

The Industry Benchmarks & Your Company Value Proposition

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Introduction – Todd Johnson



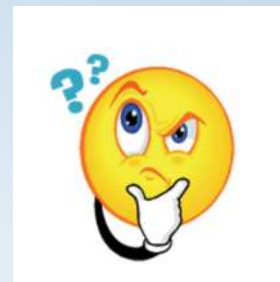
- Joined industry in 1993
- Co-founded Global Imaging Systems in 1994
 - Grew from \$0 to \$1.1B in sales in 13 years
 - As VP of Acquisitions, part of all 80 Acqs during tenure
 - Left Global in 2007 after sale to Xerox
- Joined Strategic Business Associates in 2010 (Hey & Hanson)
 - 2 dozen regular clients across US
 - Conduct annual financial survey for 4 largest trade groups (\$2.5B in revenues)
 - Teach BTA's ProFinance 2.0

The Purpose of Business

100 CEO's surveyed: What is the purpose of business?

- #1 Answer??

- To Make Money



Better Answer: To Serve Clients

Outcome of doing that well = Make a fair profit

The Purpose of Business

Serve clients & run business well = fair profit

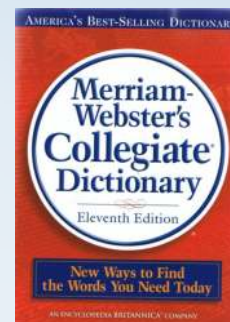
- Short term benefit to Owner
 - Cash Flow lifestyle
- Long term benefit to Owner
 - Build value
 - To pass on to heirs
 - To Sell



How is Value Derived?

VALUE DEFINED

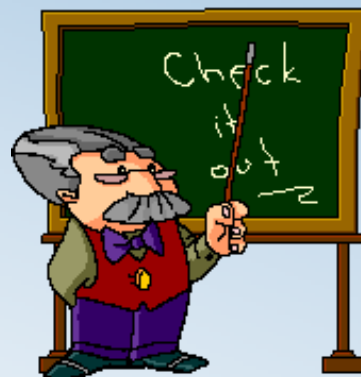
- Webster's – "a fair or proper equivalent in money for something sold or exchanged; fair price or return"
- The value of a business is subjective and based on many variables, including:
 - Estate Sale or Strategic Sale
 - Seller's Expectations / Situation
 - Buyer's Expectations / Situation
 - Market Conditions
 - Timing



How is Value Derived?

Most basic value calculation:

- What I Have – What I Owe = What I'm Worth
- Assets – Liabilities = Equity
 - + Liabilities = +Liabilities
 - Assets = Liabilities + Equity (The Balance Sheet)
- Therefore Equity (or NBV) is a basic method but...
 - Imaging business not asset heavy
 - #1 Asset – Customer Base/recurring revenues
 - #2 Asset - Employees



How is Value Derived?



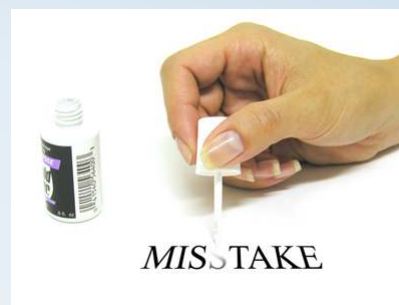
Earnings based value calculation:

- Price = (Adj **Profit** x Multiplier) – Debt
- **Profit** usually means annual operating income, which is profit before interest and taxes. (EBIT)
- If you are at mid-year, it is the most recent 12 month period, NOT a few months annualized. (Trailing Twelve)

How is Value Derived?

Price = (Adj Profit x Multiplier) – Debt

- **Adjusted** usually means “as normalized for a public company accounting environment”.
 - Accounting Adjustments
 - Non-Recurring Events
 - Owner tax strategies
 - Compensation changes
 - NOT efficiencies of the Buyer



How is Value Derived?

