



EQUITY REVITALIZATION

CUTWATER SHIFT

EQUITY REVITALIZATION SERIES

An Innovative Pathway to Prevent Short-Term Decline & Create an Optimum Exit

- 1. Business Triage**
- 2. Resetting Culture & Rebuilding Trust**
- 3. The Ideal Exit: Merge or Sell**
- 4. Two Innovative Solutions to Preserve Value**

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Cutwater Equity Revitalization Series

Business Triage

THE SITUATION

Business Triage

tri·age \ trē-'āzh: “the assigning of priority order to projects on the basis of where funds and other resources can be best used, are most needed, or are most likely to achieve success”

2020 is clearly one of the most impactful years we have seen in a very long time. The term, “impactful” carries with it some severe consequential results that no other year in recent history has produced:

- Across the world, uncertainty became a universal term as every country on earth faced a Pandemic that shifted economies and daily living overnight.
- Millions, upon millions of people lost their jobs with no real timeframe for return or security of employment.
- Businesses shut down or descended to a crawl forcing changes in the normal way customers not only purchased goods and services, but also the way buyers and sellers interacted .
- The United States sent over \$500 Billion in a two-month period to its small businesses in an unprecedented program riddled with expediency errors and eligibility concerns.
- No experts across the globe could be trusted as to how this pandemic should be handled, causing hundreds of thousands of deaths that many will question for years to come.
- No economists or government offices can really predict what the total impact will be for American businesses going into 2021 because of the ever-changing environmental and economic climates.

The only certainty that we can count on going forward is *Change!*

Cutwater addresses the major areas required to get the business on solid footing and moving towards an eventual long-term objective. Some of these items that need immediate attention are:

- Immediate and 30, 60 & 90 day cash flow projections
- Banking/Lending/Mortgage situation stabilized
- CARES Act loan or other government programs compliant analyses and secured
- Communication with customers to provide comfort level of sustainability
- Lost revenue analysis for short term
- Lost revenue analysis for long term
- Creditor issues & short-term agreements
- HR assessment of layoffs, terminations, policy changes, continued payments, etc.
- Communication with employees to retain key employees and satisfy all employee concerns
- Ongoing business operations strategic plan
- Funding mechanisms and implementation

Cutwater Equity Revitalization Series

Business Triage

OUR SOLUTIONS/SYSTEMS

Cutwater Shift has been working side-by-side with businesses over the decades providing deep analyses and real solutions to address not just the growth strategies, but also the wind-down strategies...which can be much more dangerous if not addresses properly.

Christopher Riley, founder and CEO of Cutwater Shift outlines why logic rarely prevails over emotion in a few areas. He states,

“Nobody likes talking about two things when it comes to future planning: 1. Budgets for a spouse in the unfortunate instance that the other spouse passes away; 2. Bankruptcy planning for a business that can no longer sustain itself going forward.”

Riley, and the Cutwater Shift team know that in unprecedented and uncertain times, as we have here in 2020, there are going to be a lot of mistakes made in the planning phase coming out of this pandemic because emotion will prevail over logic...because people just don't want to plan for the worst-case scenario. However, failing to plan for an eventual liquidation can ruin the lives of the principals far beyond the liquidation of the business.

Cutwater's focus on crisis management and turnaround situations is a breath of fresh air to business owners seeking solutions. The series of assessments and analyses that Cutwater prepares helps businesses, and their stakeholders, to perform what is known as "Business Triage."

Business Triage makes planning very simple as the critical steps are identified and prioritized. The longer-range sustainability of the business becomes easier to visualize and the short-term sacrifices easier to accept and implement as a means to an end. In tough situations, the failure of planning eliminates the confidence that there is an "end" to look forward to because there is no substantiation behind the "hope"...Riley calls this phenomena, "Hopeum".

Some of the programs, analyses and systems that Cutwater performs are as follows:

- Cutwater Restructuring Program
- CIA Analysis™
- Bankruptcy/Turnaround Workshop
- Equity Revitalization™ Program
- Salability Profile™
- Exit Strategy at Optimum Value Analysis & Platform

Cutwater Equity Revitalization Series

Resetting Culture & Rebuilding Trust

THE SITUATION

Resetting Culture & Rebuilding Trust \ 'kəl-chər : “the set of shared attitudes, values, goals, and practices that characterizes an institution or organization”

“An organization is only as strong as the collective sum of its people operating under a unified vision” says Christopher Riley as he explains why now, more than ever, each organization needs to do a “culture check” before things start breaking down past the point of no return.

- Social norms have been shattered...there is no uniform standard any longer for behaviors and opinions in the corporate environment. Everything is on the table and organizations need to acknowledge, recognize and resolve this issue before they can expect to unify and motivate their members.
- Administrative and strategic items such as job descriptions, organizational charts, KPIs, strategic plans and spans of control are all worthless if an organization does not deal with two critical issues in today’s environment: 1. Resolving the Absence of Trust; 2. Eliminating the Fear of Conflict. Pat Lencioni’s Five Behaviors of a Cohesive Team™ starts with these two areas at the foundation of building a cohesive team for a reason...a really big reason that has just unfolded over the past four months.

