer Sees the Value



#1. Understand Value

Know how **Value** is seen



Case Study – McGregor Socks

- Rapidly declining sales
- Great sucking sound!
- Family issues
- Stuck in rut of “the way we do things around here”
- Fear



Case Study...



- Great **Brand**
- Smart **Merchandising**
- Enviably **Retailing**

- Manage the **Long Supply Chain**
- **Warehouse** vs. factory
- **Risk** – been there, done that
- **Family** – mediator, negotiation



What Will Your Business Be Worth?

Value:

- Is in the eye of the beholder
 - What a buyer will pay for business
- Depends on whom you ask
 - Strategic versus financial valuations
- Mixes art and science
 - Different buyers use different valuation methods
- Depends on Timing – boomers exiting
 - Values are cyclical – catch the peaks

Can You Really Affect Valuation?



Adjusted Book Value

Capitalization of Income

Cash Flow Method

Discounted Cash Flow

Industry Comparable

Multiple of EBITDA

Multiplier or Market Value

Tangible Assets

Asset Valuation

Capitalized Earnings

Replacement Cost

Excess Earnings Method

Multiple of Earnings

Multiple of Cash Flow

Rule of Thumb Methods

Value of Intangible Assets

How you **Exit** affects **Valuation**

How will Your business **End its Season?**

- **Retirement**
- **Forced**
- **Succession fight**

Planned Exit





2. Connect Correctly

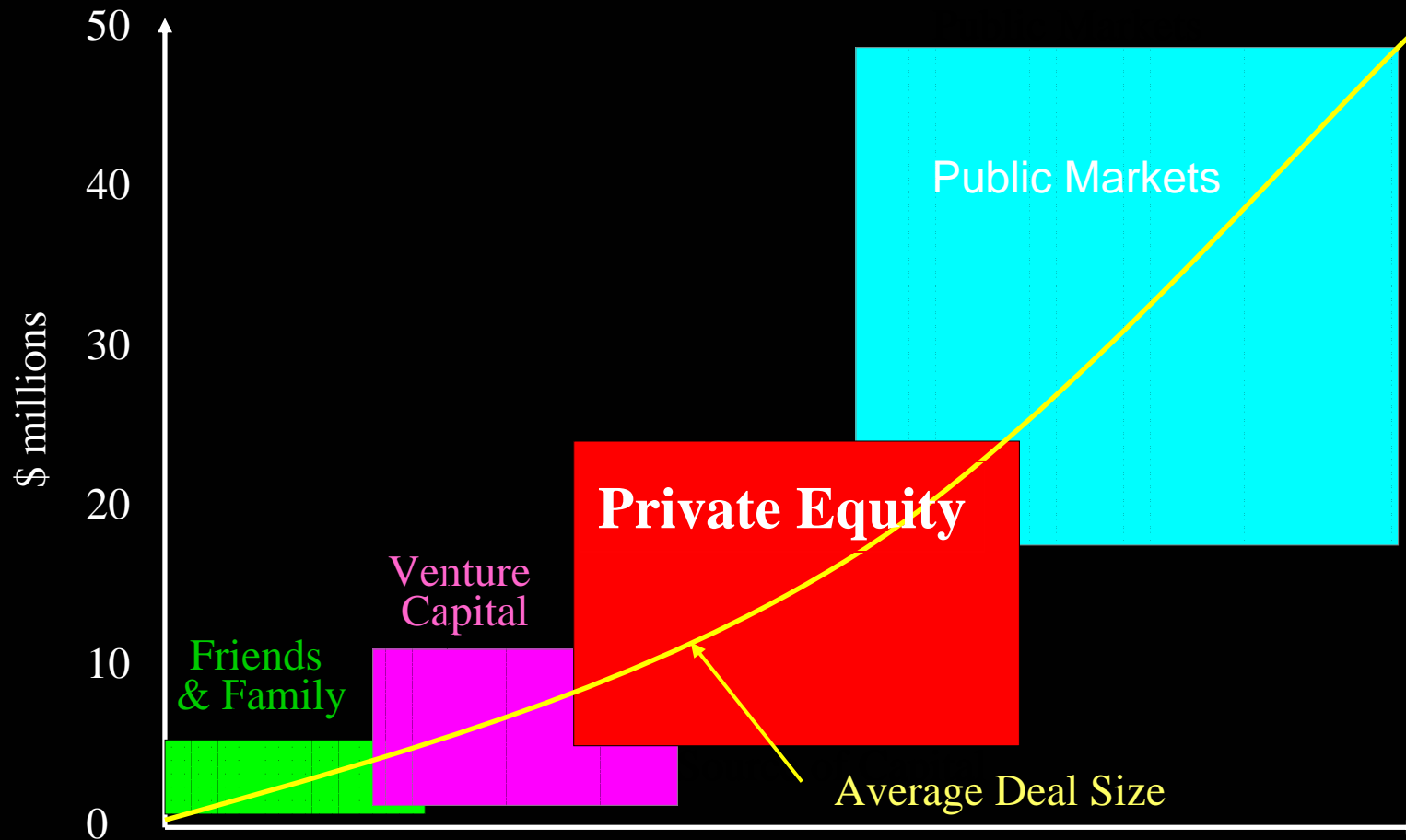
Your **Value** depends on where you sit on
the **Food Chain**

