

# 2024 CASE STUDY

Exit Planning Institute Chapter Network



# CASE STUDY

## The Business

The Company is an established and reputable specialty distribution business for high tech and automotive aftermarket OEM's throughout the United States. They provide value added distribution and warehousing services for hardware, fasteners, electronic hardware, machined parts kits, and other sub-assemblies. Its mission is to be a top provider of high-quality hardware and fasteners with excellent availability and services for OEM's throughout the world. The Company has a reputation for being a problem solver, having outstanding customer service, and reliability.

## History and Ownership

The Company was founded in 1985 by the principals. Current ownership is comprised of two shareholders. The principals are active in day-to-day operations in varying capacities and collectively provide operational and strategic oversight. The Company is organized as a C-Corporation.

## Customers and Markets

Excellent customer service, very reliable delivery, fair pricing, and value added services have resulted in strong, long-standing customer relationships and a high rate of repeat business. Value added services such as kitting, vendor managed inventory (VMI), Kanban, and bin stock programs make the Company an integral part of its customers' operations.

The Company presently serves over 70 customers and stocks over 8050 SKUs. The top 10 customers accounted for 92% of total sales over the previous trailing twelve month period. Multiple divisions of its largest customer accounted for 73% of total sales for the same period. Six of its top 10 customers are in the high tech industry and three are in the automotive aftermarket.

## Competitive Landscape

The company has two notable competitors. These are both very large competitors who are not able to consistently deliver value added services which offer customers long term performance, speed, reliability, and consistent service.

## Sales and Marketing

Virtually no marketing is done by the Company. Outside sales is primarily performed by one of the owners. The Company has a staff of inside sales and customer service representatives that assist customers with problem solving, specifications and design, and processing orders.

Kits account for approximately 50% of sales. The Company estimates that it has 30 customers who use kitting services. Seven of its top ten customers use kitting services.

## Suppliers

The Company purchases inventory from more than 210 vendors with 30 of these making up approximately 80% of its volume. 20% of the product volume and approximately 10% of its SKUs are sourced directly from overseas suppliers. There are six primary overseas suppliers with 60% of the offshore volume going to one and 25% to the second. Lead times from overseas suppliers average 120-180 days including ocean transit time. Domestic manufacturers can provide parts to a print in four to eight weeks depending on the availability of raw materials.

## Personnel

The Company has 36 employees including the owners. It offers profit sharing and 401K plans, two to four weeks paid vacation, five paid sick days, and eight paid holidays.



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### Facilities

The business operates in a 27-year-old office/warehouse facility that has been well maintained and is located on a prime site in a well-known industrial park close to the highway. The building and land are owned separately by the owners and leased back to the Company. The owners are willing to consider offers with or without the building and land.

### Information Technology

The Company uses a Distribution Management system which has been customized for the industry. The system is a powerful suite of fully integrated distribution management applications.

### Growth Opportunities

The Company's goal is to double sales over a 3-5 year period while maintaining gross margins at 40% or better and EBITDA at 15 or better. It will target complicated high end electronic hardware to the high-tech industry worldwide. A growth plan has been developed and is in process.

### Industry Trends

Industrial users will increasingly concentrate on total life cycle costs, which not only take initial product price into account but also installation costs, warranty terms, and service life. The most robust sales growth will belong to higher-performance specialty suppliers. Demand for application-specific standard fasteners will grow at a faster pace than other standard fastener types, as more original equipment manufacturers replace commodity items with specialized designs.

### Financial Summary

The Company's fiscal period runs July 1 to June 30. Trailing Twelve Month (TTM) revenues were \$12,362,000, declining 14%. Expanding the time period to the previous four years, sales increased at a compound annual growth rate (CAGR) of 8.85%.

Gross Profit over the last four years has ranged between a low of 35% to a high of 45%. Gross profit grew at a higher rate than sales over the last four year period.

Adjusted operating expenses, including adjusted owners' compensation, over the previous four years ranged from a low of 27.05% to sales to a high of 32.64% to sales. It is evident from the last four years of financial records that the Company is able to significantly leverage its expenses when sales exceed \$8 million. Sales grew at a compound annual rate of 8.85% over the previous four years; however, expenses only grew at a CAGR of .83% during the same period.

Trailing Twelve Month Adjusted EBITDA was \$2,225,000 (18%); down in real dollars but up as a percent to sales. EBITDA over the last four years grew at a CAGR of 26.53%, demonstrating the Company's ability to leverage expenses as sales volume increases.

The Company's TTM EBITDA of 18% is above average as compared to the industry range of 13-22%.

The adjusted Balance Sheet and Working Capital is very strong. Current assets are 68% of total assets. Its current ratio (7.7) is double the industry average. The company has almost no debt. Its accounts receivable is 4.1x accounts payable.

Inventory is slightly lower than the industry average performing at 4.5 turns vs. the industry average of 4.9. Fixed assets plus inventory as a percentage to sales was slightly higher (30%) vs. the industry average (25%). The Company's fixed assets are mostly depreciated. The estimated market value of its assets is 2x its book value, not including the building and land. The land and building are owned separately and held with almost no debt.

The company's financial statements are unaudited.

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### Owner Characteristics

The owners are husband and wife. The business was launched by the husband Tom. Tom had worked in the industry as a sales rep for several years before launching out on his own. He started the business literally operating it out of his garage. Nine years ago, Tom's wife, Mary, left her executive position at IBM to join the company. Mary is 51 years old and Tom is 60.

Tom is not sure whether he wants to sell or grow. Mary is ready to exit. This indecision is causing conflict in their marriage. In fact, at one recent meeting Mary told Tom that he could stay, but if he did, he would need to pay out her 50% because she was ready to go now! In reality, she technically owns 20% of the company but she feels she is entitled to 50%.

Although the company has been performing financially well, the company's growth has forced them to reinvest most of its profits to finance the business's growing inventories and receivables. Furthermore, the company's profitability has attracted competitors and tempted customers to deal directly with its suppliers. Mary is concerned if they don't do something soon, the business may evaporate.

In addition, Tom and Mary are not pleased with the overall performance of the inside sales staff. The inside sales staff appear to be "going through the motions." They are not seeing opportunities to sell additional products and services when speaking with customers. The staff requires too much supervision which is taking away from the time Tom has to sell. The greatest characteristics which appears to be lacking is the strength of the leadership. Tom and Mary do not seem to have confidence that anyone on the staff now could step into a leadership role.

Tom and Mary have a personal financial planner who has estimated the value of the business to be \$10 million not including real estate. They have another \$3 million set aside in various securities, some located in a qualified pension plan set up by the financial planner. Tom and Mary have a large home, two children in private college and one still attending a private high school. They have a vacation home on a private lake which they visit regularly in the summer. Their boat is docked at the lake house.

Tom is a car buff and has collected several classic cars which he has had restored or has purchased at auction. He also loves

to ride his Harley Davidson motorcycle. Tom said he and a friend who works on his cars have discussed that if he were to sell the business he would like to buy a detail shop with some of the proceeds and hire the friend to run it.

Both Mary and Tom are overweight but in reasonable health. Tom did have a minor stroke several years back but has had no problems since. Mary is concerned about Tom's health.

Mary is involved in several community organizations and enjoys golf. She would like to spend more time on those activities and more time at the lake house. She has expressed a desire to live a more holistic life that does not always revolve around the business. She is concerned that if the business becomes too big it might prevent she and Tom from enjoying life or remaining personally involved in all aspects of the work.



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