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VALUE FACTORS

A LOOK AT YOUR COMPANY THROUGH THE EYES OF A BUYER



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As discussed previously, sophisticated business buyers consider a number of factors in their evaluation of a company. Based on our 150 years of combined experience selling companies, [Your Firm's Name] has identified 54 important factors that buyers consider in determining the value of a particular company. The section below provides our evaluation of Sample and rates the Group against each of these important value factors. The factors are divided into Personal, Business Operations, Industry, Legal/Regulatory, Financial, and Economic/M&A Market.

PERSONAL FACTORS

01.

AGE/MOTIVATION OF OWNER(S)

OPPORTUNITY FOR IMPROVEMENT

Description: How old is the owner? Does the owner have a specific plan in place regarding what he or she will do after exiting the business? Buyers will be concerned that a lack of a plan may indicate that the owner is not committed to exiting and that the owner may change his/her mind just before closing.

Analysis: Sample has 7 shareholders ranging in age between 42 to over 80. Three of these shareholders hold less than 5% each and four have holdings of 23%. The four shareholders with the larger ownership percentages range in age between late forty's to mid-fifty's. While two of the large shareholders have indicated a clear wish to sell the Group and have a plan in place for life after Sample, the other two large shareholders are not interested in selling the Group at this time. Due to the disparate wishes of the group of shareholders, we value this factor as an "Opportunity for Improvement."



02.

ATTITUDE OF OWNER

OPPORTUNITY FOR IMPROVEMENT

Description: Does the owner demonstrate a positive and cooperative attitude? Is the owner enthusiastic and committed to the business' future? Is the owner in no hurry to sell? Does the owner answer all questions honestly and openly?

[YOUR FIRM'S NAME] Comment: Most parties have been positive about the future of the business, but there is significant animosity and mistrust among the shareholders. In addition the majority of the shareholders have indicated that they are not interested in selling at this time. We have experienced significant delays in obtaining the information we required for the completion of this project. This indicates to us that there may be considerable resistance to a sale. We value this factor as an "Opportunity for Improvement."

03.

FAMILY/PARTNER CONSENSUS

OPPORTUNITY FOR IMPROVEMENT

Description: Are the owner's spouse, family members and/or other shareholders in full agreement about the exit plan? Do any family members or other shareholders have any hidden agendas?

[YOUR FIRM'S NAME] Comment: The seven shareholders have differing opinions about selling Sample. This will complicate attempts to sell the Group or bring in an equity partner. We value this factor as an "Opportunity for Improvement."

04.

REASONABLE EXPECTATIONS OF VALUE

OPPORTUNITY FOR IMPROVEMENT

Description: Are the owner's expectations in line with recent sales of comparable businesses? Has the owner received a business evaluation from an independent third party and does the owner consider the enterprise value to be acceptable?

[YOUR FIRM'S NAME] Comment: It is not clear what the individual shareholders' value expectations are. As such we assess this factor as an "Opportunity for Improvement."



05.

OPEN TO DEAL STRUCTURE

OPPORTUNITY FOR IMPROVEMENT

Description: Is the owner insisting on an all cash transaction or will he or she consider various forms of deal structure including seller notes, non-compete payments, consulting agreements and/or earn outs? Is the owner willing to provide a buyer with the normal indemnifications and warranties that are typical in similar transactions?

[YOUR FIRM'S NAME] Comment: Due the large number of shareholders, there are divergent views on the acceptability of deal terms. It is not clear that the shareholders understand the interplay between price and terms and as a result, we value this factor as an "Opportunity for Improvement."

BUSINESS OPERATION FACTORS

06.

PRODUCTS/SERVICES

POSITIVE

Description: If the Company is a manufacturer, does the Company manufacture a proprietary product, or is it a job shop? If the Company is a distributor, does it provide value-added services? If the Company is a service-provider, does it offer a differentiated service?