- Who is out there to buy?
- Who can help you?
- What do they need from you?



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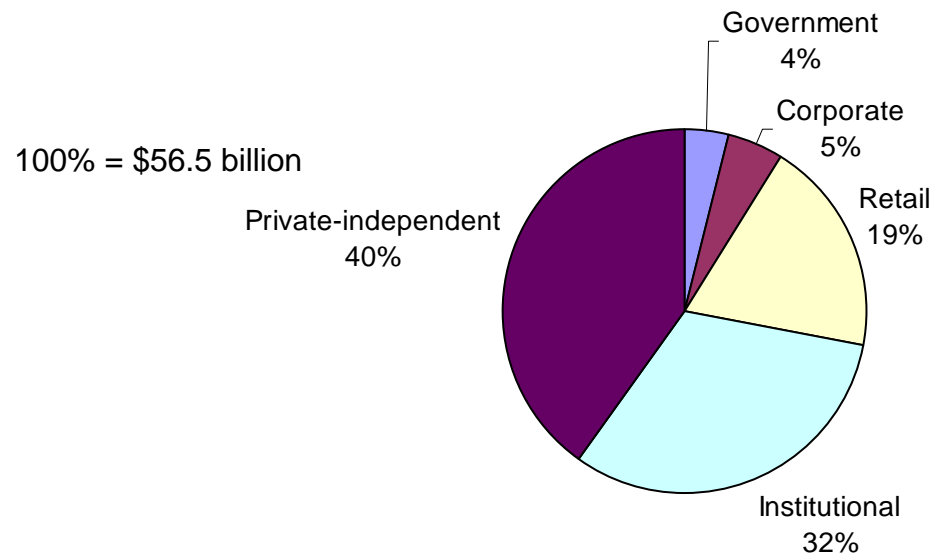
Money Food Chain



Canada's Private Equity Market

Capital under management by private equity funds - **\$56.5 billion**

Total Capital Under Management by Private Equity Investor Type; 2005



Source: Thomson Macdonald

#3. Manage Fears

Loewen & Partners' research findings:

1. Give away equity – ownership & **control**
2. Too many **strings** attached
3. Forced to do things you **don't** want to do



How big do you want your pie to get?





Fear of giving up **Equity**?

Your Net Worth, **100%**
\$10 million

Your Net Worth, **100%**
\$15 million

Your Net Worth, **62.5%**
\$10 million
\$6 million

Your Net Worth, **62.5%**
\$20 million
\$12 million

Equity Investor, 37.5%

Equity Investor, 37.5%

#4. Anticipate Questions

Mr. Deep Pockets and his
Four Brutal Questions:

- What's the **Business**?
- Is it **Sustainable**?
- Why your **Team**?
- Future earnings of **Finances**?



Financial Valuation - Methodologies

- Many approaches
- Different industries have differing methods

Forward looking financial information
is key to a successful financing

Detailed Financial Modelling

- Contained in “Business Plan” (Company Report)
- Forecasts based on client’s budget with our review to ensure conservative assumptions
- Reflect realistic outlook for the company
- Financial models built to our specifications and include variable inputs on all key drivers

Financial Valuation

Key concept = **growth** in future earnings

Future Value

- Discounted cash flow
- Multiples of:
 - Earnings (i.e. >10 x)
 - EBITDA (i.e. 3 - 5 x)
 - Cash Flow (i.e. 8 -10x current)
- Public company comparables
 - Current trading multiples
 - Precedent M&A multiples
- Industry specific benchmarks



