



CUTWATER
CAPITAL ADVISORS
OPTIMUM VALUE INVESTMENT BANKING

CASE STUDIES



CONTENTS

INTRODUCTION	3
CASE STUDY - TECHNOLOGY	4
CASE STUDY - HOSPITALITY.....	7
CASE STUDY – MANUFACTURING/FABRICATION.....	10
HOW TO CONTACT US.....	13



INTRODUCTION

Equity Revitalization™ In Action

United Cutwater is an exit advisory and investment firm that actively partners with middle-market companies seeking to exit that have substantial upside potential in enterprise value. These privately-held firms commonly need additional financial and tactical resources to help achieve an optimum exit value that **significantly increases the business owner's payout over current options.**

United Cutwater is unique in that we bring capital investment, business improvement, and exit preparation in one powerful package. We deploy a complete and integrated set of investment capital, hands-on management, financial, operational, technology, and organizational resources, and exit advisory expertise that culminate in an exit at the company's "Optimum Value." This is our Equity Revitalization™ platform. **We design, fund, and implement the exit strategy while the business owner's focus stays exactly where it should...running the business.**

Following are examples of the Equity Revitalization™ platform in action. These case studies show our processes and solutions in action helping business owners in diverse sectors and situations overcome challenges, resolve problems, and achieve better outcomes in their exit scenarios.

CASE STUDY - TECHNOLOGY

MICROSOFT AZURE MSP

Situation

After several unsuccessful attempts to grow through strategic acquisition by acquiring smaller Managed Service Provider software companies, this firm decided to organically grow their business. After 18 months, the company was performing well, with moderate growth, but a solid upside.

The owners were presented with multiple offers to sell at a decent exit price. One of the owners, a managing partner in a CPA firm, called his client, Christopher Riley of United Cutwater to look at the company. Riley deployed the United Cutwater Value Algorithm assessment which identified significant unrealized upside potential. He encouraged the ownership to defer accepting an exit offer and to re-package the company with additional reoccurring revenues and restructured operations, and then re-offer the company to the market through his technology-focused investment banking partner.

Challenges

1. The financial statements contained a significant amount of family expenses and owner payments that were not relevant to the business, but were run through the business as is common with many family-owned businesses. This brought the Net Operating Income down significantly, leaving the investment bank to explain all of those EBITDA adjustments, which creates confusion and disinterest in the initial viewing of the CIM for most investment groups.
2. The company had just replaced some lost revenues that occurred a few years prior during a failed acquisition, and thus the two-year NOI formula generated a much lower blended valuation for the company. Explaining this to multiple potential buyers would have been far more difficult than just waiting six months to show that the increased revenues were now stable with a strong two-year history.
3. The company had not identified the reoccurring revenues for all of their clients and would not have all statistics available to deliver to the investment bank during due diligence. Additionally, since the company only performed Azure migration and then delivered related ongoing servicing, there were many additional technology services that their clients were buying from other firms, leaving a lot of revenue on the table. All of these factors made it difficult for prospective buyers to see the true value of the company.

Solutions

1. Riley analyzed the financial statements and worked with the ownership to restructure the financials so that all of the family and non-relevant line-item expenses were relocated to a “Corporate” section below the Net Operating Income line. The financials were adjusted for the past three years to reflect a consistent NOI analysis. This also gave a true value for the EBITDA of the company with minimal adjustments so the appropriate multiple could be applied and a valuation more appropriate to the true value of the company could be done by all potential buyers. As a result, when the company was taken to market, dozens of LOIs were received rather than the handful that would have been inevitable if the company presented the financials in their previous condition.
2. Riley convinced ownership to postpone engaging his investment banking partner until the company completed another nine months of sales. In those nine months, Riley focused the sales and business development efforts on more reoccurring revenues, and in the process gathered information from their top clients on all the other technology services that they purchased from other vendors. After those nine months, the company had 24 months of solid financials and a clean pathway to a blended valuation with substantiation.
3. The final component in achieving the optimum valuation for this company lies within the technology sales that the company did “not” receive from its clients. If this sounds unusual, it is. And it is something that most, if not all, investment banks and business brokers ignore. Riley created a comprehensive matrix of technology services that the company did not offer and which the company’s clients purchased from other vendors. That matrix showed 13 different services ranging from managed security and IT support, to telecom unified communications. Why did Riley do this, and how could that affect the valuation?

