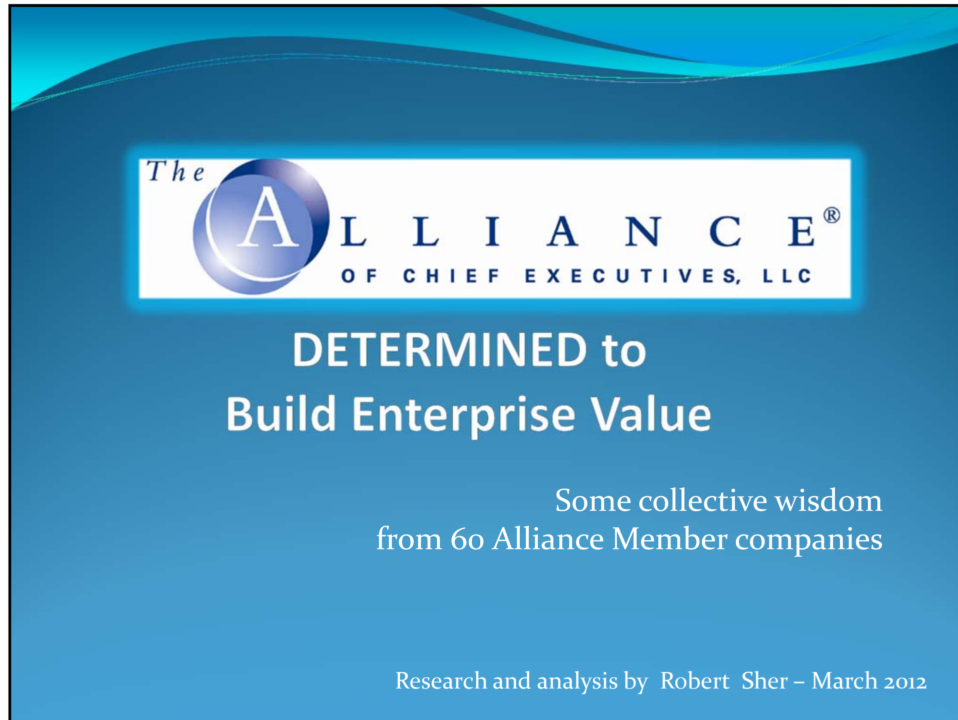


Why a Round Table on this Topic?

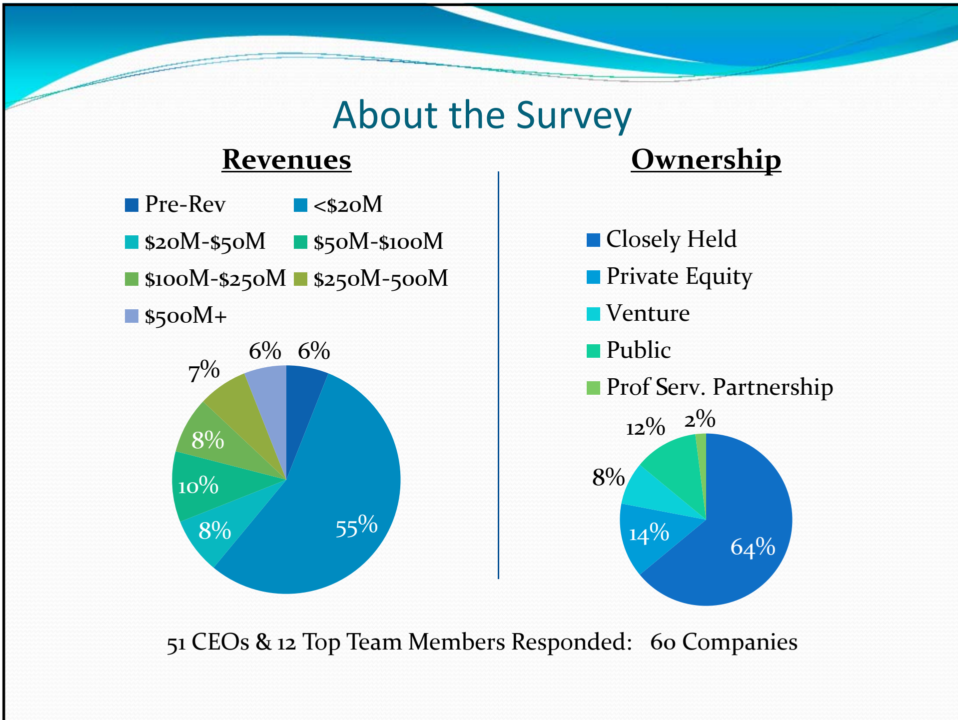
- Many mid-market companies need to accelerate their financial value quickly
  - Closely held firms: Get big enough to buy competitors
  - Family-owned firms: Maximize the approaching payday from selling out
  - Private equity-owned firms: Make the exit date more lucrative
  - Public companies: Get shareholders off their back
- But mid-market firms face big risks to accelerating value that don't plague big companies and startups to the same degree
  - Killing the golden goose while looking for other fish to fry (unlike startups)
  - Not being able to easily write off investments if the innovation initiatives produce duds (unlike large companies)
  - Lacking a deep bench that can pursue on new markets, new products and new services (unlike the large companies)

