



# Valuation 201

## How Values Impact Value



Presented by:

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Empire Valuation Consultants

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Moody's Collision Centers

# Danielle Moody



Danielle Moody is President of Moody's Coworker Owned, Inc. We have 275 co-workers serving our 15 locations with two more locations slated for 2025.

Moody's is an employee owned company with the co-workers owning 54% of the company and since the inception of the ESOP in 2003 Moody's has grown an average of 16% year over year. Danielle handles the administration of the ESOP, is a participant on the ESOP Committee and is also the daughter of owner and founder, Shawn Moody. She is the Maine State Captain for the NE Chapter of the ESOP Association and actively involved in growing Maine's ESOP community. She lives with her husband and three daughters in Springvale, Maine.

# Let's Meet Moody's Collision Centers

- 47 Years in business as Maine's Collision Repairer of choice
- 15 Locations, currently building two more locations
- Services Maine and Seacoast of NH
- Focused on:
  - Excellent customer service
  - Safety
  - Innovation/Efficiencies

# Jade Palermo



Jade is an experienced valuation analyst with a proven track record of providing trustworthy valuation advisory services and credible, defensible valuations across multiple industries since 2011.

Jade has extensive valuation experience related to Employee Stock Ownership Plans and has been engaged by several institutional and independent ESOP trustees for transaction and annual valuations, and advises companies and shareholders on their transition to employee ownership.

Jade is a Director in the ESOP Advisory Practice and is and proud employee owner at Empire Valuation Consultants, a 100% Employee Owned Company.

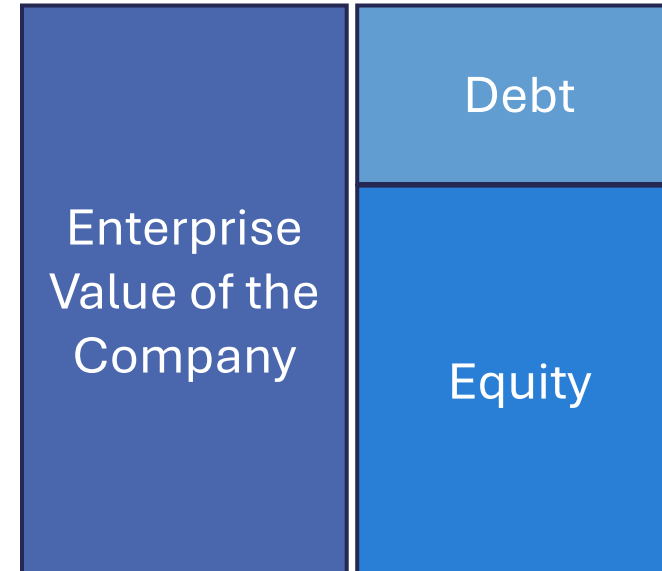
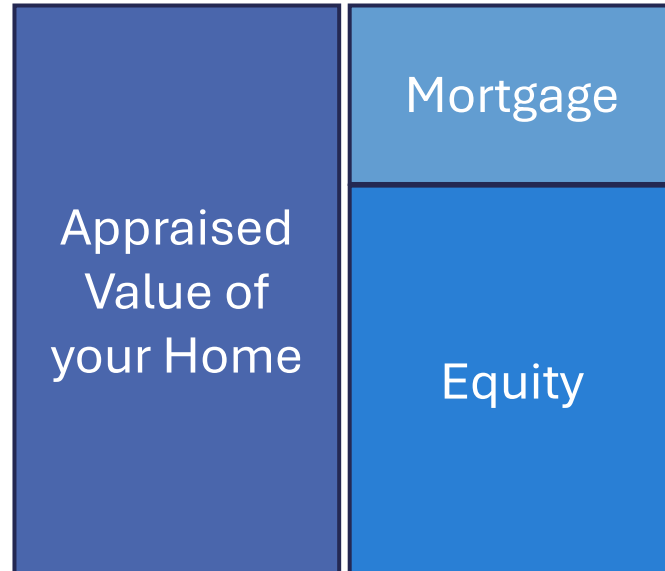
# Let's Meet Empire Valuation Consultants