Once Riley had calculated the annual revenues of these other services, he then put a present value on 36 months of revenues for each category and attached a multiple to identify the present value of such streams of income. Then, when the LOIs came in to his investment bank, Riley went to work and identified those companies that had the most portfolio companies under their control that sold those services that the clients of the company purchased. He then totaled up a 10%-20% capture rate that the portfolio companies could expect to achieve for such revenues and the sales team created a cross-selling integration plan to seamlessly connect those portfolio company sales people to the clients of the company so they could offer their services once the acquisition was final. This not only showed a realistic value that the buyer could add as a premium on their offer, but a clear path to obtaining those referral cross-selling revenues.



Outcomes

The Corporate Expenses section related to the bottom of the financial statement allowed for an easier assessment of value and dozens of initial LOIs were received from which to choose the best option among the cross-selling analysis.

In the end, the Private Equity group that acquired the company added 12% to their offer because they had five companies in their portfolio that could take advantage of the cross-selling opportunities revealed in the detailed analysis.

The final sale price for the company was 45% higher than the last offer that the owner had received just 12 months earlier, and 33% higher than the last offer another investment bank told the owner was the maximum that they thought the company would sell for.

United Cutwater banking partner made more in success fees based on the increased valuation, and the owners were happy to pay it based on the large upside premium they received.

The buyer, and their portfolio companies, were very happy to have just received warm leads for five of their portfolio companies from their newest company acquisition.

United Cutwater generated increased revenues and profits for multiple companies, business owners and affiliates where otherwise there would have been just an average M&A transaction.

