

A LOOK INTO PRESSURE SOLUTIONS INC.

An Exit Planning Case Study

Established in 1976, Pressure Solutions Inc. has been a pioneer within their industry by providing innovative solutions, outstanding value, and a broad offering of premium quality product lines. Pressure Solutions Inc. (PSI) is one of the leading manufacturers of pressure, level, temperature, and force measurement instruments, valves, and gauges. PSI is committed to aligning with their customers needs and challenges, and establishing a seamless partnership by exceeding in value, quality, and unparalleled customer service.

EPI Exit Planning Institute

COMPANY

Pressure Solutions Inc.

FOUNDED

1976

INDUSTRY

Manufacturing

NUMBER OF EMPLOYEES

120

PSI was created out of Rich Molnar's backyard hobby shop when Rich and his brother, Jimmy, created one of the first liquid filled pressure gauges. Rich began to run with their newly engineered products, selling to many customers in need of this unique gauge. By 1979, he formally incorporated his company to fully engineer and manufacture these gauges. By 1981 the company hit its first milestone by making $1MM in revenue and by 1985, Rich began to expand his customer based nationally. By 1996, the company had introduced multiple products including various measurement instruments, values, and different gauges including electronic measurement solutions.



After significant expansion in 2006, PSI acquired the C&S Measurement Inc. This not only expanded its already unique product line, but its North American footprint as well. By 2012 the company hit $18MM in annual revenue with 80 employees in two locations within the United States. Today the company produces $30MM in revenue and has an annual EBITDA of $2.4MM.

Rich recently turned 68 years old has begun to investigate other parts of life. He is an avid car collector and has a small Mercedes Benz racing team which competes in a regional road circuit series. He is active in the community, is a councilman in his township, and is a part of Vistage. Rich is a grandfather of six, and father of two. Rich is married to his wife Beverly, who is also an active community volunteer. They have expressed an interest in moving full time to their summer home on the lake, though the couple owns a condo in South Carolina, a lakeside condo on a separate lake in addition to their lake house, and a small cottage in Tennessee.

Assume Rich has approached you about exit planning and his path. He recently golfed with his brother whose investment banking buddy spoke to the M&A market and its current trends. It sparked interest in Rich who then searched some Forbes articles that address the exit planning topics. You know that he has always talked about transitioning by 72 years old. He has no formal education or plans and is seemingly very interested in operating and growing his company. He has no formal valuation though over the years his company has looked attractive on the surface. Rich has certainly received solicitation from buyers, mainly private equity groups. His son Bradley has worked with him since high school. Five years ago, Rich gifted 10% of the company to his son through a Family Gift Trust. Rich has the standard investments outside of his company and a relatively active financial advisor he meets with twice per year to review these investments.

Rich Molnar Considerations:

- Rich's brother Jimmy is not involved in the business today and holds no equity.
- Rich loves his company and his people. Outside of the racetrack and serving on the township council Rich can be found on the shop floor and in office.
- Rich's skill is not the engineering of the product but rather is connecting to the customer, understanding their needs, and offering a solution PSI can provide.
- Rich has deep relationships with all core customers and is wildly considered the best business developer. He can sell anything to anybody.
- He believes he can live his current lifestyle with roughly $1.2MM per year in annual income.
- Rich knows his wealth goal. He has done some back of the napkin math and believes this goal should be $42MM.
- Though he has entertained conversations from private equity groups in the past, he would really like for his son take the business international which he considers to be the next evolution of PSI.
- He is new to the value growth and exit planning conversation. He has no real personal plans but certainly personal ambitions. He is uneducated about exit options but generally understands private equity.
- He hates his competition. He has one real competitor in North America who he feels steals his ideas and always rides his coat tails. Outside of that, there are smaller players who operate more regionally that have unique ideas and great products, but simply don't have the size that PSI has.
- He has never truly worked for anyone. Rich has always been very independent and entrepreneurial.
- His financial advisor and CPA say that Rich is a spender and is dependent on the income stream from the company.
- He has done some estate planning but no real tax planning. He has $2MM in term life insurance.
- Rich has several minor health issues and has recovered from one round with cancer. He has been cancer free for 15 years.
- Rich wishes he had a better relationship with both his son and daughter. He favors his son, though both his son and daughter work in the company. However, Rich has not invited his son into the executive leadership and rarely involves him in strategic planning or company reviews.