- Nearly 40 year old Valuation Firm,
- Based in New York, with 7 offices throughout the country
- 85 valuation professionals
- Provides valuations for the following purposes:
  - Trust & Estate
  - ESOP
  - Corporate Planning
  - Financial Reporting
  - Real Estate
  - OTehrs

# Understanding How ESOPs are Valued

# What is a Valuation?

A valuation is similar to a real estate appraisal, only instead of determining how much your house is worth, it determines the enterprise value of the business.



# Overview of Valuation Methods

## Market Approach

Comparable Public Company Multiple × Subject Company Fundamental

Precedent Transaction Multiple × Subject Company Fundamental

## Income Approach

Forecasted future cash flows discounted to current dollars

Can use a single period or multiple periods (Discounted Cash Flow or “DCF”)

## Asset Approach

Fair market value of Company’s assets – Fair market value of liabilities

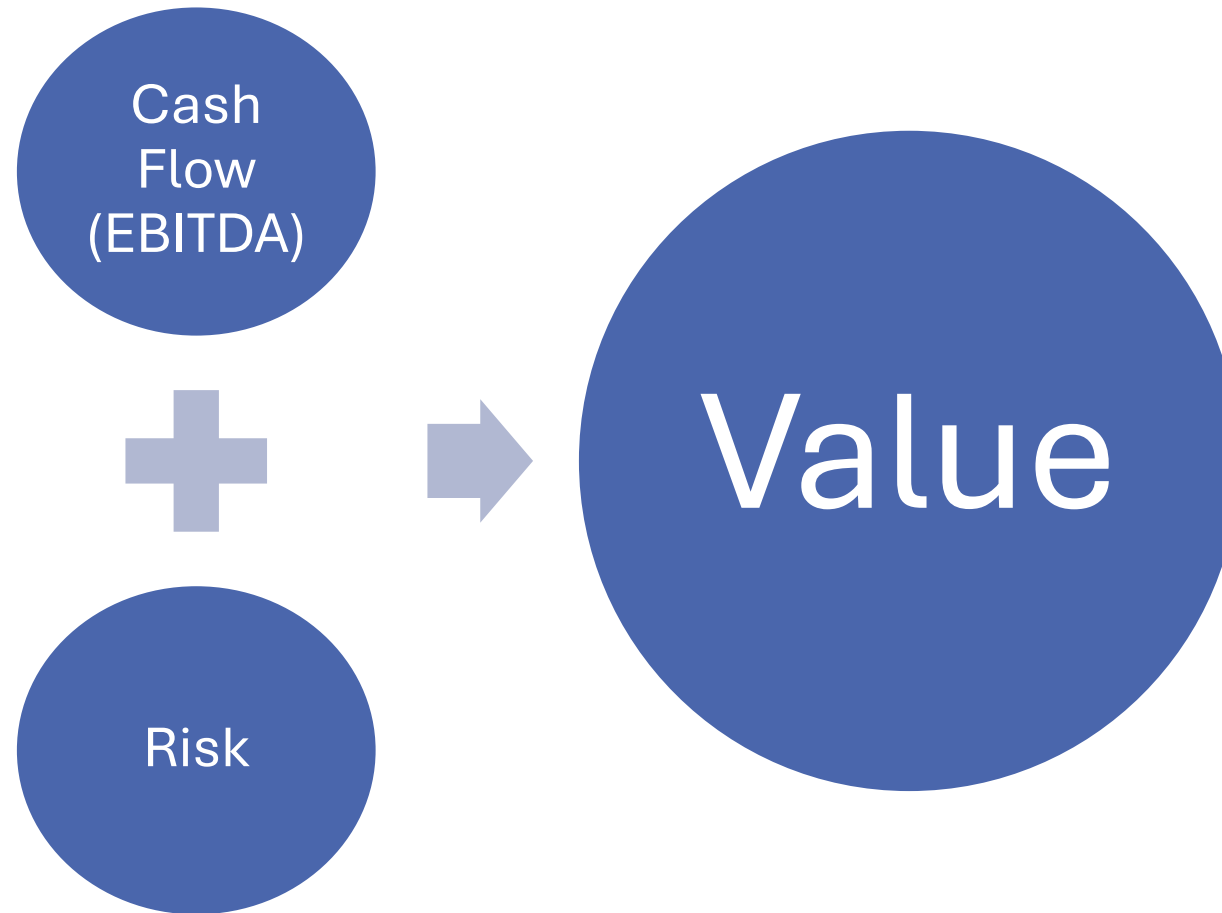
Atypical for operating companies with no intent to liquidate