Company Name	1/1/2019	1/1/2018	1/1/2017	1/1/2016	1/1/2015	1/1/2014	1/1/2013	1/1/2012	1/1/2011	1/1/2010	1/1/2009	1/1/2008	1/1/2007	1/1/2006	1/1/2005	1/1/2004	1/1/2003	1/1/2002	1/1/2001	1/1/2000	1/1/1999	1/1/1998	1/1/1997	1/1/1996	1/1/1995	1/1/1994	1/1/1993	1/1/1992	1/1/1991	1/1/1990	1/1/1989	1/1/1988	1/1/1987	1/1/1986	1/1/1985	1/1/1984	1/1/1983	1/1/1982	1/1/1981	1/1/1980	1/1/1979	1/1/1978	1/1/1977	1/1/1976	1/1/1975	1/1/1974	1/1/1973	1/1/1972	1/1/1971	1/1/1970	1/1/1969	1/1/1968	1/1/1967	1/1/1966	1/1/1965	1/1/1964	1/1/1963	1/1/1962	1/1/1961	1/1/1960	1/1/1959	1/1/1958	1/1/1957	1/1/1956	1/1/1955	1/1/1954	1/1/1953	1/1/1952	1/1/1951	1/1/1950	1/1/1949	1/1/1948	1/1/1947	1/1/1946	1/1/1945	1/1/1944	1/1/1943	1/1/1942	1/1/1941	1/1/1940	1/1/1939	1/1/1938	1/1/1937	1/1/1936	1/1/1935	1/1/1934	1/1/1933	1/1/1932	1/1/1931	1/1/1930	1/1/1929	1/1/1928	1/1/1927	1/1/1926	1/1/1925	1/1/1924	1/1/1923	1/1/1922	1/1/1921	1/1/1920	1/1/1919	1/1/1918	1/1/1917	1/1/1916	1/1/1915	1/1/1914	1/1/1913	1/1/1912	1/1/1911	1/1/1910	1/1/1909	1/1/1908	1/1/1907	1/1/1906	1/1/1905	1/1/1904	1/1/1903	1/1/1902	1/1/1901	1/1/1900	1/1/1899	1/1/1898	1/1/1897	1/1/1896	1/1/1895	1/1/1894	1/1/1893	1/1/1892	1/1/1891	1/1/1890	1/1/1889	1/1/1888	1/1/1887	1/1/1886	1/1/1885	1/1/1884	1/1/1883	1/1/1882	1/1/1881	1/1/1880	1/1/1879	1/1/1878	1/1/1877	1/1/1876	1/1/1875	1/1/1874	1/1/1873	1/1/1872	1/1/1871	1/1/1870	1/1/1869	1/1/1868	1/1/1867	1/1/1866	1/1/1865	1/1/1864	1/1/1863	1/1/1862	1/1/1861	1/1/1860	1/1/1859	1/1/1858	1/1/1857	1/1/1856	1/1/1855	1/1/1854	1/1/1853	1/1/1852	1/1/1851	1/1/1850	1/1/1849	1/1/1848	1/1/1847	1/1/1846	1/1/1845	1/1/1844	1/1/1843	1/1/1842	1/1/1841	1/1/1840	1/1/1839	1/1/1838	1/1/1837	1/1/1836	1/1/1835	1/1/1834	1/1/1833	1/1/1832	1/1/1831	1/1/1830	1/1/1829	1/1/1828	1/1/1827	1/1/1826	1/1/1825	1/1/1824	1/1/1823	1/1/1822	1/1/1821	1/1/1820	1/1/1819	1/1/1818	1/1/1817	1/1/1816	1/1/1815	1/1/1814	1/1/1813	1/1/1812	1/1/1811	1/1/1810	1/1/1809	1/1/1808	1/1/1807	1/1/1806	1/1/1805	1/1/1804	1/1/1803	1/1/1802	1/1/1801	1/1/1800	1/1/1799	1/1/1798	1/1/1797	1/1/1796	1/1/1795	1/1/1794	1/1/1793	1/1/1792	1/1/1791	1/1/1790	1/1/1789	1/1/1788	1/1/1787	1/1/1786	1/1/1785	1/1/1784	1/1/1783	1/1/1782	1/1/1781	1/1/1780	1/1/1779	1/1/1778	1/1/1777	1/1/1776	1/1/1775	1/1/1774	1/1/1773	1/1/1772	1/1/1771	1/1/1770	1/1/1769	1/1/1768	1/1/1767	1/1/1766	1/1/1765	1/1/1764	1/1/1763	1/1/1762	1/1/1761	1/1/1760	1/1/1759	1/1/1758	1/1/1757	1/1/1756	1/1/1755	1/1/1754	1/1/1753	1/1/1752	1/1/1751	1/1/1750	1/1/1749	1/1/1748	1/1/1747	1/1/1746	1/1/1745	1/1/1744	1/1/1743	1/1/1742	1/1/1741	1/1/1740	1/1/1739	1/1/1738	