Price = (Adj Profit x Multiplier) – Debt

- **Debt** usually means all liens against the business assets must be resolved either prior to closing, or with closing funds.
 - Bank Debt
 - Secured Inventory Financing (floor planning)
 - Notes to individuals (seller's notes from acquisitions)
 - Long-term portion of Deferred Revenue (>1 year)
 - Vehicle related debt



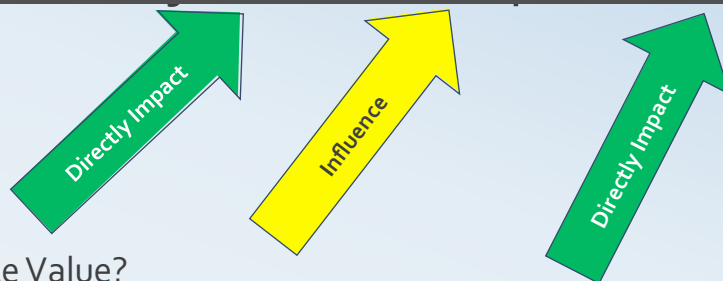
How is Value Derived?

Price = (Adj Profit x Multiplier) – Debt

- The **Multiplier** is a subjective value that is negotiated between the Buyer and Seller based on perceived value and market conditions.
 - Its Subjective
 - It will vary between Buyers
 - It relates to Payback time and Return on Investment
 - Often tied to how a Buyer borrows
 - Generally 3X - 5X

The Value Equation

$$\text{Price} = (\text{Adj Profit} \times \text{Multiplier}) - \text{Debt}$$



How to Maximize Value?

- > Positive Top Line Growth
- > Strong Operating Profit
- > Minimize Debt (with strong cash flow)

-> **Use the Industry Benchmark Model !!**

The Industry Benchmark Model

- The Industry Benchmark Model has been used by the “copier” industry to communicate the standards of good performance:
 - For almost 30 years
 - By BTA, IKON, Danka, Global, CDA, BPCA, SDG, PDG, and many others
 - In the US as well as Europe, South America and Australia
 - For large and small dealers, as well as mega-dealers
 - For dealers with rural or metropolitan markets
- The Industry Benchmark Model is periodically updated and refreshed to reflect changes in the industry standards, and trends in performance
 - # 1 Change over last 30 years = Higher Productivity Standards

The Industry Benchmark Model

- **Imaging – 90.8%**

- Traditional MFP business – 88%
- Managed Print Services – 11%
- Document Management – MFP related - 1%

← Benchmark Model Focuses Here

- **Managed Network Services – 5.7%**

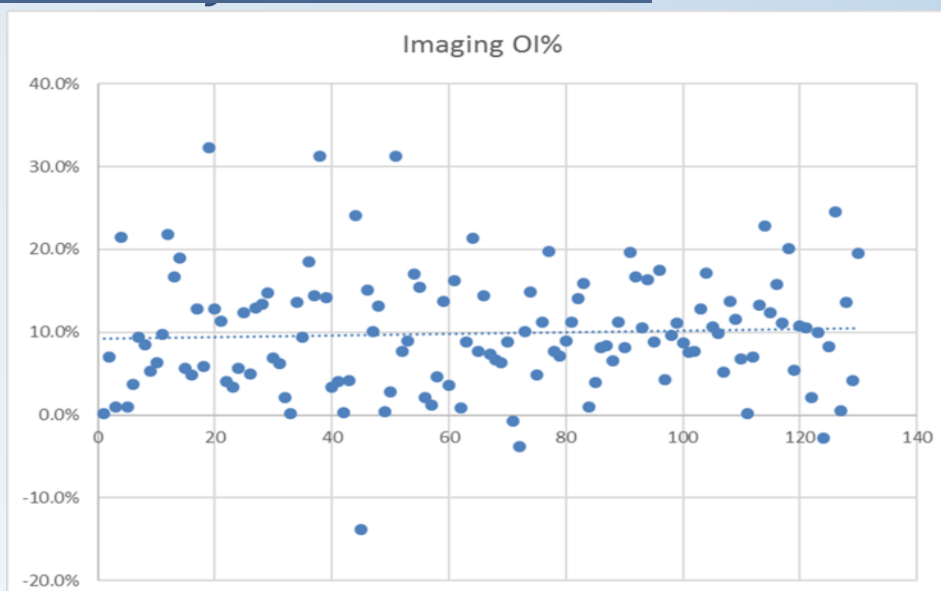
- Hardware as a Service (HaaS)
- Insourced / Outsourced Managed Services
- Traditional IT Service & Support

← Watching this closely, Developing trends

- **Other 3.5%** – Furniture, Water, Telephony, Mailing, Wholesale, Captive Leasing, etc.