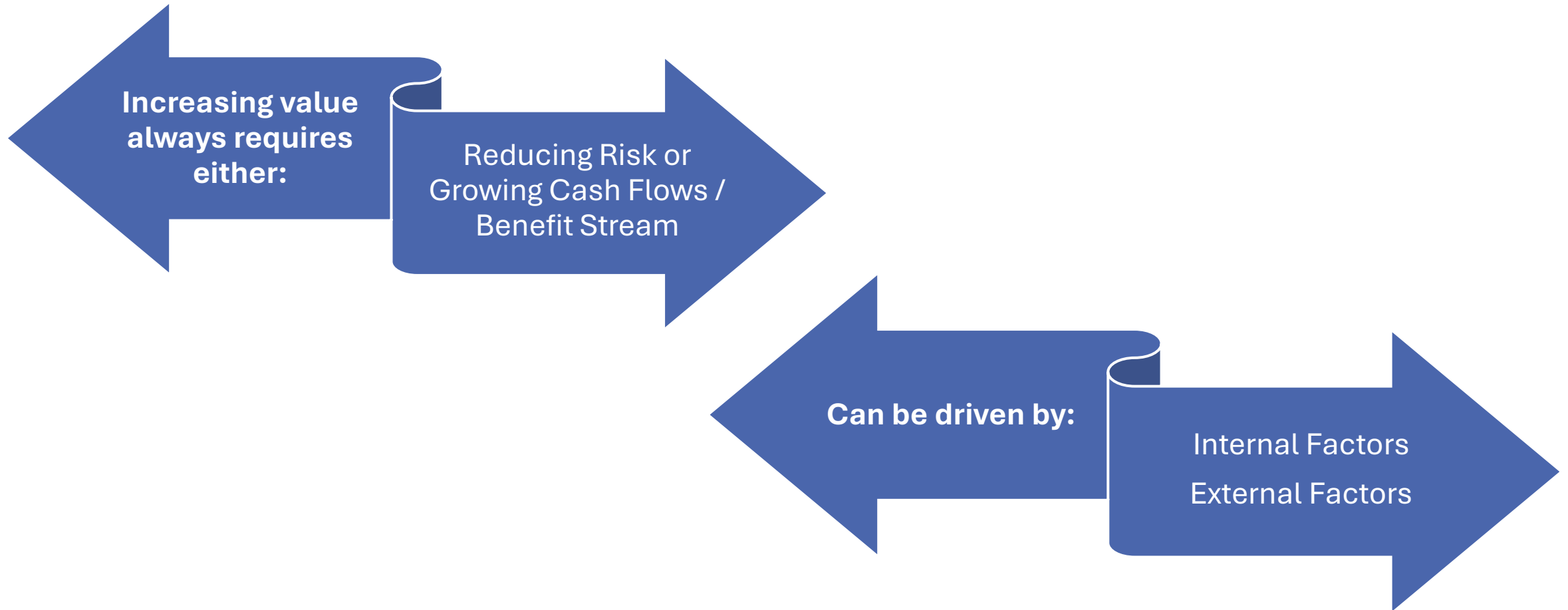
# Determining Value

- Appraiser will always look at multiple valuation methods
- Based on the information available, the methods are weighted to produce a final value
- Typically, the income method carries more weight in ESOP valuations
  - Can be hard to find truly comparable public companies
  - Can be hard to find public information about precedent transactions