1/1/1737	1/1/1736	1/1/1735	1/1/1734	1/1/1733	1/1/1732	1/1/1731	1/1/1730	1/1/1729	1/1/1728	1/1/1727	1/1/1726	1/1/1725	1/1/1724	1/1/1723	1/1/1722	1/1/1721	1/1/1720	1/1/1719	1/1/1718	1/1/1717	1/1/1716	1/1/1715	1/1/1714	1/1/1713	1/1/1712	1/1/1711	1/1/1710	1/1/1709	1/1/1708	1/1/1707	1/1/1706	1/1/1705	1/1/1704	1/1/1703	1/1/1702	1/1/1701	1/1/1700	1/1/1699	1/1/1698	1/1/1697	1/1/1696	1/1/1695	1/1/1694	1/1/1693	1/1/1692	1/1/1691	1/1/1690	1/1/1689	1/1/1688	1/1/1687	1/1/1686	1/1/1685	1/1/1684	1/1/1683	1/1/1682	1/1/1681	1/1/1680	1/1/1679	1/1/1678	1/1/1677	1/1/1676	1/1/1675	1/1/1674	1/1/1673	1/1/1672	1/1/1671	1/1/1670	1/1/1669	1/1/1668	1/1/1667	1/1/1666	1/1/1665	1/1/1664	1/1/1663	1/1/1662	1/1/1661	1/1/1660	1/1/1659	1/1/1658	1/1/1657	1/1/1656	1/1/1655	1/1/1654	1/1/1653	1/1/1652	1/1/1651	1/1/1650	1/1/1649	1/1/1648	1/1/1647	1/1/1646	1/1/1645	1/1/1644	1/1/1643	1/1/1642	1/1/1641	1/1/1640	1/1/1639	1/1/1638	1/1/1637	1/1/1636	1/1/1635	1/1/1634	1/1/1633	1/1/1632	1/1/1631	1/1/1630	1/1/1629	1/1/1628	1/1/1627	1/1/1626	1/1/1625	1/1/1624	1/1/1623	1/1/1622	1/1/1621	1/1/1620	1/1/1619	1/1/1618	1/1/1617	1/1/1616	1/1/1615	1/1/1614	1/1/1613	1/1/1612	1/1/1611	1/1/1610	1/1/1609	1/1/1608	1/1/1607	1/1/1606	1/1/1605	1/1/1604	1/1/1603	1/1/1602	1/1/1601	1/1/1600	1/1/1599	1/1/1598	1/1/1597	1/1/1596	1/1/1595	1/1/1594	1/1/1593	1/1/1592	1/1/1591	1/1/1590	1/1/1589	1/1/1588	1/1/1587	1/1/1586	1/1/1585	1/1/1584	1/1/1583	1/1/1582	1/1/1581	1/1/1580	1/1/1579	1/1/1578	1/1/1577	1/1/1576	1/1/1575	1/1/1574	1/1/1573	1/1/1572	1/1/1571	1/1/1570	1/1/1569	1/1/1568	1/1/1567	1/1/1566	1/1/1565	1/1/1564	1/1/1563	1/1/1562	1/1/1561	1/1/1560	1/1/1559	1/1/1558	1/1/1557	1/1/1556	1/1/1555	1/1/1554	1/1/1553	1/1/1552	1/1/1551	1/1/1550	1/1/1549	1/1/1548	1/1/1547	1/1/1546	1/1/1545	1/1/1544	1/1/1543	1/1/1542	1/1/1541	1/1/1540	1/1/1539	1/1/1538	1/1/1537	1/1/1536	1/1/1535	1/1/1534	1/1/1533	1/1/1532	1/1/1531	1/1/1530	1/1/1529	1/1/1528	1/1/1527	1/1/1526	1/1/1525	1/1/1524	1/1/1523	1/1/1522	1/1/1521	1/1/1520	1/1/1519	1/1/1518	1/1/1517	1/1/1516	1/1/1515	1/1/1514	1/1/1513	1/1/1512	1/1/1511	1/1/1510	1/1/1509	1/1/1508	1/1/1507	1/1/1506	1/1/1505	1/1/1504	1/1/1503	1/1/1502	1/1/1501	1/1/1500	1/1/1499	1/1/1498	1/1/1497	1/1/1496	1/1/1495	1/1/1494	1/1/1493	1/1/1492	1/1/1491	1/1/1490	1/1/1489	1/1/1488	1/1/1487	1/1/1486	1/1/1485	1/1/1484	1/1/1483	1/1/1482	1/1/1481	1/1/1480	1/1/1479	1/1/1478	1/1/1477	1/1/1476	1/1/1475	1/1/1474	1/1/1473	1/1/1472	1/1/1471	1/1/1470	1/1/1469	1/1/1468	1/1/1467	1/1/1466	1/1/1465	1/1/1464	1/1/1463	1/1/1462	1/1/1461	1/1/1460	1/1/1459	1/1/1458	1/1/1457	1/1/1456	1/1/1455	