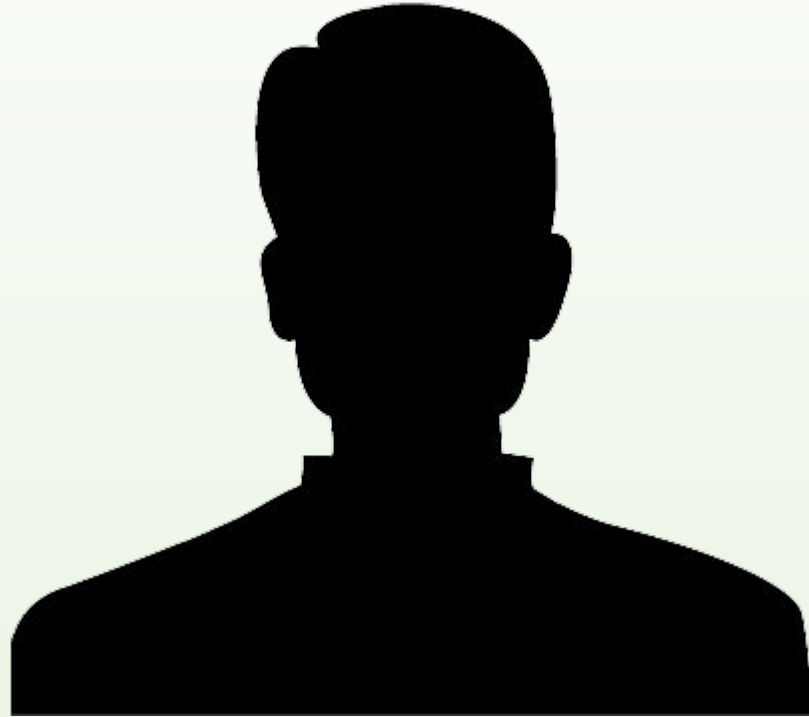




What Buyers Are Looking For

How To Position Your Agency To Maximize Your Valuation

Some Stories



GRAHAM



Some Stories



SUSANNAH

Some Stories



TAYLOR

Be Ready.