[YOUR FIRM'S NAME] Comment: The Group manufactures and distributes to its customers a range of bathroom remodeling products. The products offered include bath tub liners, bath tub walls, acrylic replacement tubs for baths that can not be lined, shower pans, soap dishes and other accessories, as well as installation accessories such as drain accessories, sealants and installation equipment. Sample buys the acrylic bath tubs in completed form. It also does not manufacture the shower pans, as these products require a fiberglass process. Sample's products are manufactured with an antimicrobial additive, MicroBan®. MicroBan® is widely advertised to inhibit the growth of bacteria and the Group does capitalize on this in its advertising. The line of products form a "system" designed to enable the Groups customers (mainly franchisees) to complete a remodeling project with virtually no construction and that could be installed in one day. The line of products was developed to be "profitable and repeatable." We value this factor as a "Positive."



07.

MANAGEMENT TEAM

OPPORTUNITY FOR IMPROVEMENT

Description: Does the Company have a strong and experienced management team in place that has demonstrated a track record of success, or is the Company largely dependent on the owner for its success?

[YOUR FIRM'S NAME] Comment: The Group has experienced management strife over the last few years. This prompted its previous CEO, one of the founders of the Group, to move aside for the appointment of a non-shareholding CEO. The new CEO may not be available to provide management continuity to a buyer.

Three of the other shareholders are active in the Group. In addition two other shareholders are drawing salaries without performing any management tasks.

Since the appointment of the new CEO, the management team has performed better as a group, but still lacks depth. This was evident during our procurement of information, which the team did not seem to be able to handle in addition to its normal day-to-day management tasks.

The franchise operation is loosely headed by one of the large shareholders, assisted by a vice president of operations and marketing (Joe Serina). Mark McMann and Joe Serina spend a lot of time on business development. This is paying off in the potential being unlocked in the USR/Home Depot relationship and in the growth seen in the franchise sales in 2005. However, the business development effort currently needs more focus and control and we are of the opinion that Mark and Joe should have a sales team support structure in order to leave them free to manage the process.

As a result, we value this factor as an "Opportunity for Improvement."

08.

SALES TEAM

OPPORTUNITY FOR IMPROVEMENT

Description: Does the Company have a strong sales team with a record of new account growth? If the Company utilizes sales reps, is the Company's business a significant and profitable part of the reps' business.

[YOUR FIRM'S NAME] Comment: The Group relies for 87% of its sales on its franchisees. There is a vice president managing the franchise group, but his efforts are slanted towards customer relations, rather than sales. There is no discernable sales team in place. As a result, we value this factor as an "Opportunity for Improvement."



09.

SALES AND MARKETING LITERATURE

POSITIVE

Description: Are the Company's sales and marketing materials up-to-date, attractive and informative?

[YOUR FIRM'S NAME] Comment: The Group has attractive and informative brochures and a very complete package for franchisees. We value this factor as a "Positive."

10.

CUSTOMER BASE

NEUTRAL

Description: Do any of the Company's customers account for more than 10% of revenues? Does the Company have a long history with its major customers? Are new customers being added on a continuing basis? Are the Company's customers consumers, retailers, or large corporations?

[YOUR FIRM'S NAME] Comment: 87% of the Group's customers consist of franchisees. There are a few other customers who are potential new franchisees that are in a trial phase. One customer, USR, accounts for more than 20% of sales. USR's portion of sales dropped from around 24% in 2003 to 22% in 2004 and is reported by management to have dropped as a percentage of sales to about 17% in 2005. Sales to USR dropped by about 30% in 2005. However, due to a growth in sales to other customers total sales are increasing at a rate of about 7%. Although the USR customer concentration has been decreasing for the last year, USR is currently rolling out Sample Corporation in Home Depot stores. This will result in the USR portion of the Group's revenue increasing to over 70% over the next few years, increasing the Group's risk profile considerably.

In 2003 the Group sold products to 141 customers and in 2004 to 135 customers. Revenue has been relatively flat for the last few years. There is a trend in the customer base towards larger, more professional customers away from mom-and-pop installers. The Group has been adding franchisees that are already established businesses in the general bathroom and remodeling industry. It experienced about 12% gross attrition of customers in 2004 over 2003, although this may be the natural result of the "trial period" system with potential franchisees. New customers are being added, but not at a very fast rate. As a result, we value this factor as "Neutral."



11.

CUSTOMER RELATIONSHIPS

POSITIVE

Description: Does the Company have positive and long-standing relationships with its customers or do customers turnover quickly? Are the relationships with the Company or are they dependent upon the owner(s) remaining with the Company?