1/1/1454	1/1/1453	1/1/1452	1/1/1451	1/1/1450	1/1/1449	1/1/1448	1/1/1447	1/1/1446	1/1/1445	1/1/1444	1/1/1443	1/1/1442	1/1/1441	1/1/1440	1/1/1439	1/1/1438	1/1/1437	1/1/1436	1/1/1435	1/1/1434	1/1/1433	1/1/1432	1/1/1431	1/1/1430	1/1/1429	1/1/1428	1/1/1427	1/1/1426	1/1/1425	1/1/1424	1/1/1423	1/1/1422	1/1/1421	1/1/1420	1/1/1419	1/1/1418	1/1/1417	1/1/1416	1/1/1415	1/1/1414	1/1/1413	1/1/1412	1/1/1411	1/1/1410	1/1/1409	1/1/1408	1/1/1407	1/1/1406	1/1/1405	1/1/1404	1/1/1403	1/1/1402	1/1/1401	1/1/1400	1/1/1399	1/1/1398	1/1/1397	1/1/1396	1/1/1395	1/1/1394	1/1/1393	1/1/1392	1/1/1391	1/1/1390	1/1/1389	1/1/1388	1/1/1387	1/1/1386	1/1/1385	1/1/1384	1/1/1383	1/1/1382	1/1/1381	1/1/1380	1/1/1379	1/1/1378	1/1/1377	1/1/1376	1/1/1375	1/1/1374	1/1/1373	1/1/1372	1/1/1371	1/1/1370	1/1/1369	1/1/1368	1/1/1367	1/1/1366	1/1/1365	1/1/1364	1/1/1363	1/1/1362	1/1/1361	1/1/1360	1/1/1359	1/1/1358	1/1/1357	1/1/1356	1/1/1355	1/1/1354	1/1/1353	1/1/1352	1/1/1351	1/1/1350	1/1/1349	1/1/1348	1/1/1347	1/1/1346	1/1/1345	1/1/1344	1/1/1343	1/1/1342	1/1/1341	1/1/1340	1/1/1339	1/1/1338	1/1/1337	1/1/1336	1/1/1335	1/1/1334	1/1/1333	1/1/1332	1/1/1331	1/1/1330	1/1/1329	1/1/1328	1/1/1327	1/1/1326	1/1/1325	1/1/1324	1/1/1323	1/1/1322	1/1/1321	1/1/1320	1/1/1319	1/1/1318	1/1/1317	1/1/1316	1/1/1315	1/1/1314	1/1/1313	1/1/1312	1/1/1311	1/1/1310	1/1/1309	1/1/1308	1/1/1307	1/1/1306	1/1/1305	1/1/1304	1/1/1303	1/1/1302	1/1/1301	1/1/1300	1/1/1299	1/1/1298	1/1/1297	1/1/1296	1/1/1295	1/1/1294	1/1/1293	1/1/1292	1/1/1291	1/1/1290	1/1/1289	1/1/1288	1/1/1287	1/1/1286	1/1/1285	1/1/1284	1/1/1283	1/1/1282	1/1/1281	1/1/1280	1/1/1279	1/1/1278	1/1/1277	1/1/1276	1/1/1275	1/1/1274	1/1/1273	1/1/1272	1/1/1271	1/1/1270	1/1/1269	1/1/1268	1/1/1267	1/1/1266	1/1/1265	1/1/1264	1/1/1263	1/1/1262	1/1/1261	1/1/1260	1/1/1259	1/1/1258	1/1/1257	1/1/1256	1/1/1255	1/1/1254	1/1/1253	1/1/1252	1/1/1251	1/1/1250	1/1/1249	1/1/1248	1/1/1247	1/1/1246	1/1/1245	1/1/1244	1/1/1243	1/1/1242	1/1/1241	1/1/1240	1/1/1239	1/1/1238	1/1/1237	1/1/1236	1/1/1235	1/1/1234	1/1/1233	1/1/1232	1/1/1231	1/1/1230	1/1/1229	1/1/1228	1/1/1227	1/1/1226	1/1/1225	1/1/1224	1/1/1223	1/1/1222	1/1/1221	1/1/1220	1/1/1219	1/1/1218	1/1/1217	1/1/1216	1/1/1215	1/1/1214	1/1/1213	1/1/1212	1/1/1211	1/1/1210	1/1/1209	1/1/1208	1/1/1207	1/1/1206	1/1/1205	1/1/1204	1/1/1203	1/1/1202	1/1/1201	1/1/1200	1/1/1199	1/1/1198	1/1/1197	1/1/1196	1/1/1195	1/1/1194	1/1/1193	1/1/1192	1/1/1191	1/1/1190	1/1/1189	1/1/1188	1/1/1187	1/1/1186	1/1/1185	1/1/1184	1/1/1183	1/1/1182	1/1/1181	1/1/1180	1
--------------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	---