About Me



Extensive Industry Knowledge



Tech-enabled marketing and/or Local



Proven M&A Leadership



C-Suite Roles at Agency Related Companies



Relevant M&A Experience



Agencies / Local focused businesses



Strong Momentum

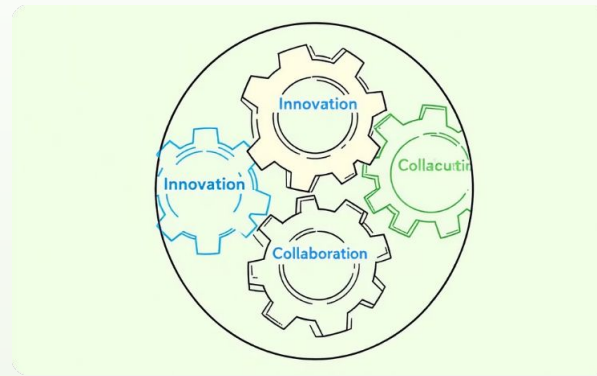


2 Deals Closed, 4 under LOI, 4 under offer

Agenda



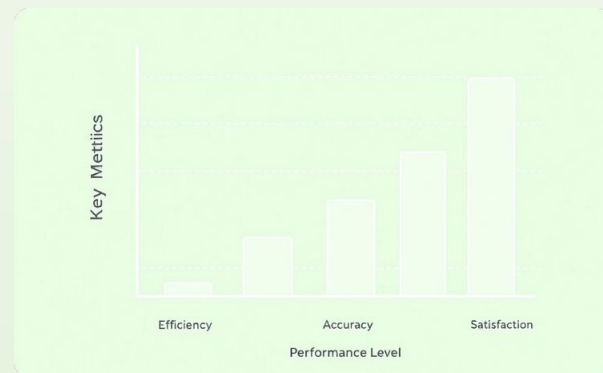
What is PE and how it makes



The Triangle of Value



Calculate the Triangle



Triangle of Value
Benchmarks



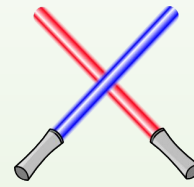
Valuation Expectations



Q&A

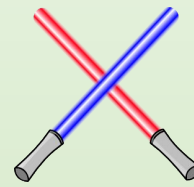


But PE can be a
"force" for good



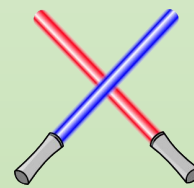
Realize

aka take chips off the table
Value



Growth

aka invest in new initiatives
Capital



Share

aka 2nd bite of the apple
Upside

How does PE work

Investors



Private Equity



Portfolio Companies

- Roll Up
- Growth
- Turnaround

How does PE work

Investors



Private Equity



Portfolio Companies

How PE Firms Make Money





Example 1: Reduce Costs

- 1 Initial State**
\$3M revenue, \$500K profit, \$2M valuation
- 2 Operational Changes**
Reduce headcount, use AI to automate, offshore work
- 3 Improved State**
\$3.5M revenue, \$750K profit, \$3.5M valuation

Invested: \$200K

Borrowed: \$1.8M

Returns (after debt repay): \$1.7M

ROI: 8.5x

Example 2: Grow

- 1 — Initial State**
\$3M revenue, \$500K profit, \$2M valuation
- 2 — Growth Initiatives**
Build sales team, cross-sell, introduce new products
- 3 — Improved State**
\$5M revenue, \$1M profit, \$6M valuation

Invested:

