VIRTUAL
Commercial Conference 2020

ADAPT & ADOPT

ACCELERATING in the NEW NORMAL

VALUATION ALLIANCE

BACKGROUND

- Mr. Schmidt has 40 years of commercial real estate services experience and has led CRE organizations on a local, regional, national and global basis. During the past 8 years he was the President and COO of an organization (CBC) that had 250 locations, 3000 agents, located in 44 countries. He started at CBRE and spent 20 years with them, attaining a First Vice President Level, he was a producer for 14 years. He has been involved with numerous M&A assignments during his tenure.

- Prior to founding Valuation Alliance, Mr. Walli was the co-founder and CEO of CBC Alliance a full-service commercial real estate firm that he grew, primarily through acquisitions, to I 0 offices with over 150 professionals and sold in 2016. Mr. Walli started his career in commercial real estate 20years ago. Over his career he has underwritten over 200 real estate M&A transactions and completed over 50 acquisitions totaling $900 million in value.

Agenda

- OVERVIEW
- **Objective #1**: **<u>Succession Plan</u>**-Identify the risks of not having one and show the who , what and why elements of the plan?
- **Objective #2:** Provide an understanding of how to **<u>value</u>** your CRE firm and key industry metrics
- **Objective # 3**: Review the Methods and Processes of **<u>CRE Valuation</u>** through **<u>Case Studies</u>**

Succession Planning

Succession Planning

In the CRE industry **too many Companies, Founders, Partners** and **Executives** relegate the **future** to **chance** by believing tomorrow will be like yesterday of today.

Here is some proof and startling statistics from a survey conducted by CEL Associates (a real estate industry think tank):

- Only **15%** of **small** to **mid-size** real estate firms have a Succession Plan.
- Only **30%** of real estate firms **survive** into the **2nd** generation and **12%** survive into the **3rd** generation.
- Only **65%** of real estate firms have communicated their Succession Plan and **44%** of Leaders are satisfied with their entire Leadership team going into a transfer.
- **33%** of Leaders plan to retire in **10** years or less.

WHEN SHOULD YOU HAVE A SUCCESSION PLAN?

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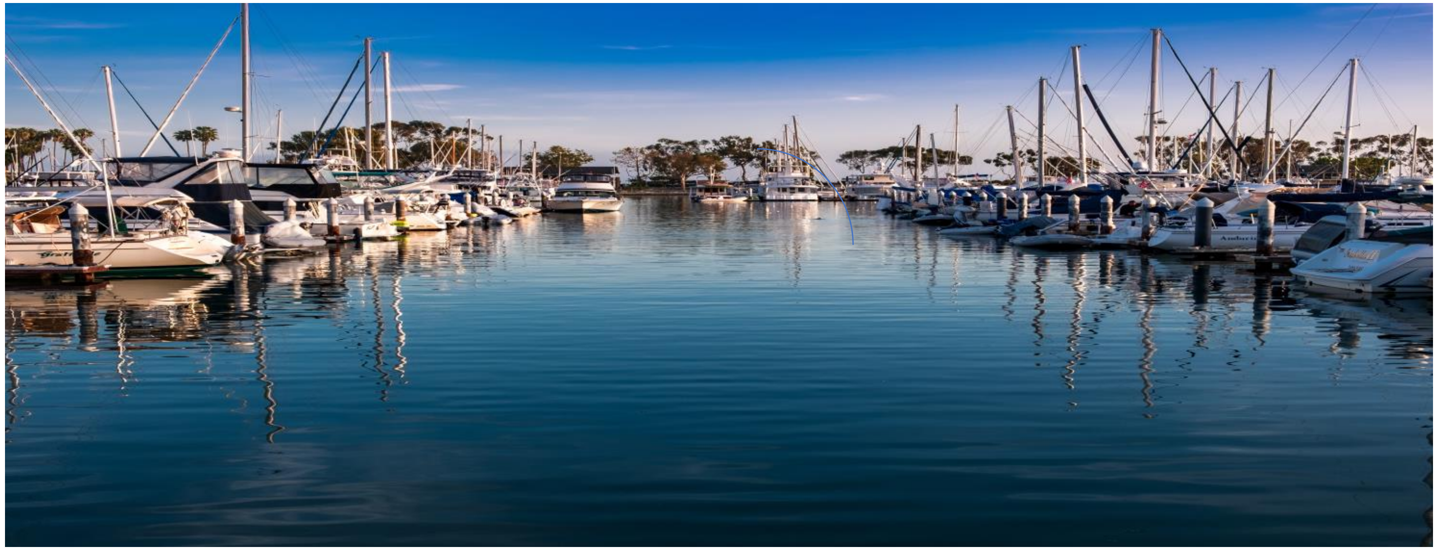
Whenever your company has Value

Don’t wait-set it up now

Case Study – Getting Off a Boat



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WHY A SUCCESSION PLAN?

- You've worked hard to build your company. The lack of a succession plan puts that in jeopardy.
- You should decide on the future management and ownership of your company.
- A succession plan forces you to consider questions, strengths and weaknesses you wouldn't otherwise.

WHO SHOULD BE A PLAN PARTICIPANT ?

- Anyone who will or might assume a future ownership role ,or
- A key management role ,or
- Be otherwise effected by the Plan , or
- Anyone who should have Golden Handcuffs.
- Use the plan for key employee/agent retention

SUCCESSION OPTIONS

- Why do CRE Services Firms Have VALUATIONS?