CASE STUDY - HOSPITALITY

327 ROOM FULL-SERVICE HOTEL

Situation

Ownership had decided to divest from its hotel properties and multiple offers were accepted. One Silicon Valley hotel received offers, but the exit value was not near where ownership thought it should be. Management did not have any strategic plan to increase the enterprise value. Christopher Riley stepped in, took over the property, and used the Equity Revitalization™ process to begin a deep-dive assessment of the situation. A strategic exit plan was developed and meetings with the executive team began. As the challenges below will outline, there were deeply entrenched culture issues standing in the way of achieving the hotel's Optimum Value. Maintaining the status quo was not an option and significant operational and cultural changes were required to unlock unrealized value.

Challenges

1. The hotel had two primary labor unions, one for the food and beverage operations and one for the guest room operations. Management and union employees had a typical “us vs. them” relationship. After interviewing several of the key players on both sides, it was clear that a major culture change would be needed if the incentive plans outlined in the strategic plan had any chance of success. Additionally, it was disclosed to Riley that major theft was occurring, and tolerated, to compensate for the perceived lower wages being paid to the employees. This had been going on for many years and the financial statements consistently showed higher costs as a result, and nothing was being done to remedy the situation.
2. Partly because of the labor union issues, management had become complacent, accepted mediocre employee performance, resisted enforcing tougher performance evaluations, and allowed an “inmates running the prison” mentality to prevail. Over the years, multiple general managers had failed to remedy the situation. There was no cooperation from employees or management, and the status quo was maintained each time. This matrix of gridlocks put a performance ceiling on both the operations and the enterprise value of the hotel.
3. Reoccurring revenues from corporate customers were not a focus, and potential acquirers would significantly discount the exit valuation because Silicon Valley required the corporate market segment to be strong to establish a stable base of room revenue.
4. Ownership needed to be convinced to make the tough decisions and undertake the efforts needed to resolve their problems and get the property to its Optimum Value instead of just accepting a fast, and easier but much lower offer.

Solutions

1. Management and employees needed to look at their relationship in a different light for the proposed incentive plans to be effective. Several members of management who did not align with the new collaborative culture were dismissed. The general manager was replaced with one whose primary strength was collaboration and relationship management, and the CFO was replaced with one whose primary strength was strategic financial analysis and performance improvement. A new sales manager was hired whose sole job was to increase corporate long-term contracts for room revenues. All other management was left in place, no union employees were terminated, and the process to bridge the culture gaps was implemented successfully.
2. Riley took charge of the labor union relationship and conducted meetings with the heads of the two unions. It was made clear that new incentive programs for the employees would not be implemented if major job description and collaboration changes were not made. Language to maintain union presences would be inserted into any purchase and sale agreements in the future should ownership decide to sell the property. Both unions agreed and all changes were put in place. Cross-training, incentives for achieving Food & Beverage targets, and a profit-sharing plan were all implemented that allowed for increased compensation and quarterly bonuses to the employees and management alike. Management was given credit for the profit-sharing idea to build relationships quicker with management and employees.
3. All key management was given an incentive based on House Profit, which is equivalent to Net Operating Income (NOI). This incentive was critical to achieving the Optimum Value based on Riley's plan to sell the hotel to a Real Estate Investment Trust (REIT) that valued properties at an 8% capitalization rate on the trailing twelve-month NOI. This meant that when the monthly NOI dollar value increased over the prior year's same month, the exit enterprise value of the hotel would increase by that amount times a multiple of 12.5.
4. Everything was measured and tracked with Key Performance Indicators (KPI) and the new CFO met directly with all managers to outline what their estimated bonuses would be at various performance targets and to give management the estimated employee bonuses at those same targets.
5. Riley intervened in all major union vs. management situations, including the theft issues, making it clear that their continuation would only reduce everyone's performance bonuses. Disincentives were put in place to reduce bonuses in the event of theft, thus creating a peer pressure situation where the employees would police their own to preserve their bonuses. Theft virtually disappeared in less than two months, and financial performance metrics increased as a result.
6. Riley began calculating the upside for the acquiring REIT if they put another brand on the hotel. Their reservation system would bring higher-valued transient business, and combined with the increased reoccurring corporate business, the REIT would see even further upside after acquisition.

Outcomes

14 months after initiating the engagement and strategic exit plan, the hotel sold at a price 57% higher than the prior highest bid. The REIT that purchased the hotel paid on a 12.5 multiple of NOI, 25% higher than the standard for comparable hotels in the area. Riley held off two months longer than the REIT wanted because he saw that significant NOI numbers were projected for those months, increasing the transaction price another 14.6%.