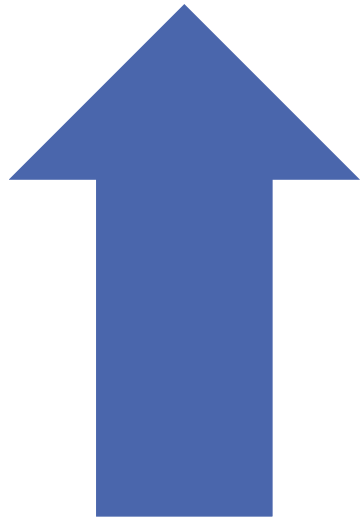
# What Drives Value



# Key Value Drivers

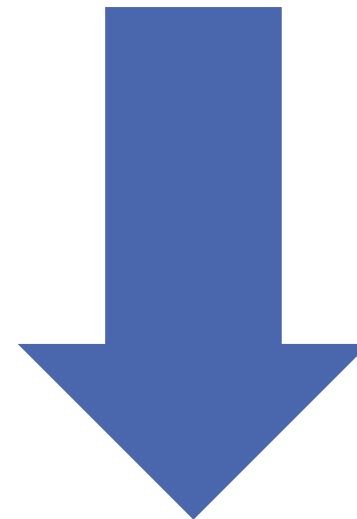


# Improving Cash Flow/Benefit Stream



## Increasing Sales

- # of projects
- Size of projects
- Types of projects
- Price per project



## Reducing Expenses

- Supplies/material waste
- Inefficiencies
- Errors/rework
- Safety incidents
- Staff turnover

# Improving Cash Flow/Benefit Stream Values = Value



Value	Action	Result
<b>Customer Service</b>	<ul style="list-style-type: none"><li>• Offer quick turnaround to key customers</li><li>• Provide updates/communication</li></ul>	<ul style="list-style-type: none"><li>• Repeat business</li><li>• Word-of-mouth recommendations</li></ul>
<b>Customer Satisfaction</b>	<ul style="list-style-type: none"><li>• Follow up with customers on what could be improved</li></ul>	<ul style="list-style-type: none"><li>• Offer new services</li><li>• Review/reduce inefficiencies</li></ul>
<b>Employee Satisfaction</b>	<ul style="list-style-type: none"><li>• Empower employees to provide input (and act on good ideas!)</li></ul>	<ul style="list-style-type: none"><li>• Improvements/cost savings</li><li>• Employees feel empowered to make changes</li></ul>

# Reducing Risk

- Training
- Safety
- Operating procedures
- Controlled growth
- Cross-training/succession planning
- Reduce variability
- 360° reviews – understand how past factors impacted the Company



# Reducing Risk Values = Value

Value	Action	Result
<b>Employee Satisfaction</b>	<ul style="list-style-type: none"> <li>Accountability/Problem Solving</li> </ul>	<ul style="list-style-type: none"> <li>Don't sweep problems under the rug—have a culture of accountability and working through problems before they blossom into costly problems</li> <li>High turnover = high risk</li> </ul>
<b>Reduced reliance on debt</b>	<ul style="list-style-type: none"> <li>Pay down debt</li> </ul>	<ul style="list-style-type: none"> <li>Less debt is less risk – the Company has capacity to borrow and doesn't have the same level of constraints on cash flow</li> </ul>
<b>Innovation</b>	<ul style="list-style-type: none"> <li>Broaden the scope of products/services offered</li> </ul>	<ul style="list-style-type: none"> <li>Less reliance on one business line = less risk</li> </ul>
<b>Loyalty... to a degree</b>	<ul style="list-style-type: none"> <li>Expand customer and vendors</li> </ul>	<ul style="list-style-type: none"> <li>Less reliance on certain customers / vendors / business partners = less risk</li> </ul>