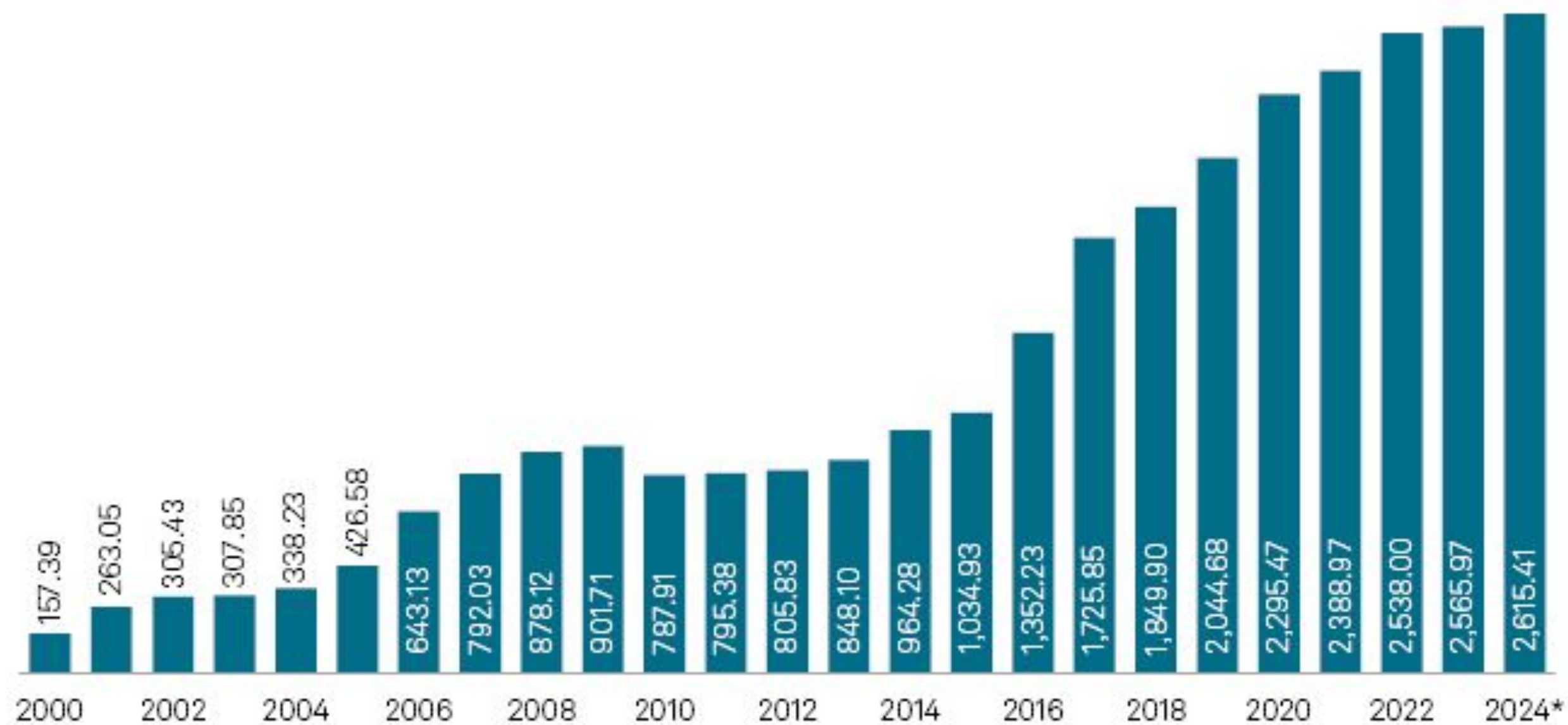
\$200K

Borrowed: \$1.8M

Returns (after debt repay):



Global private equity dry powder trend, 2000-2024 (\$B)



Data compiled July 10, 2024.

* Year to date through July 10, 2024.