Bradley Molnar Considerations:

- Bradley is 41 years old. On his third marriage and with his current wife has two children.
- He serves as the Plant Manager at PSI and has been in this capacity since he was 30 years old.
- Bradley worked in sales prior to officially joining PSI, though he has worked with PSI in some capacity through high school and in his early career.
- He did not go to college and has no formal education outside of high school. However, he has obtained some industry certifications throughout his time at PSI.
- He would like to continue with the company, and is always skeptical when Rich and his CPA review the private equity offers without him in the room.
- What he doesn't know is that Rich's attorney, a long-time friend of his dad, has informed Rich that he does not believe Bradley is ready for this company.
- Bradley is good with people and most of the front-line workers on the shop floor love him. Many front-line employees consider Bradley a friend.
- Bradley's skill in business is relationship building, leadership, and management of people.
- Bradley knows the products well and has built a great relationship with the engineers and designers that create the products.



Pressure Solutions, Inc. Considerations:

- The company has consistent performance year over year with minimal growth to revenue or EBITDA over the last 4 years.
- The company has a four-person executive team. Rich is the CEO and President, then there is a Chief Financial Officer, Vice President of Product Development, and Vice President of Operations.
- The executive team is strong and has been together for 10 years. Though Rich has not shared any transition plans nor the offers he has received from the private equity groups.
- The executive team believes Rich is the heartbeat of the organization. They believe he is strong in customer relationships and sales and key to the engineering and creative design of products. Their employees flock to Rich who is generous, giving, and supportive of his employees.
- The second tier of management, which would include Bradley and his sister Alyssa, are young with an average age of 33 years old. The company has not invested a ton of time in management development at this level.
- Rich's daughter, Alyssa, works in the business as Manager of Information Systems. She has worked there since graduating college with a computer science degree.
- PSI still struggles to fully integrate C&S into PSI post-purchase. This is not fully optimized and the two cultures clash.
- The company has a CPA and Attorney. Not formal advisory board or transition team.

Pressure Solutions, Inc. by the numbers:

Rich takes an annual salary of $625,000 while taking distributions of $875,000. A total annual compensation of $1.5MM.

Rich runs approximately $600,000 through the business in discretionary expenses. 50% of this includes the funding of his Mercedes Benz racing team

Rich has approximately $4.8MM in assets outside of his company

18% of the company's revenue is from one customer who is the first customer who bought Rich's products back in 1978. Another 8% comes from one customer who was acquired when PSI bought C&S

For PSI's industry, the multiple ranges from 4x on the low end to 12x on the high end with average companies getting between 6x and 8x EBITDA

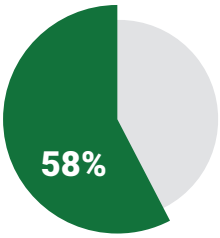
For PSI's industry, the range of EBITDA performance ranges from 5% on the low end to 12% on the high end with average companies performing at 10% to revenue

PSI has $30MM in revenue, $2.4MM in EBITDA or 8% to revenue

Pressure Solutions, Inc. Four Intangible Capitals Summary:

Human Capital

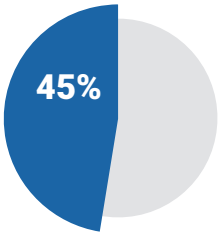
- Strong executive leadership team
- Weak 2nd tier of management with no succession or development programs
- Front-line shop floor workers are dedicated and knowledgeable
- Sales, marketing, and customer service teams are very customer focused
- The company has received multiple local/regional awards for best employer of the year



SLIGHTLY ABOVE AVERAGE

Structural Capital

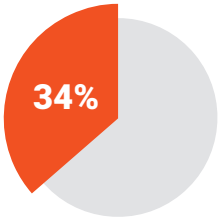
- Equipment is in good shape with new pieces and a standard maintenance program
- Information technology is weak and outdated
- Not many standard operating procedures or readily available documentation
- Intellectual property is protected with 3 patents on products
- Sales strategy is well documented with metrics
- Marketing strategy is not documented, website is out of date
- Real estate is owned by PSI at both locations but both buildings are old and need work
- Inventory is documented but has no formal audit process



BELOW AVERAGE

Customer Capital

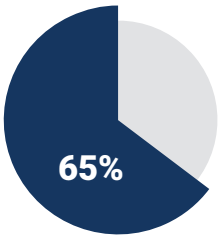
- Scores lower due to customer concentration concern and the relationships primarily being with Rich, the owner
- Customers are wildly happy with PSI and their team
- They are loyal and long term
- Agreements are in place, but it is unknown if it would be transferrable in asset sale
- There are no formal customer loyalty programs and are mainly individually based and run through Rich



BELOW AVERAGE APPROACHING NEEDS IMPROVEMENT

Social Capital

- There is a prominent culture with PSI. Very family-oriented, team focused
- Strong core values that are seen and felt throughout company
- Annual company outings, parties, and annual appreciation event
- Strong benefits package and incentive programs for management
- Strong feedback and communication system created between managers and their teams
- Scores lower due to poor integration between PSI's established culture and the C&S purchase.



ABOVE AVERAGE APPROACHING BEST-IN-CLASS

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