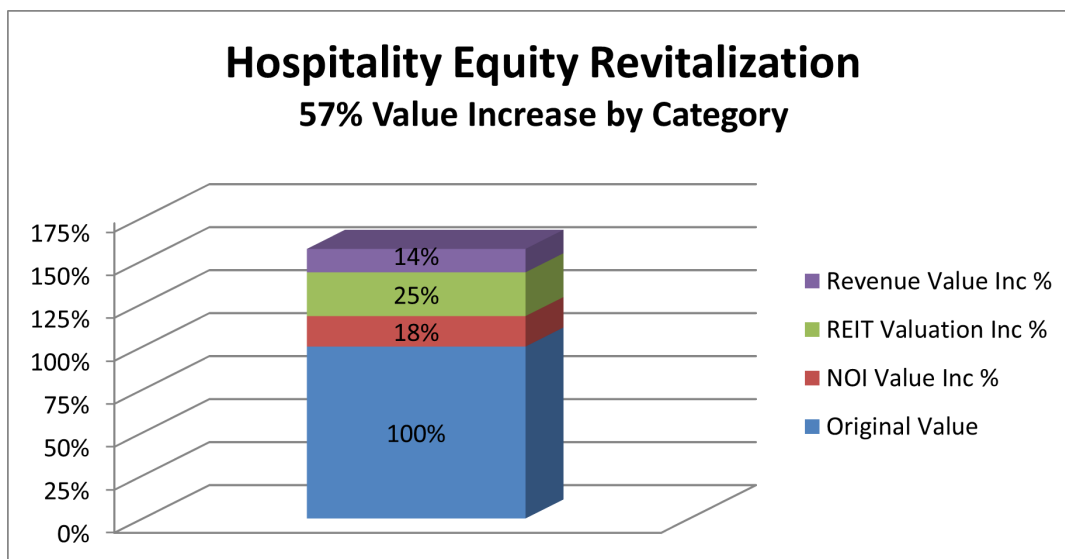
Language was inserted into the purchase & sale agreement to maintain the union presence with the existing incentive plans untouched. The unions learned from this experience and it was rumored that they eased up on certain policies to rework job descriptions and collaboration with management in exchange for incentives to increase performance metrics.

United Cutwater’s Equity Revitalization™ process includes post-sale transition and integration planning, and in this case, the REIT’s management team continued with the collaborative efforts that were put in place. Most managers were retained, turnover stayed low, and most employees continued to work for the property for many years after the transaction.

The new owners rebranded the property and the hotel value increased significantly shortly after the transaction as the corporate reoccurring revenues continued to grow.

EQUITY REVITALIZATION™ CHART

The Hospitality Equity Revitalization™ strategic implementation increased the exit value of the business by 57%. The areas where the value increased are shown below illustrating how the 57% was obtained. A combination of more efficient operations, increases in the most profitable reoccurring revenues, and the higher valuation formula from the REIT all contributed to the increased value. The chart below outlines these percentage increases:



CASE STUDY – MANUFACTURING/FABRICATION

HIGH-END STONE FABRICATION & INSTALLATION COMPANY

Situation

The business was sold to two partners that did not have fabrication experience. Over several years the culture and synergy of the organization began to deteriorate. Because of the demand for the highest quality fabrication and installation that the company was known for, customers and employees were beginning to leave.

One partner sold out and the remaining partner went looking for assistance to right the ship. Christopher Riley and Robert Hagnauer met with the remaining partner and Cutwater was engaged to implement their Equity Revitalization™ program. The issues ran so deep and the management team was on the brink of departure so Riley took over the company from the remaining partner and began rebuilding the culture. The remaining partner stayed in as a majority owner with Cutwater maintaining a health equity stake in the company.