Valuation – Premiums vs. Discounts

Key concept = **predictable** future earnings

#4. Be Prepared

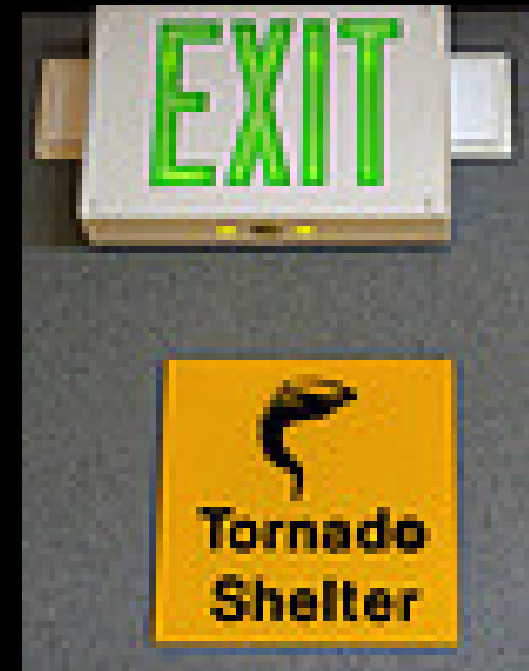


- Be **investor ready**
- Have “business **plan**”
& **financials** in writing
- Internal
housekeeping
 - Accounting, legal,
banking etc.

Timing Is Everything

Values are cyclical

- Anticipate the peaks
- Dating vs. marriage – develop strategic partnerships



6 Tips to Add Value

1. Understand that "**Value Gap**" - be realistic
2. Know your place in the **Food Chain**
3. **Manage your Fears** - Be informed, obtain good professional advice early, chat to your friendly corporate finance specialist
4. Face the **Four Brutal Questions**
5. **Be Prepared** - Strategy, Plan & Accounting, identify Universe of future buyers

#6. Do Plan

V.O.T.E.

- **V**ision
- **O**bjectives: To do..., to develop...
- **T**asks to be done
- **E**mployees to champion and be accountable



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Without a Plan

*Always the
bridesmaid
Never the **bride***





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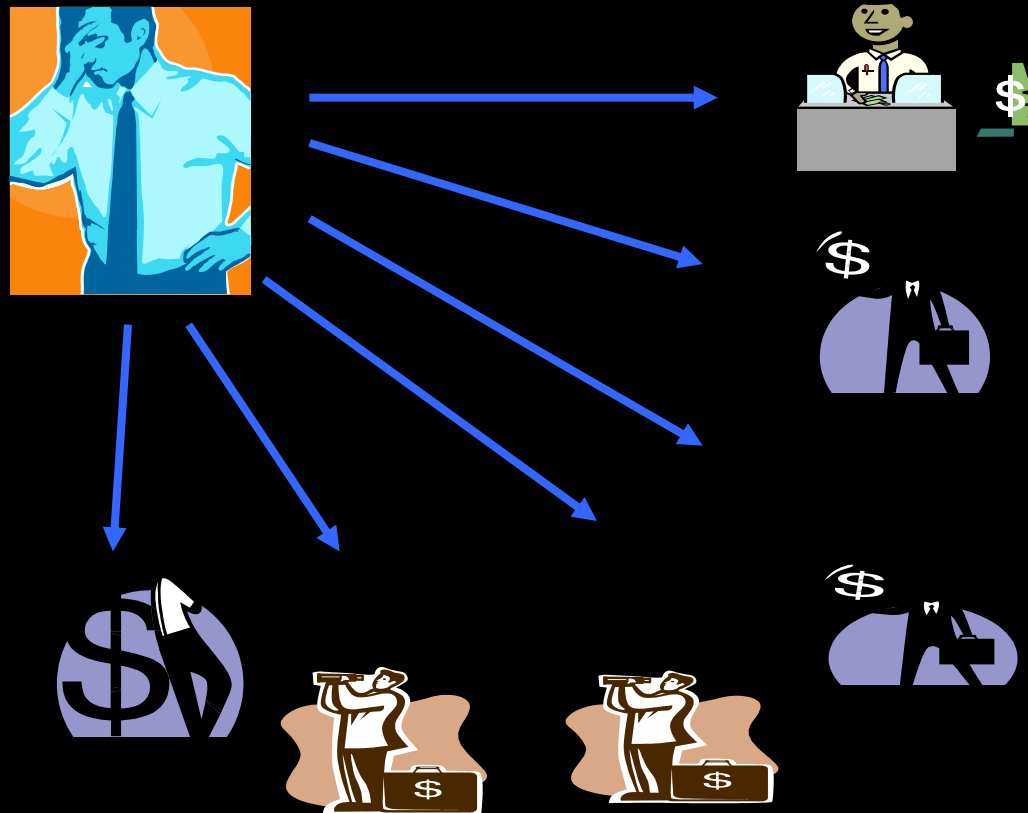
Get Going!