- Partnership/shareholder allocations/transitions
- Succession planning
- Partner, Family and Marital Discussions
- Buy-Sell Agreements (Mergers& Acquisitions)
- Estate Planning and Solutions
- Stock Ownership
- Family trusts, gifting of shares to trusts and non-family executives

MAZIMIZING THE VALUE

- In an outside sale, the buyer sets the price (subject to a negotiation)
- In an inside sale, you set the price (with less negotiation) maybe?.
- However , the structure of the transaction is as important (and often more important) than **“THE PRICE”.**

WHAT IS YOUR FIRM WORTH?

Key Valuation Metrics:

- Stabilized Revenue
- Revenue Mix
- Owner's Role (Player / Coach?)
- Discretionary Earnings / EBITDA
- Key Producers as % of Revenue

How are brokerages currently being valued?

- Regionalized modeling and pricing
- Premiums / Discount
- Multiples
- Earnouts

WHAT IS ADJUSTED EBITDA?

- Earnings Before Interest, Taxes, Depreciation, and Amortization
    - Normalizations / Adjustments
        - Positive / “add Backs” (e.g., excessive compensation)
        - Negative (e.g., owners’ commission expense, FMV rent, FMV compensation)
    - Importance of sustainability of earnings

EARNOUTS

- Shifting risk to the back – end of Purchase
  - Earnout a function of risk
    - Market risk
    - Deal – specific risk
      - Agents loss / Breakage
      - Company dollar erosion ('slippage")
  - Earnouts are typically multi-year (2-3yrs)
  - "Recovery" earnouts

Sample Valuation

	LTM	2019	2018	2017	AVERAGE	%
REVENUE	$ 3,521,198	$ 3,464,101	$ 3,945,116	$ 3,369,506	$ 3,574,980	
COMM. EXPENSE	$(2,401,019)	$ (2,433,328)	$ (2,838,497)	$ (2,360,513)	$ (2,508,339)	70.16%
GROSS PROFITS	$ 1,120,179	$ 1,030,773	$ 1,106,619	$ 1,008,993	$ 1,066,641	29.84%
OPERATING EXPENSE	$ (882,869)	$ (811,845)	$ (761,740)	$ (749,672)	$ (801,532)	22.42%
					$ -	
NOI	$ 237,310	$ 218,928	$ 344,879	$ 259,321	$ 265,110	7.42%
ADJUSTMENTS						
Officers Life	$ 11,395	$ 11,395	$ 11,395	$ 7,133	$ 10,330	
Automobile	$ 12,667	$ 12,719	$ 11,047	$ 10,135	$ 11,642	
Exec. Salary	$ 94,808	$ 101,731	$ 53,846	$ 51,484	$ 75,467	
Country Club	$ 4,216	$ 4,260	$ 5,591	$ -	$ 3,517	
Total Adjustments	$ 123,086	$ 130,105	$ 81,879	$ 68,752	$ 100,956	
ADJUSTED EBITDA	$ 360,396	$ 349,033	$ 426,758	$ 328,073	$ 366,065	10.24%
INDUSTRY MULTIPLIER					4.25x	
VALUE OF COMPANY					$ 1,555,776	

Understanding the M&A world in Our Industry

Valuation Alliance

The CRE industry has experienced significant consolidation over the last few years:

1. Avison Young
2. Colliers
3. DTZ > Cassidy Turley > Cushman Wakefield (Backed by TPG)
4. Cantor > Newmark > Grubb & Ellis

We have more publicly traded CRE firms in market today creating an different M&A environment than we have had in the past.

Public companies trade at higher multiples allowing them to use multiple arbitrage to purchase companies and brokerage teams. They also drive synergistic deals.

What are Synergistic Deals?

ARE THEY BOTH WORTH 4X?

	No Synergy	High Synergy
GCI	$ 1,000,000	$ 1,000,000
EBITDA	$ 100,000	$ 100,000
External Multiple	4.0x	
Purchase Price	$ 400,000	$ 400,000
Synergies	$ 0	$ 100,000
Post-Close EBITDA	$ 100,000	$ 175,000
Internal Multiple	4.0x	2.28x

NO EBITDA DOESN'T MEAN NO VALUE

	Company A	Company B
GCI	$ 2,500,000	$ 2,500,000
EBITDA	$ 100,000	$ 250,000
Purchase Price	$ 1,000,000	$ 1,000,000
External Multiple	10.0x	4.0x
Synergies	$ 150,000	$ 0
Post-Close EBITDA	$ 250,000	$ 250,000
Internal Multiple	**4.0x**	4.0x

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	Company	Owners	Without
GCI	$ 2,000,000	$ 1,100,000	$ 900,000
Comp. $	$ 660,000	$ 275,000	$ 385,000
% Ret.	*33.0%*	*25.0%*	*42.8%*
Op. Exp.	$ 400,000		$ 400,000
Profits	$ 260,000	$ 275,000	$ (15,000)
ROR	*13.0%*		*-1.7%*

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SEGMENTING PURCHASE PRICE

	EBITDA	Multiple	Value
Brokerage	$ 200,000	4.0x	$ 800,000
PM	$ 75,000	5.0x	$ 375,000
Total	**$ 275,000**	**4.27x**	**$ 1,175,000**

THANK YOU

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