Analysis includes aggregate dry powder of global private equity funds with vintage year between 2000 and 2024.

Dry powder data is supplemented by Preqin.

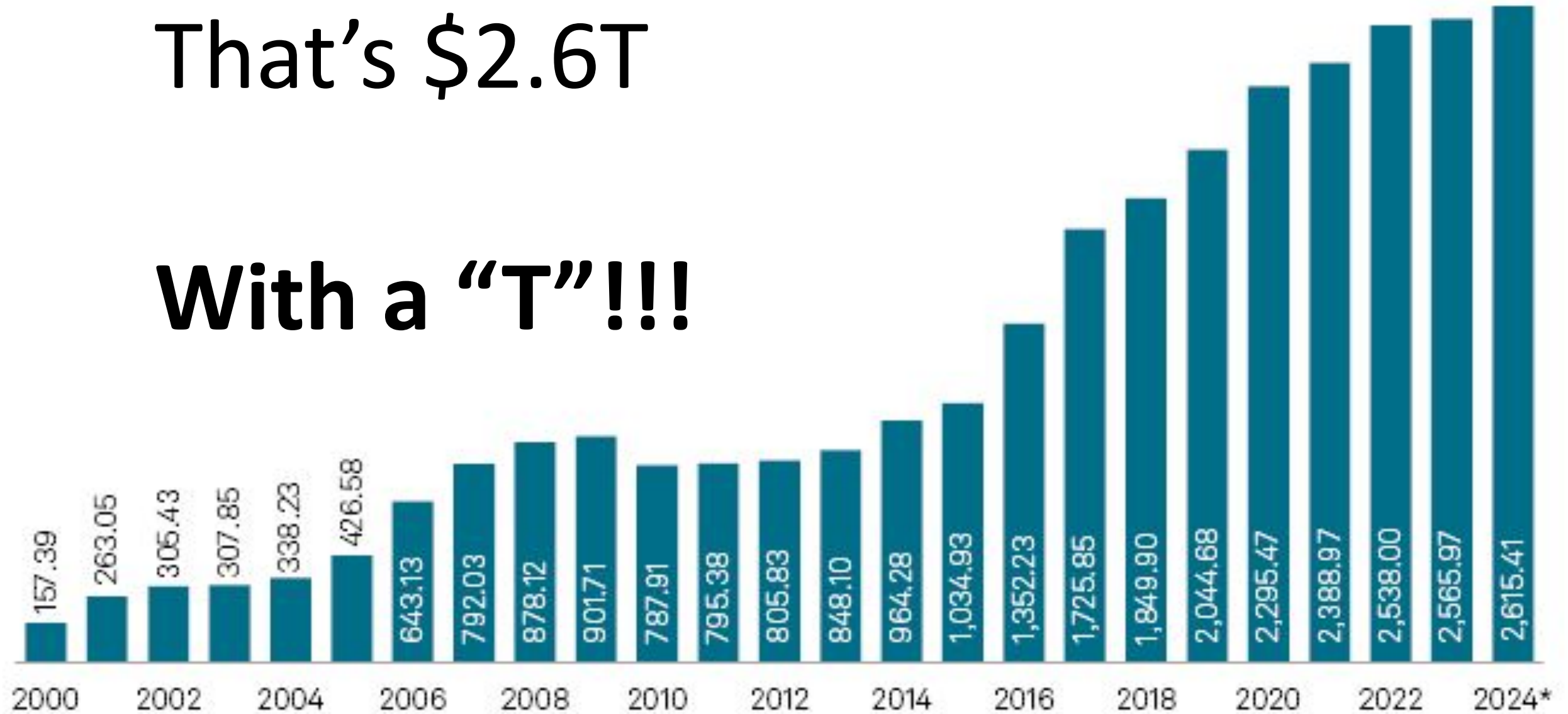
Source: S&P Global Market Intelligence.