# Deeper Dive: Market Approach



# Market Approach: Overview

## Market Data

- Based on public financial information where comparable information can be found
- Types of information
  - Comparable public companies
  - Comparable M&A transactions
- Measures of comparability
  - Industry
  - Size
  - Growth
  - Margins

## Value Determination Example

### Public Company Information

Enterprise Value <sup>1</sup>	=	\$200 million
EBITDA <sup>2</sup>	÷	<u>\$40 million</u>
Multiple	=	5.0x

### Subject Company Information

EBITDA	=	\$10 million
x Selected Multiple	x	<u>5.0x</u>
Enterprise Value	=	\$50 million

1) Enterprise Value equal to market value of equity plus debt less excess (non-operating) cash

2) Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA")

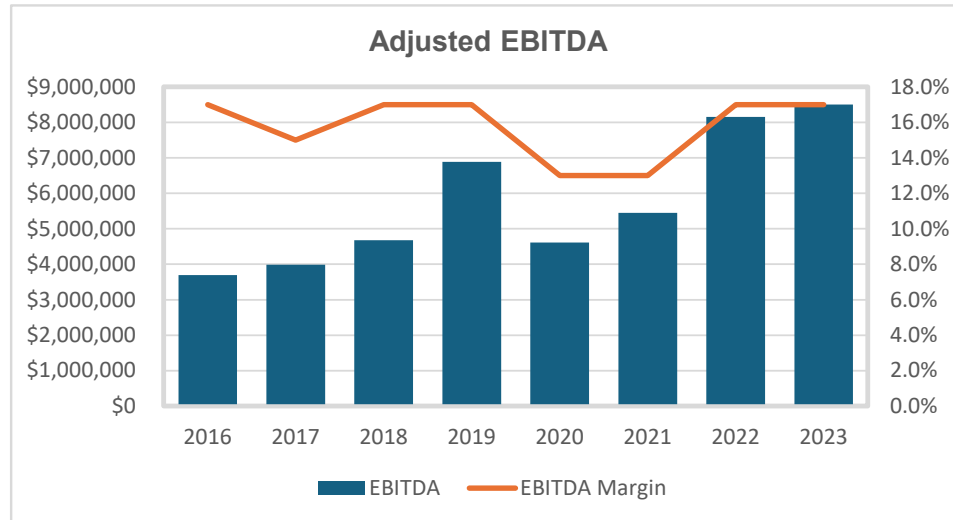


# Market Approach: Impacts

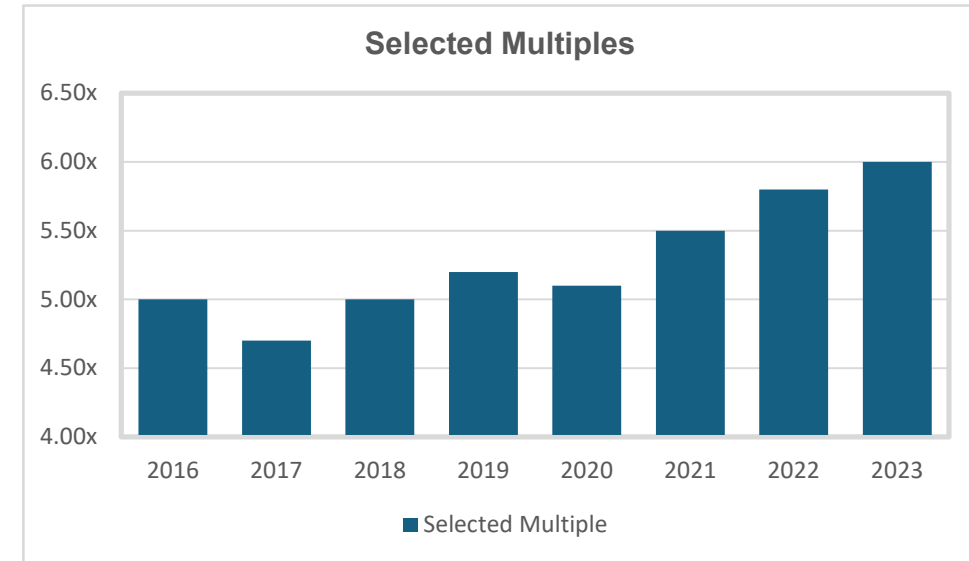
	Internal Factors	External Factors
Impact Benefit Stream	<ul style="list-style-type: none"><li>• Sales performance</li><li>• Cost management / profitability</li></ul>	<ul style="list-style-type: none"><li>• Macroeconomic conditions</li><li>• Industry growth prospects</li><li>• Regulatory environment</li><li>• One-off shocks (ex. pandemic, supply chain disruption, etc.)</li></ul>
Impact Multiples	<ul style="list-style-type: none"><li>• Comparisons to publicly traded companies (size, diversity in product line, margins, sales growth, capital investment requirements)</li></ul>	<ul style="list-style-type: none"><li>• Market sentiment</li><li>• M&amp;A activity</li></ul>