[YOUR FIRM'S NAME] Comment: Customer relationships are with the Group and not with shareholders or employees. Sample has a strong reputation. The franchise relationships result in strong and contractual ties and Sample has several customer relationship initiatives ongoing, such as annual meetings and regular phone conferences. It also involves its franchisees in research and development efforts. It is not clear whether the Home Depot sales to USR is adequately protected by an agreement between the Group and USR and this new sales channel may therefore carry large risk. At present the bulk of the sales are through the franchise network, however, and we value this factor as "Positive."

12.

VENDOR CONCENTRATION

POSITIVE

Description: Is the Company dependent on any single vendor or group of vendors? Are the Company's raw materials and other inputs readily available from multiple sources at competitive prices?

[YOUR FIRM'S NAME] Comment: The Group is not dependent on any single vendor or group of vendors. There are several vendors available for each of the products provided by the Group. As a result, we value this factor as "Positive."



13.

PRODUCT/SERVICE QUALITY

NEUTRAL

Description: Are the Company's products or service high quality compared to competitive products/services? Has the Company received a quality certification such as ISO 9000?

[YOUR FIRM'S NAME] Comment: The Group is not ISO certified. There does not seem to be an issue with large quantities of returned products and the Group did have its liners tested by a laboratory accredited by the National Voluntary Accreditation Program in early 2005. It passed all the requirements. Incoming product is inspected, but we are not aware of any formal written quality procedures. As a result, we value this factor as "Neutral."

14.

EMPLOYEES

NEUTRAL

Description: Does the Company have an ample source of qualified and competitively priced labor? Are employees well trained and motivated? Are salaries and hourly pay in line with comparable jobs in the geographic area?

[YOUR FIRM'S NAME] Comment: The Group's operations do not require specially trained employees. Employees in the manufacturing function seem to be well trained and motivated. Pay scales for employees not in the management group seem to be market related. Management level compensation is too high. As a result, we value this factor as "Neutral."

15.

EMPLOYEE BENEFITS

NEUTRAL

Description: How does the Company's benefit program compare to that offered by other industry players?

[YOUR FIRM'S NAME] Comment: The Group's employee benefit program includes normal and expected benefits and is in line with expectations for a company of this size. We value this factor as a "Neutral."



16.

UNION

POSITIVE

Description: Is the Company's labor force unionized? If the Company is organized, is there a history of good relations with the union and no strikes? If organized, is the Company's union contract set to expire within the next two years? Is the Company a party to a multi-employer pension plan?

[YOUR FIRM'S NAME] Comment: Since the Group is not unionized we value this factor as a "Positive."

17.

EMPLOYEE RELATIONS

NEUTRAL

Description: Does the Company have dedicated employees with positive attitudes and low employee turnover?

[YOUR FIRM'S NAME] Comment: Apart from relations in the management levels, employee attitudes are positive and relationships with the Group are good. As a result of the issues in management and between management and shareholders, we value this factor as "Neutral."



18.

FACILITIES

NEUTRAL

Description: Are the Company's land and buildings clean, well maintained and in compliance with all building codes and regulations? Do the Company's facilities demonstrate an efficient layout? Is there room for expansion within the existing facilities? If owned, is the seller open to either selling or leasing the facility to the buyer? Is a recent appraisal available? If the Company's facilities are leased, is the remaining term of the lease five years or less (including renewal options)?

[YOUR FIRM'S NAME] Comment: The Group operates from a rented facility in the North-West suburbs of Chicago. It is close to major expressways and O'Hare airport. The facility is clean and well maintained and the manufacturing layout seems efficient. The location is not large enough to accommodate much growth and Sample does in fact rent additional space in a facility close by. The business should, however, be relatively easy to relocate should the need arise. We value this factor as "Neutral."

19.

COMPUTER SYSTEMS

OPPORTUNITY FOR IMPROVEMENT

Description: Are the Company's computer and data processing systems up-to-date and fully integrated? Is the system's capacity sufficient to meet the Company's needs over the next several years or will it require an upgrade or replacement in the near term? Does the Company use standard software packages or does it operate proprietary software that was developed in-house?