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Global private equity dry powder trend, 2000-2024 (\$B)

That's \$2.6T

With a "T"!!!



Data compiled July 10, 2024.

* Year to date through July 10, 2024.

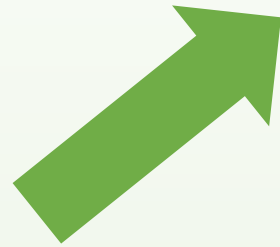
Analysis includes aggregate dry powder of global private equity funds with vintage year between 2000 and 2024.

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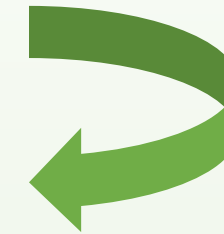
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Why Cashflow Is King



Higher Sale Price

Strong cash flow = \$\$\$ sales price



Return to Investors

\$\$\$ sales price = | return for investors

The 3 things that PE (and you) care

about **1** What are your financials?

The 3 things that PE (and you) care

about **1** What are your financials?

2 What do you want to do?

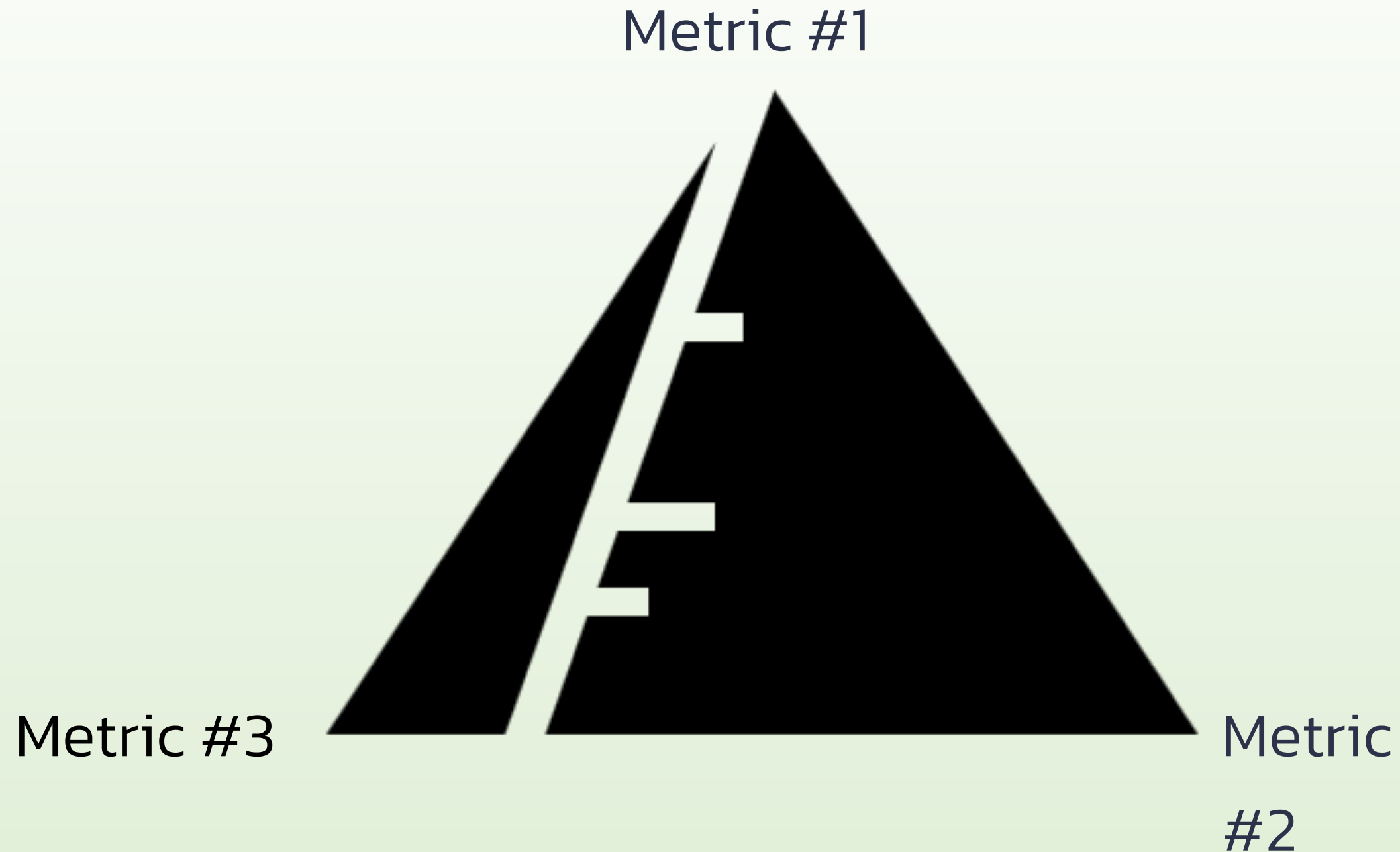
The 3 things that PE (and you) care

about **1** What are your financials?

