

Case Study - Client 093004A

Summary

- \$40,000,000 (sales) private software firm about to reposition itself for a new market
- Valuation needed for a strategic benchmark
- Five analysts participated from around the U.S.
- Results: \$31.2 million (+/- \$5.1 million)
- *“We learned more in 90 minutes about how our business creates value than we’ve learned in the last ten years.”*

The Client (Cloaked name, “Alpha”)

Alpha has \$40 million in annual revenue, 300+ employees, and is headquartered in the mid-Atlantic region. It has developed software applications for agencies of the U.S. government for over 10 years, but recently decided to reposition itself for a private-sector market. Its goal is 10x growth in five to seven years through M&A and organic means.

The Objective

Since the repositioning would increase short-term risk and capital requirements, Alpha selected NUMERIASM for three principal reasons:

1. To objectively estimate the value Alpha could realize through a strategic sale, rather than undertake the repositioning;
2. To independently value Alpha before negotiations begin with investors, whose present and future commitment would be essential for the repositioning; and
3. To create a robust valuation benchmark to measure performance going forward.

All were important to the chairman/CEO, the largest stockholder, who knew the repositioning was needed but would risk his life’s work. In dollar terms, he wanted to see what was at stake and how much value the business should create in the future.

The Analysts

Given Alpha’s industry (information technology) and its valuation objective (how much a strategic buyer would pay), NUMERIASM selected five analysts from its network whose experience and perspective would make the process and outcome most meaningful.

The Analysts (continued)

<u>Perspective</u>	<u>Prior Experience</u>
<i>Investment Banker</i>	Bankers Trust/Alex. Brown & Sons J.P. Morgan & Co. Also, CFO of private IT companies MBA, Cornell University
<i>Investment Banker</i>	Goldman Sachs & Co. Also, Director of M&A, private telecom company MBA, University of Chicago
<i>Strategic Acquirer</i>	Strategy manager, Bell Labs spin-off Also, senior consultant, Big 4 accounting firm MS Engineering, California Polytechnic
<i>Strategic Acquirer</i>	Manager of financial planning, Beckman Coulter Senior financial analyst, Penske Logistics MBA, University of Toledo
<i>Appraiser</i>	Valuation manager, private consulting firm Controller, venture-backed technology firm Senior tax accountant, Big 4 accounting firm MBA, University of Texas (Austin); CPA, CFA

The selected analysts neither knew nor communicated with each other, except in real-time in the client's presence. This particular group participated from New York, Los Angeles, Houston and Princeton, while the client management team observed from a mid-Atlantic state.

The Process

For Alpha's valuation, the NUMERIASM process comprised four phases:

1. *Client review* conducted by a NUMERIASM engagement team;
2. *Initial valuation* reports prepared by independent analysts;
3. *Price discovery* through the real-time valuation session on the NUMERIASM platform, where analysts debated and defended their positions; and the
4. *Final valuation* report prepared by NUMERIASM.

The process was completed in three weeks, though it could have been accelerated if a financing or M&A transaction was pending.

The Results

Analyst	Initial Valuation	Final Valuation
Investment Banker	\$26,331,163	\$26,900,000
Strategic Acquirer	\$38,803,000	\$30,000,000
Strategic Acquirer	\$65,000,000	\$40,000,000
Investment Banker	\$27,000,000	\$30,000,000
Appraiser	\$17,000,000	\$29,000,000
	◆	◆
Mean	\$34,826,833	\$31,180,000
Standard Deviation	\$18,557,109	\$ 5,090,383
S.D. as % Mean	53.3%	16.3%

The final report included these beginning and ending data points, which evolved while the client observed the price discovery phase. The report also included:

- Guidance in interpreting the valuation vis-à-vis a strategic sale, and
- Recommendations for enhancing the value of the enterprise, including
 - ◆ A reorganization of operations, and
 - ◆ A restructuring and recapitalization of the balance sheet

The initial written reports prepared by the independent analysts were included in the appendix for client reference.

The Outcome

In the client's words, conveyed to NUMERIASM one day after the real-time pricing:

"We were blown away by the process."

"We learned more in 90 minutes about how our business creates value than we've learned in the last ten years."

"We're an IT company, so we build software for a living. Your web app and the live process works as promised."

"While the final number was about what we expected, it's the way they [the analysts] got there that really impressed us. They were tough on each other, plus the price convergence from start to finish, made us confident that it's for real."