[YOUR FIRM'S NAME] Comment: The Group's back room and front room system and software operations are not integrated and integration in that area may lead to improved efficiencies. Sample receives a significant portion of its orders from its website and may benefit from optimization and integration of web orders with its information technology system. We value this factor as an "Opportunity for Improvement."



20.

COMPANY WEBSITE

NEUTRAL

Description: Does the Company maintain and operate a website? If so, is the website attractive, easy to navigate and up-to-date and is it part of a fully developed Internet strategy?

[YOUR FIRM'S NAME] Comment: Sample has an attractive and informative website, offering both clients and potential new franchisees access and information. We could not, however, find mention of MicroBan® on the website. As access to this additive provides some competitive advantage and is a good selling point this should be emphasized on the website. The portion of the site dealing with accessibility remodeling could be enhanced, as this is a growth area in bathroom remodeling. Due to the potential marketing improvement we value this factor as "Neutral."

21.

FIXED ASSETS

NEUTRAL

Description: Are the Company's fixed assets up-to-date and well maintained? Are fairly recent equipment appraisals available?

[YOUR FIRM'S NAME] Comment: The Group's fixed assets are in suitable condition for its use. Recent appraisals are not available. Fixed assets may be used as leverage in structure should the Group be taken to market, in which case an appraisal may be useful. However, the fixed assets are not a significant part of the value of the assets on the Group's balance sheet. We value this factor as "Neutral."



22.

LEASES & OTHER SIGNIFICANT CONTRACTS

POSITIVE

Description: Are the Company's leases and other contracts assignable or would they place restrictions on new owners? Is the rent the Company pays on its building comparable to local market rates?

[YOUR FIRM'S NAME] Comment: Neither of the Group's lease agreements are assignable without consent from the landlords, although they do not seem to place any undue restrictions on potential future owners of the Group. The lease rate the Group pays seems to be market related, The Group pays around \$7.76 per square foot for the approximately 3,000 square feet at 1936 C Brandon Court and about \$6.98 per square foot for the main facility at 1958 Brandon Court. 1958 Brandon Court is being leased from one of the major shareholders. There are around six months left in the lease agreement, but there is an option to extend for an additional five years, during which period the lease can be terminated on six months notice. The current manufacturing facility is limited in capacity and the flexibility in the lease agreement (could either choose not to extend or extend and then be able to relocate on six months notice) is positive. As a result, we value this factor as a "Positive."

23.

LOCATION

OPPORTUNITY FOR IMPROVEMENT

Description: Is the Company location convenient to vendors and customers? Are competitive transportation services available? How does the cost of living in the local area compare to other areas? Is skilled labor readily available?

[YOUR FIRM'S NAME] Comment: Sample Franchise Corp. has an office in Pittsburgh, but apart from that the Group has no other locations. The Group has franchisees in about 17 states in the USA, but they seem to be concentrated in the upper Midwest. Over the last few years growth has been flat and this may be indicative of a proximity market reaching some level of saturation (at least at the current marketing efforts). We value this factor as an "Opportunity for Improvement."



INDUSTRY/MARKET FACTORS

24.

CONSOLIDATION STAGE

POSITIVE

Description: Is the company's industry undergoing consolidation in which smaller competitors are purchased and consolidated into larger companies to achieve benefits of scale and the elimination of duplicative costs? Depending on the stage, this factor could be positive or negative.

[YOUR FIRM'S NAME] Comment: The Manufacturing - Plastics Plumbing Fixtures Industry (SIC 3088) seems relatively fragmented with over 360 companies with average revenue of \$5.3 million. [YOUR FIRM'S NAME] has been approached by a few buyers that expressed an interest in home remodeling businesses and there is some consolidation activity currently in this arena. We value this factor as a "Positive."

25.

INDUSTRY OUTLOOK

NEUTRAL

Description: Is the company's future favorable in terms of future growth projections, profit margins, competition, legislation etc.?

[YOUR FIRM'S NAME] Comment: There are no legislative issues darkening the future for the Group. We value this factor as "Neutral."



26.