2 What do you want to do?

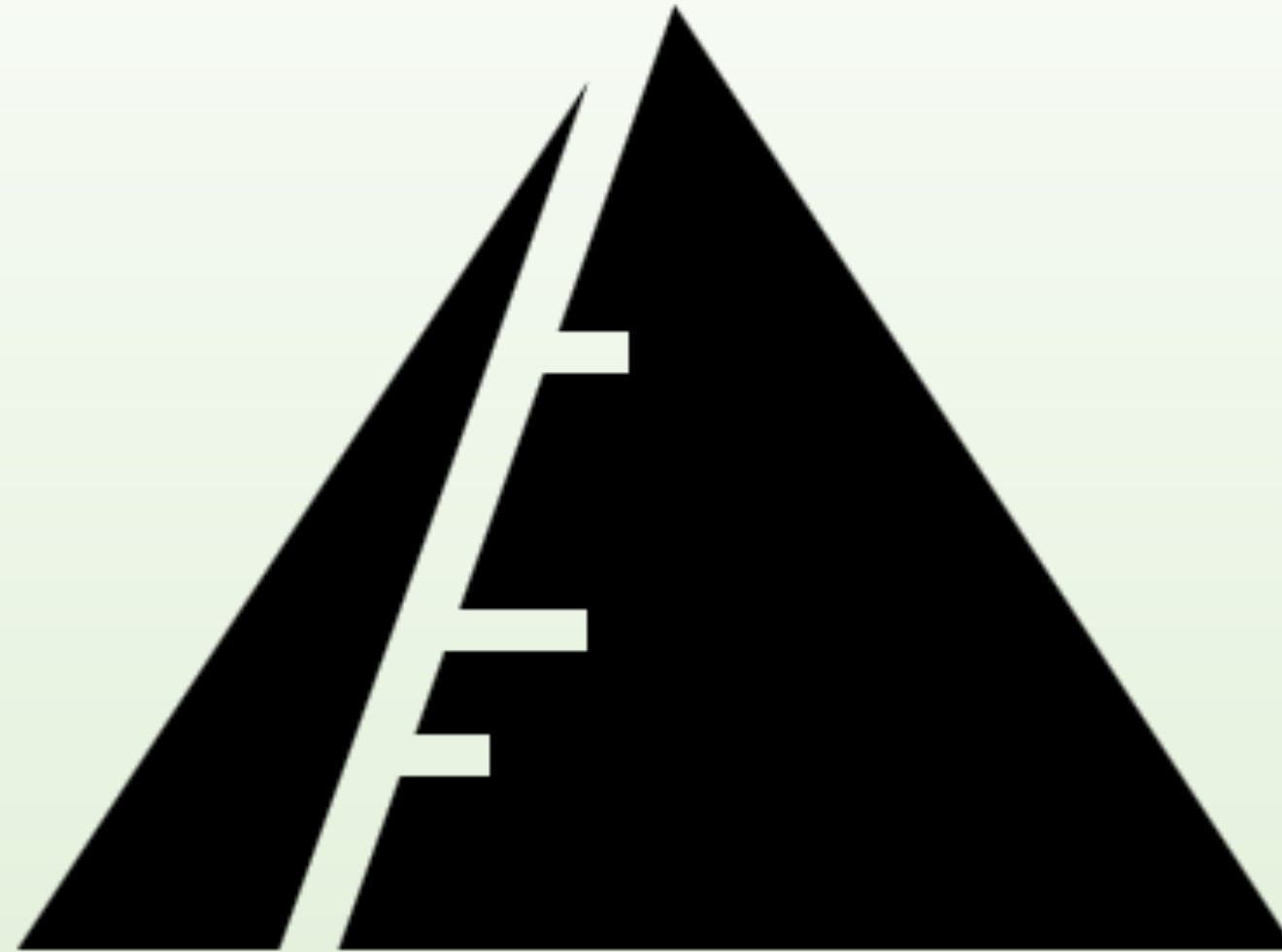
3 What's important to you – money now vs money later

The Triangle of Value



The Triangle of Value

Retention 



Profit %

Growth 

Margins

Retention

Logo Retention

What % of customers that you had in one period compared to 1 month or 1 year later?

Gross Revenue Retention (GRR)

What % of dollars in one period are still around 1 month or 1 year later (excluding upsells)

Net Revenue Retention (NRR)

What % of dollars in one period are still around 1 month or 1 year later (including upsells)

[Example Retention Calculation](#)

Profit and Profit

Margins

Reported EBITDA

What is your reported EBITDA (Earnings Before Interest Taxes Depreciation Amortization)?

What is that as a % of your net revenue

Adjusted EBITDA

What adjustments need to be made to your reported EBITDA to get your Adjusted EBITDA?

What is that as a % of your net revenue

Example EBITDA % Calculation

Growth

Year-over-Year Growth (YoY)

What is your YoY growth rate?

