



Valuation backed growth / divestiture strategies

Case study

bostonANALYTICS

(A division of Pythos Technology LLC)

BA developed a valuation backed growth / divestiture strategy for a US based hardware giant owned by a private equity firm

Client need

- The client, one of the largest players in the U.S. hardware market, distributes rope, fasteners, threaded rod, anchors, chain, and related hardware products)
- The company was majority owned by a private equity firm that was considering an exit route
- The firm was looking for a financial consultant who would enable them to assess:
 - Value of the business
 - Assess hold or exit opportunities

Project scope

- Developed a framework based on identified parameters which enabled the client to arrive at the buy, sell or hold decision
- Developed critical insights into the industry structure, market dynamics and channel attractiveness through secondary research and interviews with key executives within and outside of the client firm
- Performed a Status quo valuation as well as valuation post Organic growth and Inorganic growth opportunities under three different scenarios
- Valued a contract that was key to the business and played a significant role in the hold or divest decision
- Analyzed market opportunity and distribution channel attractiveness

Objective for BA

- To clearly delineate the various sources and amounts of value under three macroeconomic scenarios and recommend a buy, sell or hold decision

Sample output

Crown Bolt **BA Estimate** **Illustrative**

DCF Valuation

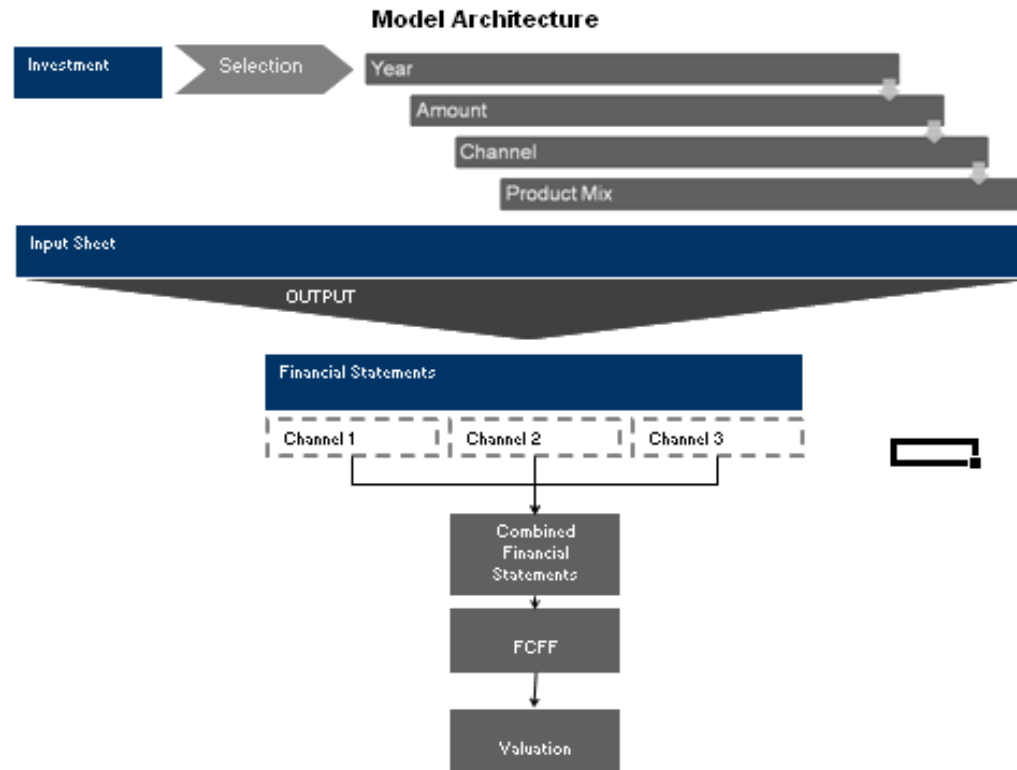
Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue	1,000	1,050	1,100	1,150	1,200	1,250	1,300	1,350	1,400	1,450	1,500	1,550
Operating Profit	200	210	220	230	240	250	260	270	280	290	300	310
Free Cash Flow	150	160	170	180	190	200	210	220	230	240	250	260
DCF Value	1,200	1,300	1,400	1,500	1,600	1,700	1,800	1,900	2,000	2,100	2,200	2,300

Mass Merchant **Home center** **Illustrative**

Combined Organic Model

Scenario	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue	100	105	110	115	120	125	130	135	140	145	150	155
Operating Profit	20	21	22	23	24	25	26	27	28	29	30	31
Free Cash Flow	15	16	17	18	19	20	21	22	23	24	25	26
DCF Value	120	130	140	150	160	170	180	190	200	210	220	230

A comprehensive model architecture was developed to maximize flexibility and evaluate a wide selection of channels and products



Input flexibility in choosing the year, amount and mode of investment.

Projection inputs based on different channels and product lines.

Channel	Product Line	Asset Turnover	Inventory Turnover	Gross Margins	SG&A Rate
Channel 1	Productline 1	2.5	2.0	40%	25%
	Productline 2	2.5	2.0	50%	20%
Channel 2	Productline 1	2.0	1.5	45%	25%
	Productline 2	2.0	1.5	35%	30%
Channel 3	Productline 1	3.0	2.5	35%	35%
	Productline 2	3.0	2.5	45%	30%

Financial modeling was undertaken to establish valuations under multiple growth scenarios

Valuation in three different scenarios.

Valuation Summary				Organic Growth Valuation				Inorganic Growth Valuation			
Status Quo Valuation				Organic Growth Valuation				Inorganic Growth Valuation			
2008				2008				2008			
Method	Weightage	Value	Total Value	Method	Weightage	Value	Total Value	Method	Weightage	Value	Total Value
DCF Valuation	70%	352.7	246.92	DCF Valuation	100%	13.1	13.10	DCF Valuation	100%	134.5	134.49
Relative Valuation				Relative Valuation			NA	Relative Valuation			NA
EV/EBITDA multiple	15%	320.2	48.02	EV/EBITDA multiple			NA	EV/EBITDA multiple			NA
P/E multiple	15%	281.5	42.23	P/E multiple			NA	P/E multiple			NA
Total	100%		337.17	Total	100%		13.10	Total	100%		134.49

Expected cost of equity changes based on the risk free return estimates and Beta which varies due to the Contract period.

Key Input	DCF Calculation										
	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Tax Rate	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%
Risk Free Rate (T-Bill Rate)	2.25%	2.50%	3.50%	4.00%	4.00%	4.25%	4.50%	4.50%	4.50%	4.50%	4.50%
Beta	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.20	1.20	1.20	1.20
Market Risk Premium	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
Expected Cost of Equity	7.75%	8.00%	9.00%	9.50%	9.50%	9.75%	10.00%	11.10%	11.10%	11.10%	11.10%
Terminal Growth Rate	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

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