# Market Approach: Illustration

## Internal Factors



## External Factors



	2016	2017	2018	2019	2020	2021	2022	2023
EBITDA	\$3.7	\$4.0	\$4.7	\$6.9	\$4.6	\$5.4	\$8.2	\$8.5
Selected Multiple	5.00x	4.70x	5.00x	5.20x	5.10x	5.50x	5.80x	6.00x
Enterprise Value	\$18.5	\$18.8	\$23.4	\$35.8	\$23.5	\$30.0	\$47.3	\$51.0
Change in EBITDA		\$0.3	\$0.7	\$2.2	(\$2.3)	\$0.8	\$2.7	\$0.3
Change in Multiple		-0.30x	0.30x	0.20x	-0.10x	0.40x	0.30x	0.20x
Change in Value		\$0.3	\$4.6	\$12.4	(\$12.3)	\$6.4	\$17.3	\$3.7

# Deeper Dive: Income Approach

# Income Approach: Overview

## Key Inputs



### Cash Flows (“CF”)

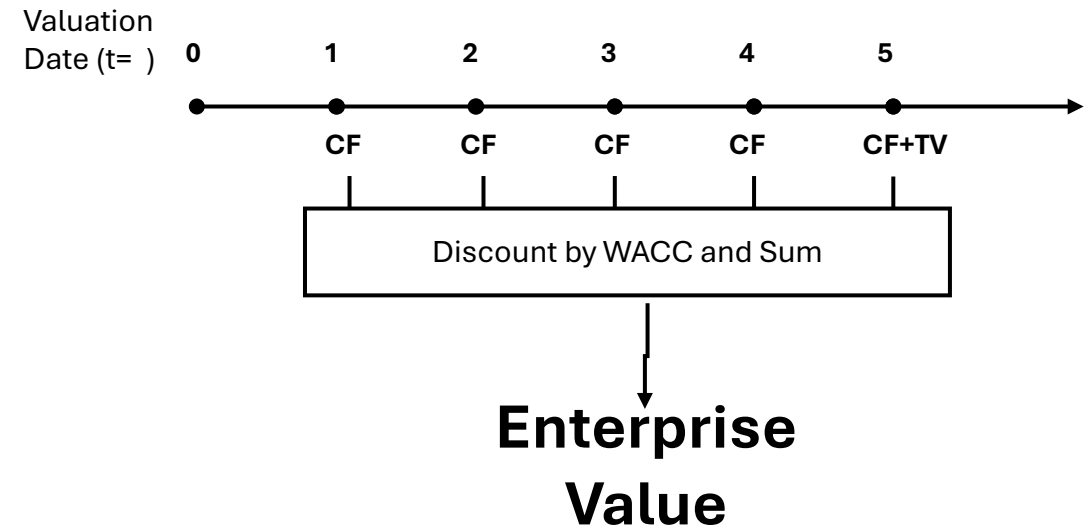
- Annual cash flows consist of
  - After-Tax Operating Cash Flow
  - Less Capital Expenditures
  - Less Increases in Working Capital
- The terminal value (“TV”) sums all future cash flows beyond year five