OPPORTUNITIES FOR GROWTH

OPPORTUNITY FOR IMPROVEMENT

Description: Have significant and feasible opportunities for growth been identified? Are plans in place and have preliminary actions been taken to implement them?

[YOUR FIRM'S NAME] Comment: The Group does not have a strategic and business plan that highlights opportunities for growth. Management is of the opinion that growth could be achieved, but has no specific plans to further penetrate the market. As a result, we value this factor as an "Opportunity for Improvement."

27.

AVAILABILITY OF INDUSTRY DATA

POSITIVE

Description: Is information on the industry readily available from industry associations or business press including growth projections, industry trends, competitors etc?

[YOUR FIRM'S NAME] Comment: The Group's main product is acrylic thermo vacuum formed bathtub liners, wall systems and accessories, which are aimed at the bathroom remodeling industry. Specific information for relating to this narrow industry is not available. However, information for SIC 3088; Manufacturing - Plastics Plumbing Fixtures, is more readily available. Furthermore, industry information for the remodeling industry and plumbing products in general are also readily available. As a result we value this factor as "Positive."



28.

BARRIERS TO ENTRY

OPPORTUNITY FOR IMPROVEMENT

Description: Do significant barriers to entry exist for new competitors including barriers such as high-invested capital, patents, brand names, reputation, significant expertise etc.?

[YOUR FIRM'S NAME] Comment: There are no significant barriers to entry in Sample's specific sub-section of the manufacturing of plumbing fixtures industry. However, Sample is one of the larger players in the acrylic thermo vacuum formed bathtub liners and wall systems market. It also has an established franchise group in place. The Group's customer relationships are strong making it somewhat difficult for a competitor to take any market share away from the Group. That said, there is nothing to stop a Kohler or American Standard from introducing a competitive product line with their brand name and dominating the market. Overall, we value this factor as an "Opportunity for Improvement."

29.

MARKET POSITION

NEUTRAL

Description: Does the company have a strong market share or a protected niche in the industry? Does the company have a well-known brand name and excellent reputation?

[YOUR FIRM'S NAME] Comment: Sample operates in the one day bathroom remodeling niche. Its products are aimed at the home remodeling industry at relatively low price points. The Sample System is designed to offer a product/service to a niche of customers that would like to increase the value of their properties without spending a lot of money and without long construction times. It is an easy add-on product for contractors in other remodeling projects. The Group also provides products for the growing tub to shower conversion market, which is driven by the general aging of the US population. That said, there is nothing to stop a Kohler or American Standard from introducing a competitive product line with their brand name and dominating the market. All things considered, we value this factor as "Neutral."



30.

PRODUCT/SERVICE OBSOLESCENCE

POSITIVE

Description: Does the company have a favorable long-term outlook for its products or services that is not threatened by technological obsolescence or global competition?

[YOUR FIRM'S NAME] Comment: The Group's products are not threatened by obsolescence or global competition... We value this factor as "Positive."

LEGAL/REGULATORY FACTORS

31.

CORPORATE STRUCTURE

OPPORTUNITY FOR IMPROVEMENT

Description: Was the company originally incorporated as an "S" corporation or switched to "S" classification before 1990?

[YOUR FIRM'S NAME] Comment: Both companies in the Group are "C" Corporations. This complicates a change of ownership, as a transaction will have to be a sale of shares rather than a sale of assets to avoid a large tax burden in the company, as well as double taxation. Most buyers prefer asset sales. Stock sales require more onerous due diligence investigations and seller representations and warranties. It also puts downward pressure on transaction values due to less favorable tax treatments in the buyer's hands. As a result, we value this factor as an "Opportunity for Improvement."



32.

BOARD OF DIRECTORS/ADVISORS

OPPORTUNITY FOR IMPROVEMENT

Description: Does the company have a board of credible outside directors in place who are consulted regarding major decisions of the Company?

[YOUR FIRM'S NAME] Comment: The Group has no outside directors or board of directors. The addition of a board of advisors with industry connections could be advantageous to the Group's franchise building efforts. Furthermore, having a board of advisors may be an important part of a contingency plan in addition to providing independent perspectives on business and management dilemmas. As a result we value this factor as an "Opportunity for Improvement."

33.

