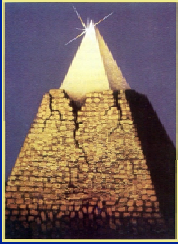



**Building Value In Small Business  
& Avoiding Trouble on the Horizon**

September 17, 2008  
Building Enterprise Value

Maryland Chamber of Commerce  
Education and Networking Series


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**Esteemed Expert Panel**

**Moderator:**  
John M. Collard, Chairman  
Strategic Management Partners, Inc.  
Annapolis, Maryland

**Panelists:**  
C. Edward Hartman, III, Managing Partner  
Hartman & Egeli  
Annapolis, Maryland

Diane Devaney, President  
Devaney & Associates  
Towson, Maryland

Tom Heseltine, Partner  
Clifton Gunderson  
Baltimore, Maryland

AnnMarie Schovee, Managing Director  
M&T Bank, Investment Banking  
Baltimore, Maryland



**On The Hot Seat**

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**Today's Format**  
*What We Will Talk About*



**Building Value**



**Avoiding Trouble**



**Roundtable Forums**

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## Build Enterprises

Buyers Want to Invest In!

Investors/Buyers look for:

- ✓ Businesses that create value = Consistency
- ✓ High probability of future cash flows = History
- ✓ Marketing-orientated management team = Focus
- ✓ Ability to sell and compete; develop, produce, and distribute products; thrive & grow = Track Record
- ✓ Fair Entry Valuation = Realistic Return Potential
- ✓ Exit Options = Realize high ROI @ Their Resale

*Directors' and Management's role must be to build Going Concern Value!*



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## Investing in a Small Business

An Investor Must:

- Ascertain Company has ROI potential
- Locate Core Value on which to build
- Buy Company at the right price
- Know how to fix any problems
- Avoid paying for past sins
- Sell at increased value

*While Simply Stated, It is Tricky to Implement.*



Greenlighting

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## Building Value Process

Always Take Active Control



- Build Quality Management Team: Credibility/Consistency
- Bring Leadership: Focus/Change/Teach
- Set Strategy: Vision/Direction
- Acquire New Business/Sales: Market Driven
- Implement Processes: Cost/Cash/Value
- Nurture Resources: People/Facilities/Advisors
- Establish Sound Capital Structure: Reasons to Invest

Growth<sup>7</sup>

6 Source: The Transferable Skill-Set, by John M. Collard

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**Focus on Exit Strategy**  
*Throughout the Entire Process*

Earnings and Cash Capacity +  
 Realize **X** Multiple on Investment +  
 Demonstrated **I**mprovements +  
 Functioning Management **T**eam in Place =  
 Time to Sell

*You can only realize ROI at the point when  
 the company is sold and you receive cash*



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**What Is The Most  
 Important Element of  
 Core Value That Buyers  
 Prospect For In An  
 Investment Opportunity?**



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**What Do Potential  
 Buyers Value Most  
 When Purchasing  
 In This Economy.  
 Why Do Sellers Get Surprised By This?**



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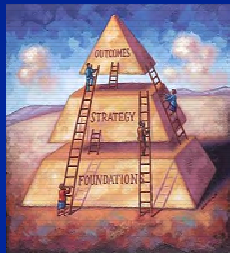
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*What Goals Should An  
Investment Property  
or Company Achieve*



*In Order To Entice Future Buyers To Invest,  
Therefore Providing Their Exit?*

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*What Strategies Do You  
Employ To Build Value  
In Client Companies?*

*Why?*

- Return on Invested Capital?*
- Profitable Sales Growth?*
- Generating Cash Flow?*
- Motivated Work Force?*
- Name/Brand Recognition?*

*More ...*



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*What Leadership  
Techniques Create  
The Most Value?*



*How Do You Hold These Leaders Accountable?*

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**What Creative Incentive Structures Generate The Best Results?**



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**10 Warning Signs of Trouble**  
If You Answer "YES" to Some of These Questions, Then Correct Situation or Get Help

1 to 5

Sign of Trouble	What to Do About It
Is Top Management Overextended?	Overcome Denial, Delegate, Clarify Roles, Hold Accountable, Manage to Meet Defined Goals
Is Turnover Rate Excessive?	Uncover the Real Causes for Their Exit, Define Expectations & Rewards, Listen to Employees, Be Consistent
Are Customer Relations Inconsistent?	Demonstrate Leadership, Manage Meetings, Level With Employees
Are Goals Not Clearly Stated?	Everyone's Goals Must Be In Sync, Be Specific, Differentiate Company From Competition
Are Compensation and Incentive Plans Violating Unwritten Rules?	Be Careful What You Pay For - You May Just Get It Pay Only For Plan Performance, Nothing Else, Pay on Gross Margin versus Sales

14 Source: The Corporate Board, Is Your Company In Trouble? by John M. Collard Maryland Chamber of Commerce

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**10 Warning Signs of Trouble**  
If You Answer "YES" to Some of These Questions, Then Correct Situation or Get Help

6 to 10

Sign of Trouble	What to Do About It
Is New Business Waning?	Commit to Winning New Business, Be Responsive, Sell unto Others the Way They Want to Be Sold to
Are Any Key Client Relationships Deteriorating?	Manage Client Relationships, Stay Informed, Change With the Market, Meet Customer Needs, Provide Quality Customer Service
Do You Create "Frenzy" in Search of Markets?	Create Product Awareness to Meet Existing Demand, Keep "Bells and Whistles" to a Minimum, Ask Customers ... Simple But Effective
Do Financial & Management Reports Cover Wrong Info at the Wrong Levels?	Cash Flow Is the Best Indicator of Business Health, Measure @ Cash, Profit, Cost, & Incentive Centers, Watch Metrics: Volume In, Volume Out, Changes
Do You Have a Track Record of Rapid Expansion Plans?	Expand Carefully, Manage Change and Cash, Model Success to Produce Growth

15 Source: The Corporate Board, Is Your Company In Trouble? by John M. Collard Maryland Chamber of Commerce

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*Businesses Fail Because  
Of Mismanagement.  
How Do You Deal With  
Senior Management  
When They Underperform  
Or Get Into Trouble?  
Do They Stay or Go?  
Why?*



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*What Infra-Structure  
Do You Build In  
To Protect Clients  
During The  
Growth Process?  
How Do You Keep Them Out of Trouble?*



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*Do You Recommend  
Inside or Outside  
Advisors?  
What Is The Most  
Important Benefit That They Bring?*



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*How Can The  
Board of Directors  
and Advisory Boards  
Help Guide The Business  
To Avoid Trouble?*



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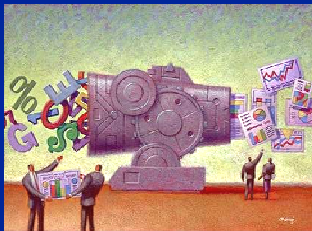
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*You Must Measure  
Results To Track  
Performance.  
What Reporting  
Do You Look For  
To Predict  
Troubles?*



Report Generator Machine

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*Questions From  
Our Audience?*



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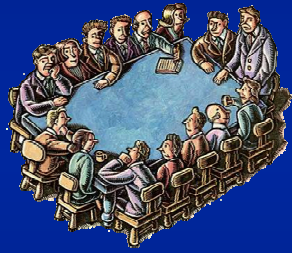
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*Thank You.*

*Enjoy Roundtable Forums!*

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