We surveyed Alliance members who want to aggressively increase the value of their firms

- Three year time frame. No quick hits.
- Only aggressive companies took the survey.
- Significantly build enterprise value at a faster clip.

We looked for a subset of the Alliance community.

We can all learn from those on the edge….



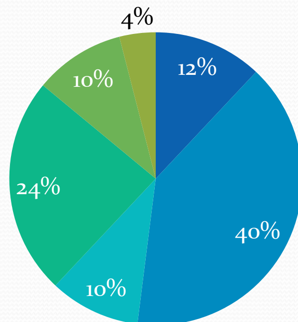
Laggards vs. Leaders

- Much can be learned when comparing the answers of those companies whose performance is leading the pack, versus those whose performance is lagging.
- Since getting actual, accurate enterprise valuation over time in mid-market companies (especially private ones) is quite difficult, I've used the next best thing: The growth rate of profits, and the growth rate of revenue.
- I chose dividing lines that created something close to a normal distribution: 25% Laggards, 25% Leaders, and 50% in the middle.
  - That meant that leaders had both: More than 10% average annual growth in profits and revenues.
  - That meant that laggards had both: Less than 10% average annual growth in profits and revenues.
- For financial valuations, growth in revenues correlates well with the multiple. Growth in profits correlates well with EBITDA.

About the Survey

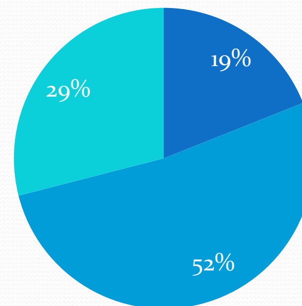
Valuation (Millions)

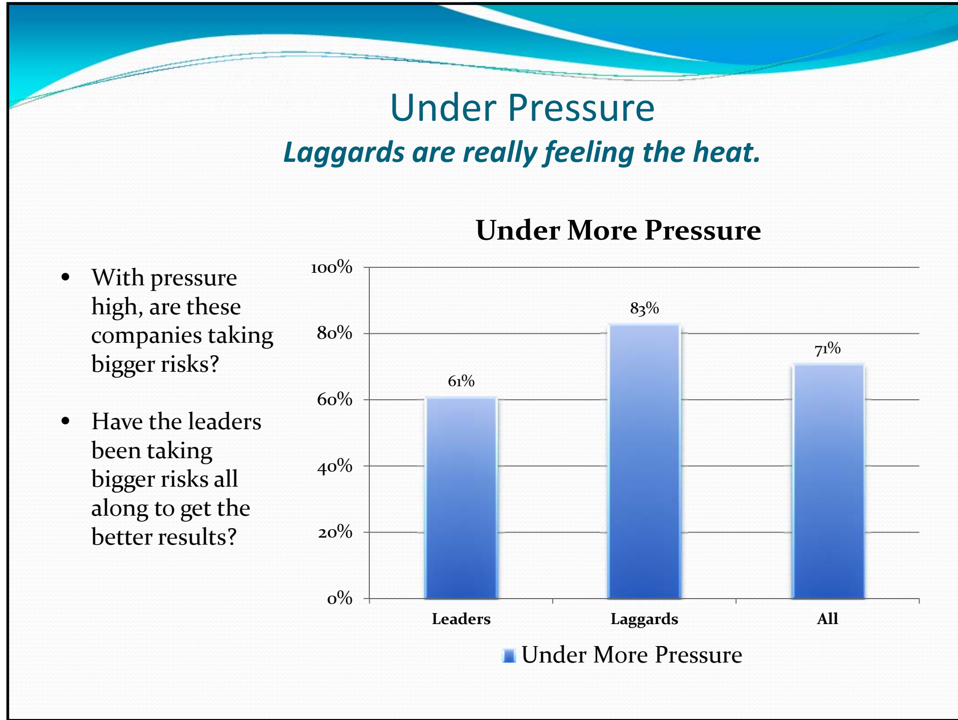
0-3 3-20 20-50 50-200 200-500 500+



Performance

Laggards Average Leaders





Biggest risks of trying to substantially lift enterprise value

Rank	Factor
#1	Loss of focus on core due to distractions
#2	Macro economy crumbles
#3	Loss of core customers out of neglect or underinvestment
#4	Departure of valued employees
#5	Financial losses from ill-advised attempts to increase value
#6	Damage to brand image and reputation
#7	Damage to the corporate culture
#8	Financial shenanigans due to performance pressure

#1 and #3 are the two top controllable factors,
and both are about neglecting the core.