LAWSUITS

POSITIVE

Description: Does the company have any current lawsuits or a history of lawsuits?

[YOUR FIRM'S NAME] Comment: The Group has no current or pending lawsuits. As a result we value this factor as "Positive."

34.

TAXES

POSITIVE

Description: Is the company current on all tax filings and tax payments? Has the company been audited recently by IRS and received a clean report?

[YOUR FIRM'S NAME] Comment: All tax filings and tax payments are current. We value this factor as a "Positive."



35.

ENVIRONMENTAL

OPPORTUNITY FOR IMPROVEMENT

Description: Has the Company ever used hazardous materials in its manufacturing? Have the facilities had a recent Phase I or Phase II audit? Does the company have any underground storage tanks? If past problems exist, has cleanup been completed and have local, state and federal environmental agencies provided signoff documentation? Does the company have a history of EPA fines? Is a specific individual in the Company formally responsible for compliance?

[YOUR FIRM'S NAME] Comment: The Group's management is of the opinion that it does not deal with any hazardous materials. However, it is not known whether there are any groundwater problems on the property and no single person is responsible for environmental compliance. We were not presented with any Phase I or II studies. Although the manufacturing facility is rented, any future environmental problems may involve Sample and its shareholders unless it can be clearly established that the Group was not responsible for the issue existing at that time. As a result we value this factor as an "Opportunity for Improvement."

36.

OSHA

NEUTRAL

Description: Has the company had an OSHA inspection in the last two years? What were the findings? If the review did identify needed improvements, have all been completed? Does the company have a history of OSHA fines?

[YOUR FIRM'S NAME] Comment: The Group is in full compliance and has had not problems with OSHA. We value this factor as a "Neutral."



37.

PRODUCT/SERVICE LIABILITY INSURANCE

NEUTRAL

Description: Does the company have sufficient insurance in place to cover potential liability? Is insurance coverage on an “occurrence” rather than a “claims made” basis?

[YOUR FIRM’S NAME] Comment: The Group’s insurance coverage seems adequate. We value this factor as “Neutral.”

38.

PATENTS, TRADEMARKS ETC. REGISTERED

NEUTRAL

Description: Have intangible assets such as patents, trademarks and copyrights been properly registered and fully protected? In the case of patents, does the patent have over half of its original life remaining?

[YOUR FIRM’S NAME] Comment: The Group has six registered trade marks with one trademark registration pending. It also has two patents issued, one for apparatus for forming a bathtub liner and another for forming a bathtub or shower liner. Both of these patents expire more than 10 years from now. Several patents are pending. Despite the patents for forming bathtubs and liners, competitors are also successfully manufacturing the product and we can therefore conclude that the patent protection does not provide protection of a market or niche to the Group. We therefore value this factor as a “Neutral.”



FINANCIAL FACTORS

39.

TRACK RECORD

NEUTRAL

Description: Does the company have a consistent record of growth in both sales and profits over the last several years? Have sales growth and profit margins been equal to or better than overall industry?

[YOUR FIRM'S NAME] Comment: The Group's revenues have experienced a 12% CAGR over the five years since 1999. However, over the last three years revenue increased by only an average of 3%.

Over the two-year period 2001 to 2003, Sample grew by 24% (CAGR of 11.5%) compared to the industry (SIC 3088) at less than 1%. Gross margins have been in line with industry averages of 33.4%, but declined in 2004 due to the impact of oil prices on cost of plastic materials. Operating margin varied from a low of 0.8% in 2001 to a high of 3.4% in 2002, after which it steadily declined to 1.25% in 2004 on an "as reported" basis. On an adjusted basis operating margins vary between 9% and 11% for 2002, 2003 and 2004. Industry averages are just above 4%.

Using SIC 3088 as a benchmark it appears that the Group's revenue growth and gross profit margins compare well with the industry. The Group's reported operating margins, however, lag the industry averages. The Group carries a relatively large amount of non-essential expenses and after adjusting for these expenses operating margins compare well with industry averages. The non-essential expenses would represent adjustments to the financial results in calculating an earnings stream to present to potential buyers should the shareholders wish to sell the Group. The large amounts of adjustments, although not uncommon, does complicate due diligence procedures. As such we value this factor as "Neutral."