Compounded Annual Growth Rate (CAGR)

What is your 3-year (or more) CAGR?

Example Growth

Homework Assignment #1

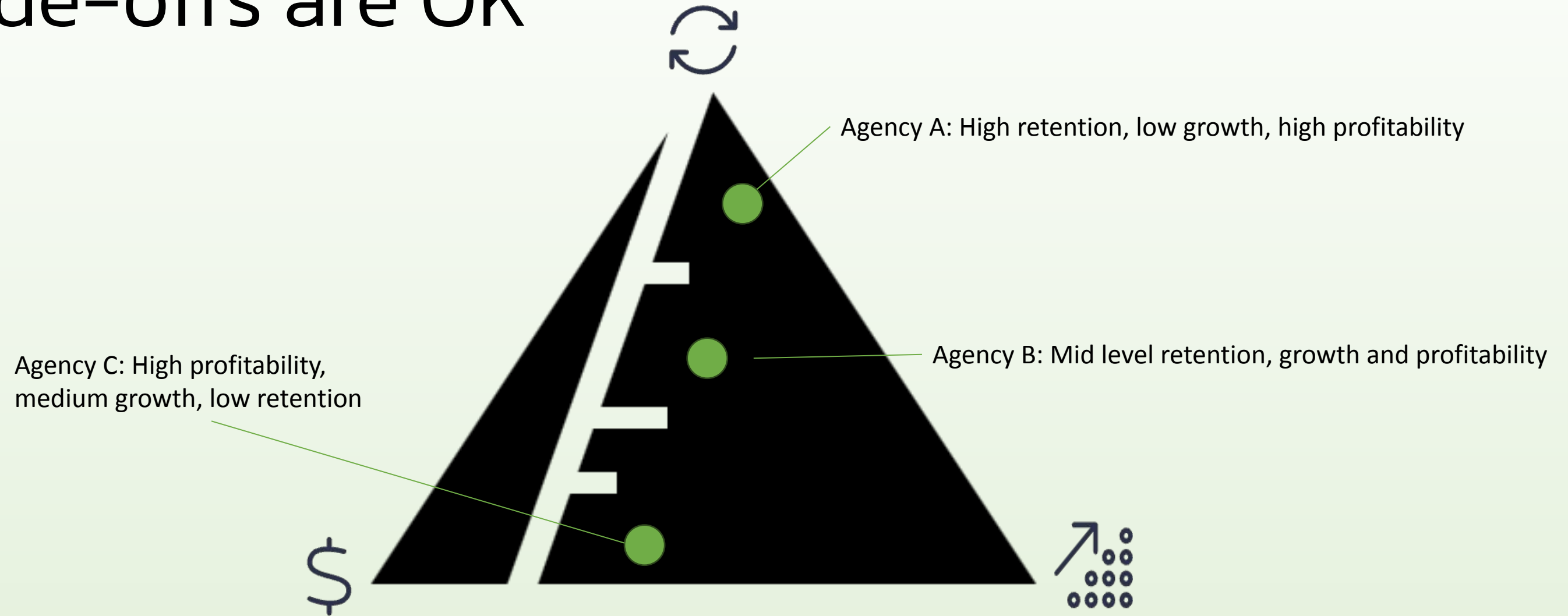
Calculate your
Triangle Of Value
metrics

Benchmarks

	Good	Better	Best
Logo / GRR*	70%	75%	80%
NRR*	80%	85%	90%
Adj EBITDA Margin	25%	30%	35%
Growth	20%	25%	30%

Note: These represent annual retention numbers ie comparing one period to the same period 1 year later

Deliberate trade-offs are OK



Valuation Benchmarks

- 3 — Very Small (<\$1M) + Unverticalized
- 4 — Very Small + Verticalized
- 5 — "Good" + Small (\$1.5M+)
- 6 — "Better" + Medium (\$2M+)
- 7 — "Best" + Large (\$2.5M+)
- 8 — "Best" + Large + Unique (IP, Client Base, Team etc)