Biggest obstacles to substantially lift enterprise value

Rank	Factor
#1	Lack of capital
#2	Insufficient cash flow
#3	Not the right people
#4	Insufficient market demand
#5	Lack of executive talent

Top 2 are lack of money.

Why won't these companies hire talent and find money?

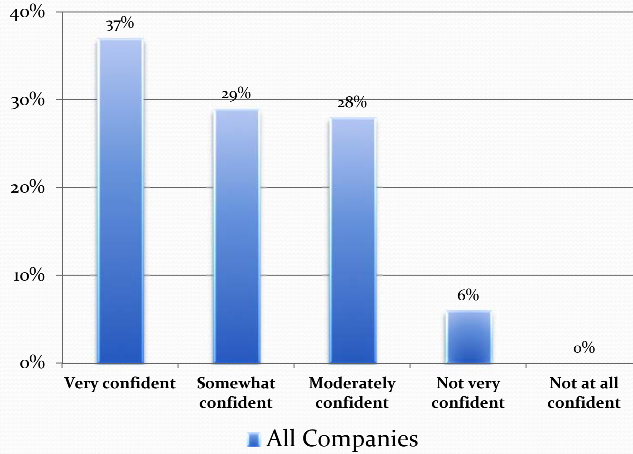
- 62% grew revenues at >10% as an annual average. 88% are growing revenues.
- 50% are growing profits at >10% annually. 83% are growing profits.

They should have access to debt/capital and be able to afford good hires.

Are they too afraid or unsure?

Only 37% are very confident that they have the competencies and resources needed to increase company value in the next three years.

To borrow money or sell equity for cash requires strong confidence in the use for that cash.



We asked this question about risk.

How would you describe the risk posture of your firm? How big a risk is the firm and its constituencies (board/shareholders, etc) willing to take to grow value in a three year time frame?

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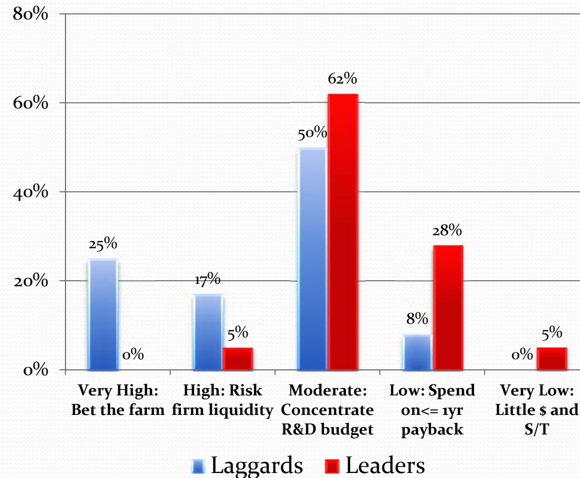
Laggards take more risk; Leaders cautious!

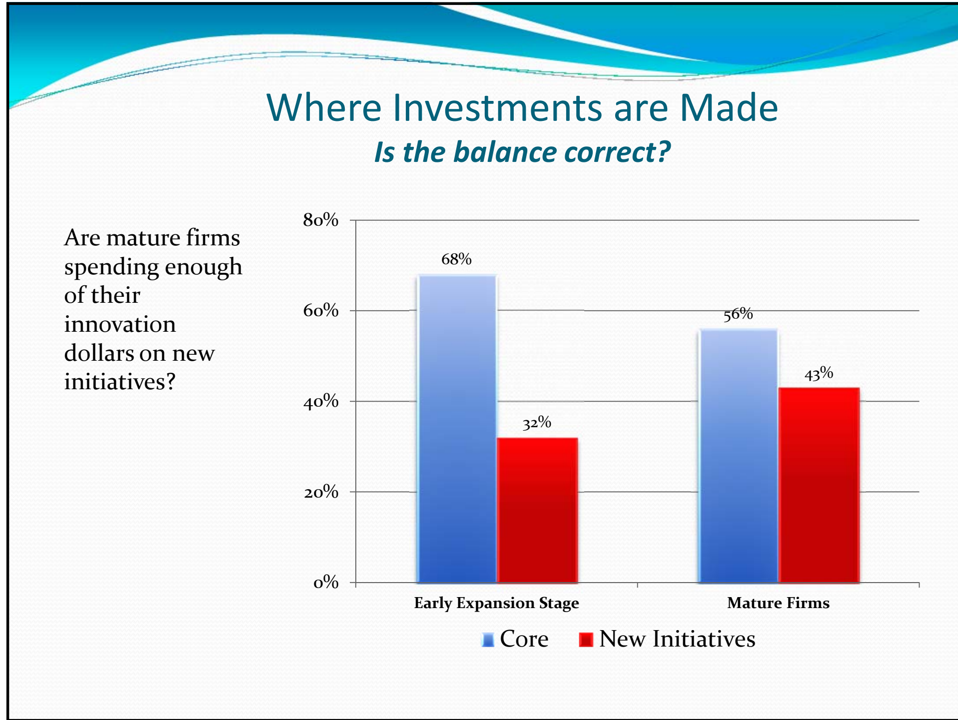
The cause or the result?

