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Building Enterprise Value: A Manufacturing Case Study

Heather Parbst | Jon Hughes | Erin Mickels

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Speakers

Heather Parbst
Deal Services Director
heather.parbst@CLAconnect.com

Jon Hughes
CAAS Principal
jon.hughes@CLAconnect.com

Erin Mickels
Deal Services Principal
erin.mickels@CLAconnect.com

Today's Value Building Journey

Financial levers that drive enterprise value in manufacturing

Case study

Qualitative drivers of enterprise value

Practical next steps

Financial Levers that Drive Value in Manufacturing

POLLING QUESTION 1

What is the biggest constraint to increasing profitability in your business today?

A. Capacity utilization
B. Labor availability or productivity
C. Pricing / customer mix
D. Material costs
E. Overhead / fixed cost structure

What is
Enterprise Value?

- **Enterprise Value** is what your business is worth to a buyer.
- Base Price = Adjusted EBITDA x Multiple
- Cash-free, debt-free
- Assumes ordinary course Working Capital

Think of Enterprise Value Like an Iceberg

The financial results *are visible.* The operational capabilities beneath them *create the value.*

The deeper the foundation, the greater the value.

Above the water:
FINANCIAL RESULTS

- Value-added revenue
- EBITDA
- Cash flow

Below the water:
VALUE DRIVERS

- Capacity utilization
- Leadership team
- Customer diversification
- Efficient operations
- Reliable financial information
- Repeatable processes
- Growth capacity

What Financial Drivers Build Enterprise Value in Manufacturing?

1.
Value-added revenue

Create more value with existing resources

2.
EBITDA

Convert value into sustainable earnings

3.
Cash flow

Turn earnings into usable cash

4.
Revenue quality and predictability

Create confidence in future earnings

More ***cash flow*** + more ***confidence*** = higher enterprise value

What is Value Added Revenue?

Why Value Added Revenue Matters

The fastest way to increase enterprise value is often utilizing more of the capacity you already own.

Increase capacity utilization

Improve throughout

Improve yield and quality

Improve product mix and pricing

Bring work in-house

What is EBITDA and Why does it Matter?

What Drives Cash Flow?

Let’s Talk About Revenue Quality and Predictability

Case Study

POLLING QUESTION 2

How confident are you in understanding which products, customers, or jobs create the most value?

A. Very confident
B. Somewhat confident
C. Not very confident
D. We do not currently analyze this consistently

Case Study - *Turning Unused Capacity into Enterprise Value*

Sales	11,900		8,200		9,250		10,400	
Cost of Goods Sold - Materials	(2,380)		(1,720)		(2,070)		(2,220)	
Value Added Revenue	**9,520**	**80%**	**6,480**	**79%**	**7,180**	**78%**	**8,180**	**79%**
Costs of Goods Sold -Direct Labor	(3,185)		(2,950)		(3,065)		(3,150)	
Costs of Goods Sold - Factory OH	(3,390)		(3,180)		(2,985)		(3,005)	
Gross Profit	**2,945**	**25%**	**350**	**4%**	**1,130**	**12%**	**2,025**	**19%**
SG&A	(1,610)		(1,660)		(1,685)		(1,575)	
Net Income (Loss)	**1,335**		**(1,310)**		**(555)**		**450**	
Interest Expense	50		75		125		100	
Depreciation	300		290		285		295	
EBITDA	**1,685**		**(945)**		**(145)**		**845**	
Change in Value Added Revenue (VAR)			(3,040)		700		1,000	
Change in EBITDA			(2,630)		800		990	
Correlation b/w Change in VAR and Change in EBITDA			87%		114%		99%	

Case Study - *Turning Unused Capacity into Enterprise Value*

How does increase in profitability impact Enterprise Value?

Increase in Profitability	**$**	**990**
Multiple of EBITDA*		4
Increase in Enterprise Value	**$**	**3,960**

POLLING QUESTION 3

Which qualitative value driver needs the most attention in your business?

A. Leadership / management depth
B. Documented processes and systems
C. Customer concentration or market positioning
D. Talent, culture, and accountability
E. Succession or ownership transition readiness

Qualitative Drivers of Enterprise Value

What Qualitative Drivers Build Enterprise Value?

The capabilities beneath the financial results (iceberg) determine whether performance is sustainable, scalable, and transferable.

- Leadership depth
- Systems and processes
- Customer and supplier diversification
- Reliable financial information
- Growth capacity

Enterprise value is determined not only by financial performance, but also by how sustainable and transferable that performance is.

What Makes Financial Performance Sustainable and Transferable?

Sustainable + scalable + transferable performance

1. Leadership depth

2. Repeatable systems

3. Diversified relationships

4. Reliable financial information

5. Growth capacity

The ***stronger*** the foundation, the more ***confidence*** a buyer has that cash flow will continue.

Practical next Steps for Building Enterprise Value

QUESTION

Which of the following best describes your current priority for the business?

A. Improving profitability and cash flow in the next 12 months
B. Understanding what drives value in the business
C. Preparing for ownership transition, succession, or a future sale
D. Building a stronger management team and operating platform
E. General interest / staying informed

Practical Steps to Build Business Value

Improve capacity utilization before investing in additional people, equipment, or facilities.

Strengthen pricing discipline and regularly evaluate profitability by customer and product line.

Develop leadership beyond the owner to reduce key-person risk and improve scalability.

Document critical processes and knowledge to create a more repeatable and transferable business.

Reduce customer and supplier concentration risk through diversification.

Invest in people and culture to improve retention, engagement, and leadership development.

Practical Steps to Build Business Value

Build governance and accountability through clear KPIs, reporting, and decision-making processes.

Create a succession and transition plan long before it is needed.

Run the business like a buyer is looking at it today, focusing on profitability, scalability, and transferability

Thank you!

Heather Parbst
heather.parbst@CLAconnect.com

Jon Hughes
jon.hughes@CLAconnect.com

Erin Mickels
erin.mickels@CLAconnect.com

CLAconnect.com

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Questions?

- **I'd pull this slide. We may not have time, or we can just do questions with the last page (and our contact info) visible.**