The Industry Benchmark Model

**SURVEY
SAYS !?**



The Industry Benchmark Model

WHAT IS A BENCHMARK?

- Standard of excellence or achievement against which things can be measured or judged.
- The 80-85th percentile of the industry's Best Sustainable Practice
- MINIMUM ACCEPTABLE PERFORMANCE
- *Benchmarks can be over-achieved!*



The Industry Benchmark Model

COMPONENTS OF THE BENCHMARK MODEL

- ▶ Profitability – This is the portion most companies are familiar with
- ▶ Productivity / Staffing – For each department and in total
- ▶ Service Operations – Best Practices
- ▶ Sales Operations – Best Practices
- ▶ Admin Operations – Best Practices
- ▶ Classifications / “Bucketing”



The Industry Benchmark Model

MFP PROFITABILITY MODEL

<u>Category</u>	<u>MIX of Sales</u>	<u>48%</u>	<u>18%</u>	<u>32%</u>	<u>2%</u>	<u>TOTAL</u>
		<u>Hardware</u>	<u>Supplies</u>	<u>Service</u>	<u>Rental</u>	
▶ Sales		100.0%	100.0%	100.0%	100.0%	100.0%
▶ - Cost of Goods		<u>(60.0%)</u>	<u>(56.0%)</u>	<u>(48.0%)</u>	<u>(55.0%)</u>	<u>(55.3%)</u>
▶ = Gross Profit		40.0%	44.0%	52.0%	45.0%	44.7%
▶ - Sales Exps		<u>(28.5%)</u>	<u>(0.0%)</u>	<u>(0.0%)</u>	<u>(0.0%)</u>	<u>(13.7%)</u>
▶ = Contribution		11.5%	44.0%	52.0%	45.0%	31.0%
▶ - Admin / Overhead		<u>(17.0%)</u>	<u>(17.0%)</u>	<u>(17.0%)</u>	<u>(17.0%)</u>	<u>(17.0%)</u>
▶ = Operating Profit		<u>(5.5%)</u>	27.0%	35.0%	28.0%	14.0%
	Weighted Profit	(2.6%)	4.9%	11.2%	0.6%	14.0%

The Industry Benchmark Model

MFP PROFITABILITY MODEL

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	Weighted Profit	(2.6%)	4.9%	11.2%	0.6%	14.0%

The Industry Benchmark Model

MPS PROFITABILITY MODEL

	MIX of Sales	4%	63%	33%	0%	
Category	Hardware	Supplies	Service	Rental	TOTAL	
▶ Sales	100.0%	100.0%	100.0%		100.0%	
▶ - Cost of Goods	(80.0%)	(55.0%)	(40.0%)		(51.0%)	
▶ = Gross Profit	20.0%	45.0%	60.0%		49.0%	
▶ - Sales Exps	(16.0%)	(16.0%)	(16.0%)		(16.0%)	
▶ = Contribution	4.0%	29.0%	44.0%		33.0%	
▶ - Admin / Overhead	(17.0%)	(17.0%)	(17.0%)		(17.0%)	
▶ = Operating Profit	(13.0%)	12.0%	27.0%		16.0%	
	Weighted Profit	(0.5%)	7.6%	8.9%	0.0%	16.0%

Conclusion

- **Maximize Profits:**
 - Efficient Operations
 - Revenue growth
 - Use the Benchmark Model
- **Minimize Debt:**
 - Cash Flow Management
- **Make your company desirable:**
 - Growth
 - Team
 - Reputation
- And maximize your value (for IF and WHEN its time)



FINANCIAL SKILLS, KNOWLEDGE AND LEADERSHIP

ProFINANCE 2.0

Upcoming Workshop Dates and Locations:

- March, 2018 – East Coast (TBD)
- June, 2018 – Midwest (TBD)
- October, 2018 – West Coast (TBD)



QUESTIONS

DISCUSSION

THANK YOU