Challenges

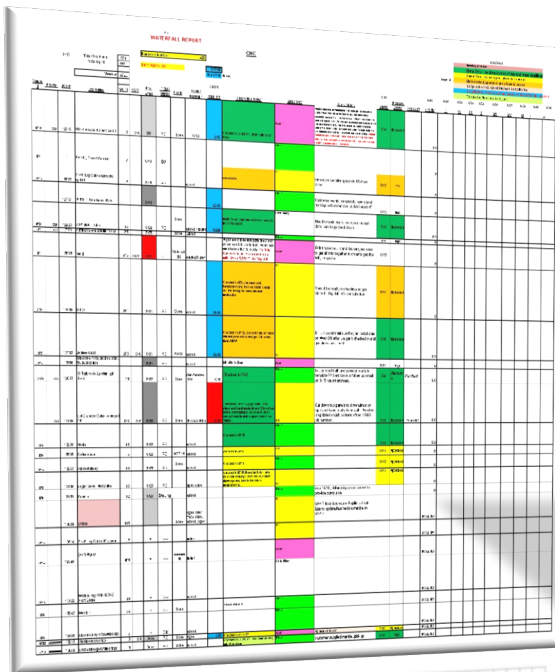
1. Each member of the management team was an experienced specialist in their field. There were no others in the city that could meet their qualifications and thus if even one of them left to go to another company, there would be a decline in the quality of work. Reshaping the culture and motivating the key specialists was a challenge because there was still no majority owner change of hands.
2. The financial situation was unknown based on the prior controller. The first week that Cutwater was brought in to evaluate the company, the bank account went negative over the weekend, with no line of credit backup and only rose above zero after the Monday deposit. Most consultants and turnaround groups would no longer be interested in helping the company in such a dismal financial situation...Cutwater and Riley took that challenge head on.
3. The production systems were all manual and the scheduling of jobs was at best a hit and miss game of luck. Since all the top designers and construction companies relied on the quality of the company's work, they accepted the delays for installation up to a point. However, these systems and processes needed to be fixed quickly with all the other issues the company faced, this was not something the company could endure for much longer.

Solutions

1. Riley had significant hospitality and renovation experience, but not specific fabrication experience. The first several weeks were spent shadowing the key specialists to understand the specifics of their jobs. Riley spent time learning the Laotian language as the company was the only one in town that had nine Laotians performing hand fabrication and they were a key to the success of the business. At one point, the entire Laotian group walked out in protest of the production manager and Riley was the only one they would talk to. After a peace treaty was reached in the driveway of one of the Laotians, they all came back to work the next day. Week after week, the team came together and the Laotian wives' Friday potluck dinners in the fabrication department became the central bonding place for the company.
2. Riley realized that he could not turn around the production systems and installation teams without longstanding experience, so he found the original owner of the company that sold many years ago, brought him back to the company and the two of them built the company back to its peak performance. Ben Moll knew all the key players in town and had the full respect of all the employees of the company as he had built them from a young team to their current specialist status. With Ben leading the way in production, and keeping them in line, when necessary, the business had a full runway to expand without sacrificing quality.
3. Riley fixed the financials by reworking the revenue recognition of the company and identified the waste that the company was experiencing. Riley worked with the processes and systems and created customized tools that anticipated blockages and estimated delivery dates with a sophisticated algorithm report called the "Waterfall". All jobs were now run through Smartsheet with all installers and templaters logging in specific measurements and flags live so the production office could start resolving the issues immediately.
4. Riley and Moll developed a high performing leadership team, implemented a Phantom Stock program that gave financial incentives to the Executive Team if the company were to sell in the future and all employees were given raises and significant bonuses for working evenings and weekends during peak times. Riley and Moll brought the executive team on retreats and the company began to look like a case study right out of Keith McFarland's book. *The Breakthrough Company*.
5. New equipment was brought in to support the growing operations and strategic relationships with the stone suppliers and other trades helped to solidify the incumbent position as the highest quality stone fabrication shop in the city. Riley refers to the business as "a game of 1/16 of an inch because there is no such thing as a slab stretcher!"

Outcomes

1. The culture of the company was rock solid with all key leadership motivated to ensure that a job was implemented as smoothly as possible. Installation times were given to clients upon the initial site visit and confidence was restored in the marketplace for the company back to when Ben Moll ran the business.
2. After over two years of building the company to its pinnacle, the ideal buyer was sought that could take full advantage of the dominant market-leader position that the company had obtained. The company was sold at a premium, the executive leadership team received healthy cash incentives at the sale, as promised, and everyone received two-year employment agreements to keep running the company exactly the way it was being run.
3. The original owner, who was relieved of his management duties, cashed out at a profit when he was looking at a significant loss in the direction the company was headed.
4. Ben Moll is now the VP of Manufacturing for United Cutwater after Moll and Riley have developed a strong bond with a set of diverse qualities that can run most any manufacturing company up to its Optimum Value.
5. Most of the strategic players in the stone fabrication industry want Riley and Moll back to run another company once they saw the excellence that was developed in such a short time. Moll and Riley focus their efforts now on manufacturing companies that are in similar situations with limited options, but strong differentiators and high upsides.



SFI Punch List 2019