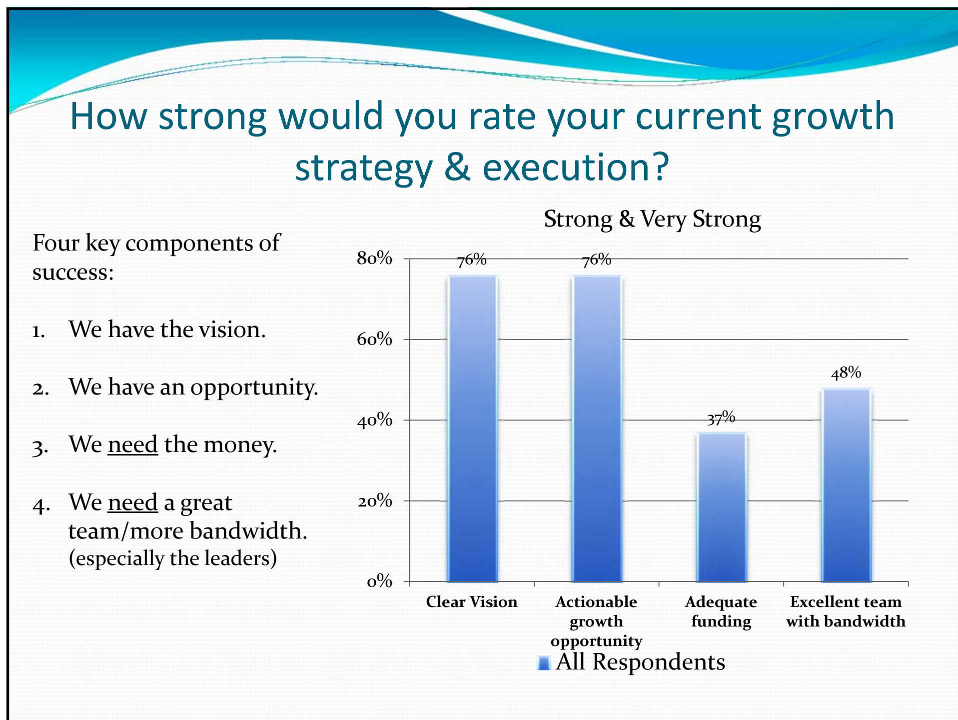
- We worry that over-cautious mid-market companies lose their lead over time, then take big risks when they don't have much more to lose.
- Risk reduction strategies shift risk over time.
- Time to grow enterprise value shifts with the lifecycle of the company and industry.



Do risk and return *no longer* go hand in hand?

1. Leaders are actually <u>more</u> risk-averse than the average survey respondent
2. The question this begs: Is the fastest path to increasing value through a steady stream of lower-risk ventures that preserve capital?
3. For larger mid-market companies, can this approach really deliver?
4. What about firms whose core market is mature?





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How do we compete against small startups and big behemoths?

How do we compete with small upstarts with nothing to lose, and with the big firms that invest heavily, regularly, and systematically, and can afford to lose the entire enterprise value of a middle market firm without serious consequence?

My Point of View:

We must invest more heavily earlier in our life cycle, and we must look not just for incremental opportunities, but also for new adjacent markets altogether. Doing so earlier means we will we have time to test, then invest, mitigating risk.

A lot of data and a lot of questions.

So what are the takeaways?

1. Work your case studies at your tables.
2. After each case study, attendees share their key takeaway.
3. The Director of the table will write it down and send it to me.
4. I'll circulate the slides digitally, and the key takeaways in a few days.

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