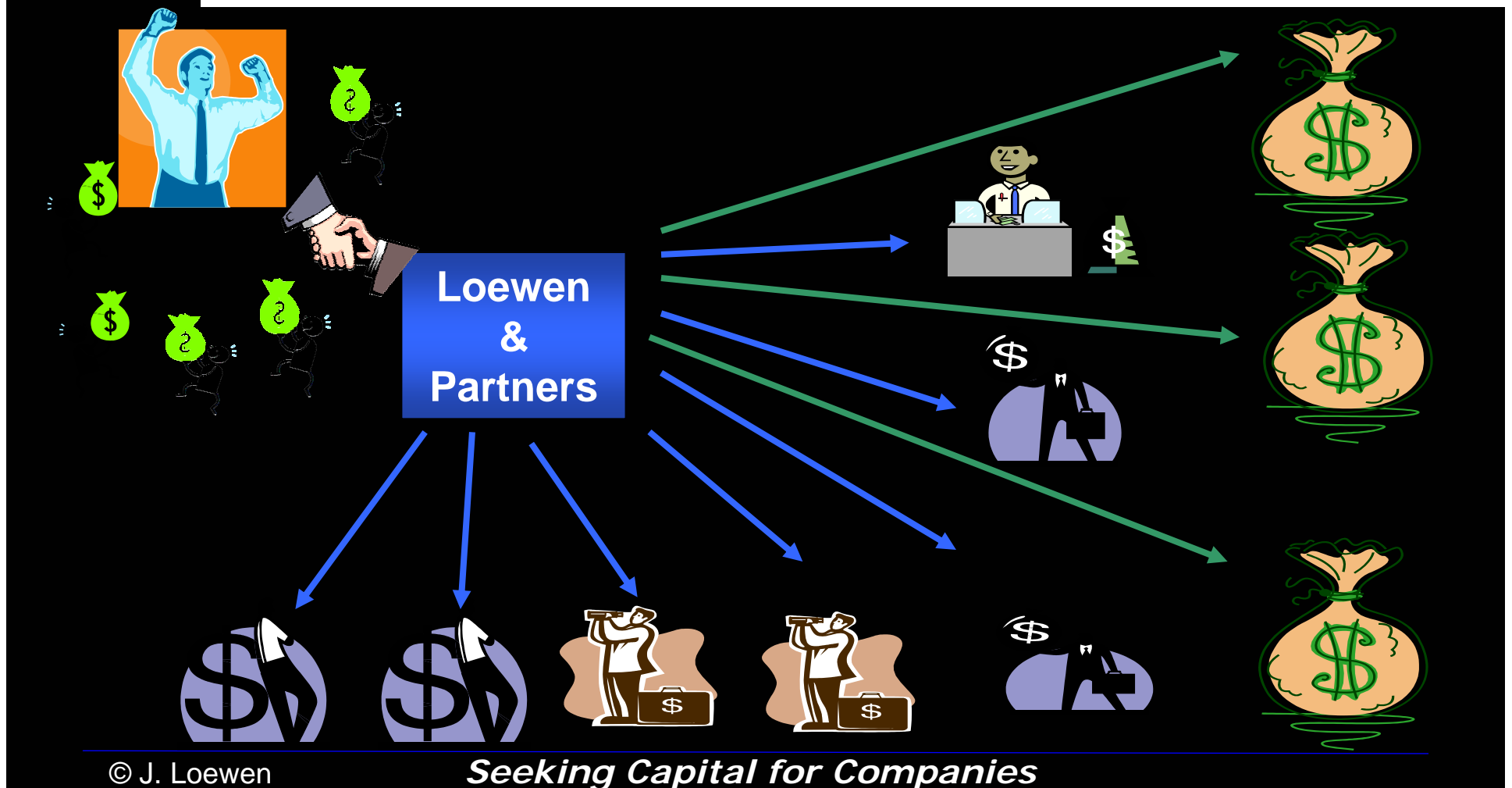
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Financing Without Loewen & Partners





Financing With Loewen & Partners





Loewen & Partners

Serving growing companies:

- Matching clients with the right institutional investor – financings and sales
- Private placements - \$5 million to \$30 million
- Corporate finance advisory firm
- Family owned business
- **\$70 Million** capital found for business owners



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Our reputation is built on quality and integrity