### Discount Rate – Weighted Average Cost of Capital (“WACC”)

- Cost of debt and equity capital determined by market-based measures of return for a given risk
- Weighting based on capital structure

## Value Determination





# Market Approach: Impacts

	Internal Factors	External Factors
Impact Cash Flows	<ul style="list-style-type: none"><li>• Sales performance</li><li>• Cost management / profitability</li><li>• Capital expenditure needs</li><li>• Working capital needs</li></ul>	<ul style="list-style-type: none"><li>• Tax policy</li><li>• Macroeconomic conditions</li><li>• Industry growth prospects</li><li>• Regulatory environment</li><li>• One-off shocks (ex. pandemic, supply chain disruption, etc.)</li></ul>
Impact WACC	<ul style="list-style-type: none"><li>• Comparison to other similar sized companies in the industry</li><li>• Leverage</li><li>• <b>Stability of earnings growth</b></li><li>• <b>Demonstrated ability to achieve projections</b></li></ul>	<ul style="list-style-type: none"><li>• Treasury rates</li><li>• Interest rates</li><li>• Market leverage/liquidity</li></ul>

# Income Approach: Risk of Cash Flow



# Build Understanding of How Employees Drive Value



# The Issue with Share Price as a Performance Metric

- Share price is a lagging indicator
- By the time employee-owners learn the share price, it's too late to do anything about it
- But, they can impact future share price....
- Employee-owners **need to be given information regularly** and in **a time frame where they can act on the information**
- The more employee-owners receive real-time feedback, the more they will be able to link their actions with performance results

# Structure of Updates

- Town halls
- Team meetings
- Visual display
- Written reports
  
- Other ideas???



# Content of Updates

1. Company financial profitability goals, including net sales, gross margin, and overall profitability metrics, such as net margin or EBITDA margin.
2. Goals for key business unit metrics that impact profitability goals, such as production units, on time delivery rate, scrap, or number of positive customer reviews.
3. Company progress on its goals.
4. Business unit progress on its goals.
5. Numbers that identify opportunities for improvement such as scrap, rework due to quality flaws, or accounts receivable that are over 90 days.

Measures	Trend	Current	Variance	Category
<b>EBITDA</b> <small>Monthly Financial Statement</small>		\$1.3M	41%	Financial
<b>Gross Revenue</b> <small>Monthly Financial Statement</small>		\$19.3M	-27%	Financial
<b>Profit</b> <small>Monthly Financial Statement</small>		5.9%	-41%	Financial
<b>Customer Rating (%)</b> <small>Quarterly Survey Responses</small>		89.3%	3%	Customer
<b>Average Customer Size</b> <small>Monthly Customer Reports</small>		\$88.2k	-4%	Customer
<b>Customer Retention</b> <small>Monthly Customer Reports</small>		91.2%	1%	Customer
<b>On-Time Delivery</b> <small>Monthly Operational Data</small>		\$1.3M	-4%	Internal
<b>Admin Exp / Total Revenue</b> <small>Monthly Financial Statement</small>		8.3%	17%	Internal
<b>Turnover Rate</b> <small>Monthly HRIS Reports</small>		1.3%	87%	Learning/Growth
<b>Average Training Hours</b> <small>Monthly Learning System Reports</small>		5.6	62%	Learning/Growth

# Explaining Updated Share Price: Framework

How did we perform last year?

Revenue

Profitability

What were the successes?

What were the challenges?

How do we expect to perform moving forward?

Industry and economic trends

Revenue projections

Profitability projections

How does this impact our valuation?

Cash flow

Risk