

THE BIGELOW COMPANY LLC

Do You Think Like a Shareholder – Or Merely Like a Manager?

*Most owner-managers
don't think like
shareholders.*

*They measure success
by revenues...and only
rarely by ROI.*

*Shifting your
perspective is the
most powerful step
you can take to
maximize your
enterprise value.*

Shareholders look for a return on their investment – profit they can put in their pockets as dividends and capital gains. They expect to sell their stock someday – for a sizable multiple of their original investment. For a shareholder, ROI is the most fundamental measure of success.

Yet most owner-managers of privately held businesses don't naturally think like shareholders. They often measure their success only as managers – by revenues, market share, and customer satisfaction – and only rarely by ROI.

Your Personal Balance Sheet

Chances are, you have investments outside of your business – stocks and bonds, real estate, and assorted valuables. If you have a broker or fund manager, you monitor their performance carefully, and fire them if they fail to achieve the performance you expect.

Likewise, you carefully manage your personal debt, refinancing mortgages, and switching lines of credit to obtain the most favorable interest rates.

Yet curiously, we find that most business owners pay little or no attention to the return on investment of their largest asset: their business. They don't budget a dividend, nor do they plan for a capital gain. They have a limited view on what their business is worth.

There are several methods for determining what your business is worth but one of the simplest methods is a multiple of your EBITDA (Earnings Before Interest Expense, Taxes, Depreciation & Amortization). If your business generated \$10 million in EBITDA last year, it's worth (on average) somewhere between six and eight times that in total enterprise value.

If that \$60–80 million were invested with an investment manager, we imagine that you'd pay very close attention to your ROI. Why hold your management less accountable for the ROI of your business than you do your investment advisor for the performance of your investment portfolio?

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Every business owner should be able to answer these questions.

Refocus Your Attention

If you're planning to recapitalize or sell your company someday and capture the value you've worked so hard to create you should focus your attention on the following questions today:

- ❖ How do I define and measure my ROI?
- ❖ How do I hold my managers accountable to me as an owner?
- ❖ Do we budget profit as a cost item – or simply accept whatever falls to the bottom line?
- ❖ What is my industry telling me to do? Should I invest more...or reduce my investment?
- ❖ What is my strategic position in my industry?
- ❖ How do the leaders in my industry measure themselves – and can we use the same metrics?
- ❖ What are the external factors that could depress the value of my business?
- ❖ What will make my business worth more to a potential buyer?

As an owner-manager, you must be able to answer these questions – because they are the questions that a potential buyer will ask.

A Different Mind-Set

Shifting your perspective is the most powerful step you can take to maximize your enterprise value. Defining success from a shareholder's point of view will give you and your team a clear set of objectives and metrics. And if your managers and employees have "skin in the game," so much the better. Watching the value of your investment grow not only validates your business plan, it's fun for all owner-managers.

This "Lesson Learned for Building and Capturing Value" reflects knowledge and insights we've gained working with privately held companies throughout North America.

For more information about The Bigelow Company, visit www.bigelowco.com or call us at 603-433-6000 for a confidential discussion of your unique situation.

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Dave Changes His Mind-Set – And Doubles His Value



Dave's year end profit of \$4.0 million was terrific by industry standards – but was it a good enough return on his investment?

The following story is based on The Bigelow Company's experience with an owner who dramatically increased the value of his business by learning to "think like a shareholder." The names and details have been changed to protect the owner's privacy.

For decades, Simpson Printing in Milwaukee had grown steadily, earning a good living for its owner/CEO. Dave was a classic hands-on owner-manager whose hard work and dedicated team produced sales and profit margins that matched industry averages. As frequently happens in the printing business, Dave was faced with the prospect of buying a new multi-million dollar press in order to stay competitive in his price sensitive market niche. He asked for The Bigelow Company's advice about investing in this new press.

Bigelow asked him to take a step back and look at his Return on Investment as an owner – something he had never really done before. His year-end profit of \$4.0 million was terrific by industry profit standards – but was it a good enough return on his \$80 million shareholder equity investment (the "book value" of his business)? Were he a passive investor, would he have been satisfied with this level of return? Given the fact that he could have earned \$3.0 million with no risk at all by investing his capital in T-bills, the answer was "no." Dave decided that a 5% return on his \$80 million investment was not good enough – and it certainly would not be good enough to attract a private equity investor to the business someday. Private equity investors say they are typically accustomed to a 20–30% ROI.

Now Dave was thinking like an owner, not just a manager.

So together we began looking at the options for either increasing his Return, or lowering his Investment. To stay competitive, Simpson Printing needed to upgrade its equipment – but Dave did not have to use his operating profits to do so. He also didn't have to continue competing against the industry giants for high-volume commodity printing where profit is measured in pennies on the dollar.

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Empowered to take more risk, he and his management team identified and pursued a new, higher value-added niche in the market. The company's profit margins grew and Dave's ROI widened.

When a few years later Dave decided to proactively seek a new investor for the company, its metrics were better than industry averages – which meant that Simpson Printing was worth more to investors. In the recent sale of Simpson Printing to a strategic buyer, Dave captured a high multiple on his investment in the business, while also retaining a meaningful equity position in the parent company going forward. Today, with a diversified portfolio that includes more than his printing company, Dave's net worth is continuing to grow, with the prospects for future returns looking brighter than ever.

Thinking like a shareholder, not merely like a manager, has paid off beyond Dave's greatest expectations.