40.

BUSINESS PLAN

OPPORTUNITY FOR IMPROVEMENT

Description: Does the company have a documented business plan for the next three to five years in place? Is the plan comprehensive, believable and does it include specific and measurable objectives? Does it include all the necessary action steps along with costs and investments to implement the plan?

[YOUR FIRM'S NAME] Comment: No documented business plan exists to guide the growth of the Group over the next several years. As a result we value this factor as an "Opportunity for Improvement."

41.

CYCLICALITY

NEUTRAL

Description: Are the company's revenues affected by the economic cycle?

[YOUR FIRM'S NAME] Comment: The Group's revenue bucked the trend during the economic woes of 2000 and 2001, but growth was flat during economic uptick thereafter. We were not provided with enough information to determine the reasons for sales leveling off. However, due to the nature of the products and the market the Group serves, one would expect Sample to be reasonable immune to cyclicalities and the flat profile of revenue may be symptomatic of the fact that the Group's immediately surrounding markets may be somewhat saturated. We value this factor as "Neutral."

42.

SEASONALITY

NEUTRAL

Description: Do monthly sales, expenses and working capital requirements vary significantly throughout the year?

[YOUR FIRM'S NAME] Comment: The Group does experience a seasonal effect with spring and fall being the highlights of the fiscal year. This is not unexpected in a business serving the construction industry. As a result, we value this factor as a "Neutral."



43.

REVENUE SIZE

POSITIVE

Description: Are the company's revenues in the upper half of all competitors in the industry? If not, is the company of sufficient size that it could serve as a "platform" for consolidating a number of companies in the industry?

[YOUR FIRM'S NAME] Comment: Dun & Bradstreet has 364 companies listed in SIC 3088. Of these 84% has revenues smaller than that of Sample, placing the Group in the top quartile of the industry as far as size is concerned. As a result, we value this factor as a "Positive."

44.

OPERATING MARGINS

OPPORTUNITY FOR IMPROVEMENT

Description: Are the company's operating margins equal to or better than industry norms? Have margins been stable or improving over last several years?

[YOUR FIRM'S NAME] Comment: At just over 1% in 2004 the Group's operating margins are below that of SIC 3088. After adjusting for the substantial amount of non-essential expenses that the Group bears, the operating margin of approximately 9% for 2004 exceeds that of SIC 3088 by an estimated 5%. Over the last three years reported operating margins have declined, driven in 2004 by a decline in gross profit margin and in 2003 by an 8% increase in salaries and wages, which is the single largest operating expense of the Group. As a result we value this factor as an "Opportunity for Improvement."



45.

OVERHEAD

NEUTRAL

Description: Are the company's overhead costs consistent with industry norms? What increases in overhead costs are required to support future growth?

[YOUR FIRM'S NAME] Comment: It is not possible to determine with any accuracy whether the Group's overhead costs are in line with those of its direct competitors as SIC 3088 includes a variety of companies not directly comparable to Sample. The current location can not sustain much more volume and an increase in fixed overhead can thus be expected in the foreseeable future. Several shareholders are included in Sample's payroll and the organizational structure is very top-heavy. A restructuring of the organization could result in a reduction of overhead by way of elimination of unnecessary salaries. Due to the uncertainty, we value this factor as "Neutral."

46.

ASSETS LESS LIABILITIES (EQUITY)

NEUTRAL

Description: Does the company have a substantial base of leveragable assets with a relatively low level of liabilities? What is the company's debt load?

[YOUR FIRM'S NAME] Comment: The Group had approximately \$2.2 million of leveragable assets, mainly consisting of accounts receivable and inventory at the end of fiscal 2004. Against this Sample had accounts payable of approximately \$1 million and interest bearing debt of about \$0.4 million. At the end of 2004 we estimate that the Group could sustain transaction related debt of around \$1.2 to \$2 million on a leveraged basis. We value this factor as "Neutral."



47.

RECEIVABLES

POSITIVE

Description: Does the company have average receivable days that are consistent or better than the industry norm? Has the company had any serious bad debt write offs?

