OPTIONS FOR MONETIZING YOUR FIRM'S VALUE

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March 18, 2009

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MONETIZING YOUR FIRM'S VALUE

- It starts with an objective to create value by building a practice that is known for its:
  - Strong relationships within its network
  - Excellence in execution
  - Superior consulting staff
  - Outstanding work environment

Excellence in combination with revenue growth and profitability is what creates value!

MONETIZING YOUR FIRM’S VALUE

- In financial terms, three key factors create value:
  - Consistent revenue growth
  - Sustained and disciplined creation of sales activity
  - Consistent profitability

MONETIZING YOUR FIRM'S VALUE

- Revenue growth occurs from one of five sources:
  - Organically
  - Average fee growth
  - Consultant staff additions
  - Acquisitions
  - Mergers

MONETIZING YOUR FIRM'S VALUE

- **Organically** – determining appropriate staff utilization levels and "managing" to those desired levels
  - Must be effective and efficient in client delivery system
  - Must have an effective and efficient sales process that produces sufficient business flow

MONETIZING YOUR FIRM'S VALUE

- **Average Fee Growth** – is the most important measure of the health of a search practice
  - Year-over-year ***gain*** in average fee per assignment is key to revenue and profit growth
  - The higher the average fee … the more senior the assignments
  - Cost to execute an assignment has no correlation with fees … the bigger the better

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- **Consultant staff additions** – the addition of team members with the:
  - Requisite skills
  - Values
  - Behaviors
  - Temperament

… provides revenue growth equal to the expected standards times the number of consultants added

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- **Acquisitions –**
  - Provides a short-term burst in revenue
  - Typically have limited sustainable revenue (mainly because of staff retention issues)

This model has been shown to be the least effective method of building long-term value in the search business.

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- **Mergers –**
  - Generally provide a short-term burst in revenue
  - Revenues are sustainable over the longer-term and will increased value …

… if the merger partners and the cultures are carefully selected and married

MONETIZING YOUR FIRM’S VALUE

- Revenue growth can be achieved through a combination of any of the above sources
  - Achieving critical mass is important – size is needed to make investments:
    - To create a recognized and respected brand
    - To hire and invest in people and their development
    - To provide systems that support the consultants and excellence in execution

MONETIZING YOUR FIRM'S VALUE

- Why create a recognized and respected brand?
  - Clients do not “buy” access, they “buy” brand
    - Reduced risk of being second guessed
    - Comfort in the firm being known
  - Prospecting and selling meets less resistance
    - Less time on who you are
    - More time on what you have done or you can do
  - The better recognized the brand, the more valuable it is perceived to be

MONETIZING YOUR FIRM'S VALUE

- Profitability is critical – it supports:
  - Great pay and bonuses
  - Cash needs for the growth of the business
- Two main costs for search firms are its
  - People
  - Space

MONETIZING YOUR FIRM'S VALUE

- People – personal income is the single most important factor in consultant satisfaction
- Firms that pay their consultants at highly competitive levels have better staff retention, providing environmental factors such as:
  - Leadership
  - Governance
  - Culture
  - Equity

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- Combination of competitive pay schemes, good leadership, good governance, a strong culture and ownership creates high retention
- Retention ***improves*** profitability
  - Build a firm where consultant satisfaction is high
  - Be concerned about values
  - Be concerned about retention

And profitability will get better!

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- Equity – employee ownership has been a key characteristic in the best global service firms
  - McKinsey & Company
  - Booz Allen Hamilton
  - Accenture
  - KPMG
  - Spencer Stuart
  - Heidrick & Struggles

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- Broad equity holdings are a cornerstone of a strong service firm
  - An integral part of the equity program is the creation of a governance structure that is driven and led by the employee owners
  - A core value of a successful firm's culture is to ensure the alignment of ownership with the consulting team in order to create self-direction
  - A key element of building personal wealth is through building enterprise value

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- Element of Building Value
  - Consistent revenue growth
  - Consistent record of sustained profitability
  - Increased brand recognition
  - Strong value-based culture (a good place work and stay)
  - Ownership mindset

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- Valuing Your Firm
  - Value must keep pace with the firm's evolution
  - "Accepted valuation methodology" must be adopted and used for regular revaluations
  - Expectations regarding "owner return" must be created
  - Repurchase "rules" must be established

MONETIZING YOUR FIRM'S VALUE

- We've now looked at ways to survive and how to create value
- Let's look at the five ways you can monetize the value that has been created

1. INITIAL PUBLIC OFFERING

- An IPO is an option only if firm revenue is greater than $100 million
- Benefits include:
  - Monetization of a portion of the value that is “locked up” in the firm – freeing up cash
  - Market defines the value
- Downsides:
  - Must begin to share profits with shareholders, therefore consultants aren’t as highly paid
  - Investments come under closer scrutiny by shareholders

2. SALE TO A LARGER FIRM

- Benefits include:
  - Liquidation of the agreed value, freeing up some cash. A sale generally occurs on an earn out basis
    - Part cash
    - Performance bonuses
    - Stock options
- Downsides:
  - Give up a great deal of independence and autonomy
  - Greater politics
  - Restrictions on client solicitation

3. PRIVATE EQUITY

- Benefits include:
  - Liquidation of the agreed value. A sale generally occurs on an earn out basis
- Downsides:
  - Sale of partial or full ownership to outside investors
  - Highly financially driven, seeking high rates of return
  - Even more control of exercise than at publicly held companies

4. PLANNED LIQUIDATIONS

- Ownership shift based upon pre-agreed plan
  - Father to children
  - Founders to next generation
  - Spreading of ownership over time

5. INTERNAL MARKET

- Seeding of ownership to employees – both current and next generation, generally from a dominant owner

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