Typical Deal Structures

Cash at close

Typically 60–80% of total valuation

Earnout

0–?% of total valuation

Equity roll

0–20% of total valuation

Rollover Equity

Total valuation = \$10M

Rollover equity = 20% = \$2M

“Buy” shares of platform @ \$1 = 2M shares

After 5 years, platform is sold to PE #2 @ \$5/share

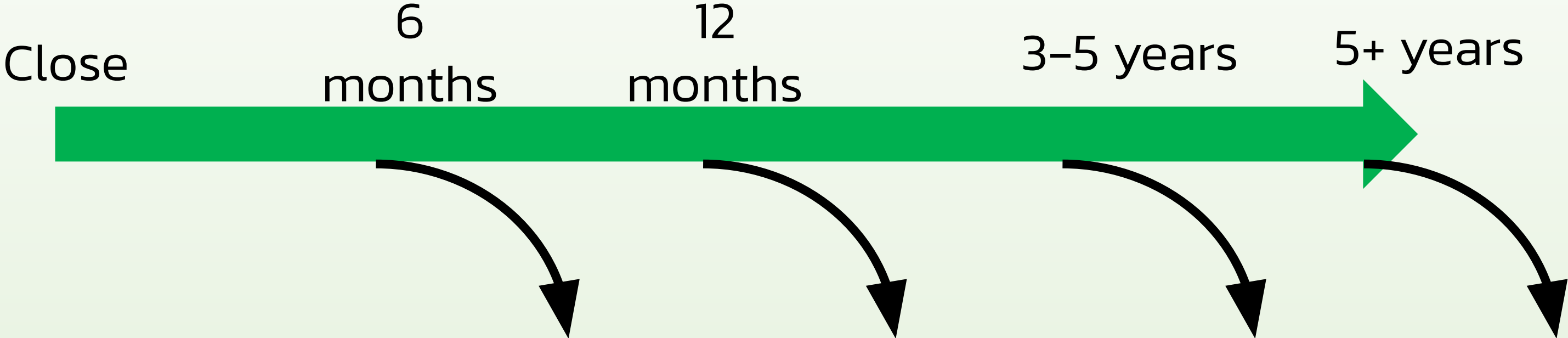
Your equity is worth 2M shares x \$5 = \$10M



Homework Assignment #2

Decide what's important to you
– cash now or later

What's your off-ramp?



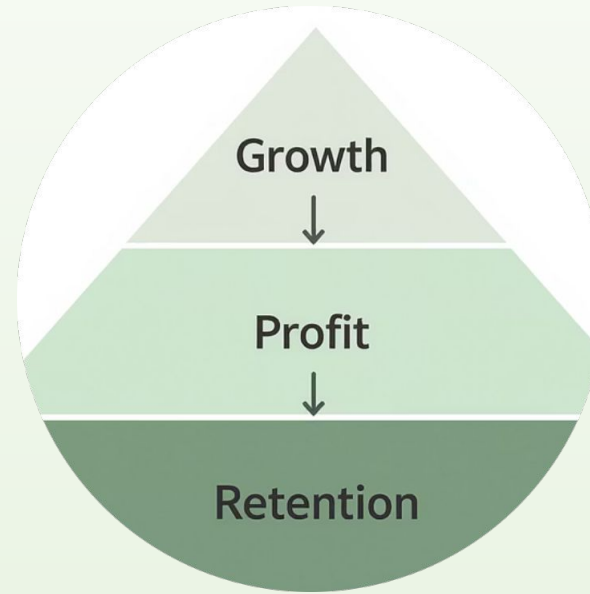
Homework Assignment #3

What do you want to do
after close?

Key Takeaways



Know what
you want



Calculate
Your
Valuation
Pyramid



Know what's
realistic!

Questions?

azim@herringbonedig

ital.com

267-970-6021