[YOUR FIRM'S NAME] Comment: Receivable days have been increasing slightly over the last few years, but at approximately 14 days, the Group's receivable days for at yearend 2004 are significantly lower than that of SIC 3088 at 46 days. Sample primarily does business on a cash basis with its customers. It has introduced a credit card payment system to accommodate customers. We value this factor as a "Positive."

48.

INVENTORY

POSITIVE

Description: Is the company's inventory turnover consistent or better than industry norms? Does the company have little or no obsolete stock? Has the company's written off inventory been physically discarded?

[YOUR FIRM'S NAME] Comment: The Group's turnover recently improved to be roughly in line with industry norms after being significantly slower than industry norms. As such we value this factor as "Positive."



49.

CURRENT LIABILITIES

POSITIVE

Description: Are the company's accounts payable current and consistent with industry norms? Are the company's other current liabilities consistent with industry norms?

[YOUR FIRM'S NAME] Comment: The Group's accounts payable days has been fluctuating widely from year to year over the last 5 years, varying between 30 and 60 days. A bank credit line of approximately \$350,000 is included in current liabilities, and does not seem out of line. Sample's current ratio is much lower than industry norm, but read together with the Group's relatively low accounts receivable we conclude that current liabilities should be in line with industry norms. We value this factor as a "Positive."

50.

ANNUAL CAPITAL

OPPORTUNITY FOR IMPROVEMENT

Description: Are the company's annual capital expenditure requirements relatively low? Does the company anticipate any major capital expenditures in order to support future growth?

[YOUR FIRM'S NAME] Comment: The Group spent an average of about \$100,000 per year on capital expenditure over the last four years. At a first glance it appears that the manufacturing equipment has spare capacity and no major capital expenditures are expected to support growth. However, the Group does not have a strategic and business plan providing for growth based on which an informed conclusion regarding capital expenditure can be made. Due to the uncertainty we value this factor as an "Opportunity for Improvement."

51.

FINANCIAL STATEMENTS

OPPORTUNITY FOR IMPROVEMENT

Description: Does the company have audited financial statements?

[YOUR FIRM'S NAME] Comment: The Group's financial statements are compiled. Audited financial statements carry more weight for potential suitors and as a result, we value this factor as an "Opportunity for Improvement."



52.

COMPANY RECORDS

POSITIVE

Description: Are the company's records in good order and easily accessible?

[YOUR FIRM'S NAME] Comment: Group records are generally in good order, up-to-date and accessible. We value this factor as a "Positive."

ECONOMIC/M&A MARKET FACTORS

53.

ECONOMY

POSITIVE

Description: Is the general economy expanding and are indicators such as interest rates and the stock market positive?

[YOUR FIRM'S NAME] Comment: The overall economy as measured by Gross Domestic Product ("GDP") grew 6.6% on a year-on-year basis in 2004, the fastest growth rate since 1989. Although the trade deficit remains at a record high and subtracted 1.4% from GDP in Q4 2004, "Core" real GDP (consumption plus investment) jumped 5.9% at an annual rate in the fourth quarter, and 5.5% in 2004. Interest rates remain low, but are increasing. The Dow Jones shows strength. Overall the American Economy is in a growth phase. As a result, we value this factor as a "Positive."



54.

M & A MARKETPLACE

POSITIVE

Description: Is the M&A market positive including ready availability of financing, low interest rates and favorable tax laws? Are both financial and strategic buyers actively acquiring companies?

[YOUR FIRM'S NAME] Comment: The current M&A market conditions improved as of late 2003, gained strength during 2004 and 2005 is looking like a strong year. Both financial and industry buyers are showing an appetite for deals. Private equity firms have raised so much capital over the last 12 months that they are vigorously competing with one another for opportunities to put their money to work. The economy is looking better and interest rates are still relatively low, boding well for the availability of financing. This might cause an over-supply of businesses for sale and drive prices down. Corporate dividend tax rates have temporarily been reduced to 15%. Capital gains taxes are down to 15% from 20%, resulting in business owners retaining between 3% and 6% more of the sales price of a business. However, according to a recent study by PricewaterhouseCooper, a large number of baby boomers are expected to sell their businesses over the next 10 years. One out of every two business owners plan to sell their businesses during that period. As a result of these factors, we value this factor as a "Positive."



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