An organization can’t hit its optimum enterprise value if its people can’t hit their optimal performance

Christopher Riley and the strategic partners at Cutwater Shift begin each engagement renewing or establishing the vision for the organization. That vision is a culmination of the individuals that lead and work to achieve the stated objectives. If those individuals have shifted their commitment levels, cultural opinions and motivation, there needs to be a rebooting of what we call corporate trust and commitment before any strategic plans or objectives should be launched. The steps to accomplish this are the following:

- Leadership workshop to renew and establish individual vision and mission statements for all key leaders. Healthy conflict cannot exist without the establishment of trust amongst the leaders...going into battle, all key leaders need to trust and rely on their fellow soldiers.
- Divisional workshops pulling together all members of divisional teams, with the leaders present to renew commitment by re-establishing a healthy culture of trust and establishing SMART goals for the short term to gain momentum and little victories as the negative aura around the country is bringing down even the most positive and healthy of citizens. When someone loses their mobility and enters a rehabilitation environment, the first step is always the most motivational and enriching.
- Organizational communication needs to be flawless. Even then, sabotage and viral dissemination of misinterpreted messages are the worst enemy of culture and collaboration.
- Once the cultural and collaborative items have been addressed and locked in, then and only then can strategic planning begin. Cutwater navigates these choppy waters in an “all hands on deck” approach to activate the optimal performance and eventual optimum value of the organization.

Cutwater Equity Revitalization Series

Resetting Culture & Rebuilding Trust

OUR SOLUTIONS/SYSTEMS

Christopher Riley and Cutwater Shift have been working to unify and motivate organizations for decades to break through the status quo and achieve exit strategies unattainable in their current state. The first step is unifying the members of the organization. As Christopher Riley, founder and CEO of Cutwater Shift, recounts,

“An organization is only as strong as the collective sum of its people operating under a unified vision”.

The systems and tools to unify an organization are a bit more complex than a team-building exercise. Riley operated intense ropes courses, climbing walls and corporate team-building exercises for many years, and as he says, “it is never about the telephone pole, it is always about the climber!”

Some of the programs Cutwater and its strategic partners use to really unify and solidify an organization are as follows:

- Proprietary Organizational Psychology system (created by Riley as he obtained his Master’s in Organizational Psychology) identifies and activates each individual’s intrinsic motivational DNA.
- Corporate Trainings performed by strategic partners based on Pat Lencioni’s Five Behaviors of a Cohesive Team™ to reboot trust and reengage commitment to the individuals & organization.
- Executive Leadership training through one of the top transformational leadership groups in the world that have created unimaginable results across the globe for decades.
- Cutwater’s analyses and assessments to reverse engineer the optimum exit strategy and implement that strategy by bringing the individuals in the organization to their optimal performance.
- Working towards a merger or a transaction, Cutwater focuses on the major pitfalls that KPMG identified in a study that outlined how 83% of mergers in the study did **“not”** add shareholder value years later. Cutwater addresses those pitfalls from the beginning and focuses on the six keys to merger success.

Cutwater Equity Revitalization Series

The Ideal Exit: Merge or Sell

THE SITUATION

The Ideal Exit: Merge or Sell The current value of your business is solely dependent on what the buyer sees as the future value of your business...if nobody sees future value, you have a difficult choice to make.

If you were thinking of selling your business in the past five years and didn't engage Cutwater Shift for the Equity Revitalization program, you now have a difficult choice to make if your business has been negatively affected by the current pandemic. Below are the key items to consider:

- Have your future revenues and/or customer demand been perpetually affected?
- Has your industry/sector changed the way business is conducted, and how does that affect your business model going forward?
- How have your competitors handled the current business climate? Are they in the same situation, better situation or worse situation and how are they reacting to remedy their situation compared to what you are doing?
- Are there rules, regulations or social barriers that are affecting your business and are they short term or long term? Have you found innovative ways around them (See CERS #4 on Innovation)?
- What is your cash situation, burn rate, access to credit and do you have a 24 month cash flow projection prepared with buffers and contingencies included.
- Prior to contacting any investment banker, business broker or officially making public that your business is for sale, you need to know the irreversible damage that could be coming your way.

Buy Low, Sell High. How do you know when your business is at its "highest" point?

Although the Cutwater Shift Equity Revitalization model traditionally takes 18-36 months, there are several components that may be helpful if you are wanting to sell your business sooner:

- Comparable multiples for valuation purposes in your industry sector (NAICS/SIC Codes)
- Is the prevailing direction of M&A buying or selling in your sector?
- Who can you trust to get you the highest possible price in an outright sale, and are they the best group to determine the optimum valuation to shoot for?
- Once you initiate the sale process, you are pregnant and there will be a baby born, in the M&A world, that unfortunately means that you will be held hostage to take the highest price or best strategic deal, and if it isn't close to your minimum deal, your business has serious sustainability issues to maintain or achieve your optimum values going forward.

Cutwater Equity Revitalization Series

The Ideal Exit: Merge or Sell

OUR SOLUTIONS/SYSTEMS

Cutwater Shift focuses on an “Optimum” value 18-36 months in the future and then reverse engineers a strategic growth plan to hit that target. If a business doesn’t implement such a tactical exit strategy, how can it still get the most value in a quick exit? Everyone knows what a “Fire Sale” is, but do you know what a “Hurricane Sale” is?

Christopher Riley, founder and CEO of Cutwater Shift, outlines the major mistakes business owners make after decades of hard work and dedication that can cut 15%-25% off the proceeds of an ill-timed exit. Riley calls this a “Hurricane Sale.”

“Don’t wait to buy sandbags days before the hurricane hits, and certainly don’t sell the sandbags days after the Hurricane has come and gone!”

Many times business owners are so focused on the day-to-day operations that they have a tough time getting up to 10,000 feet to prevent a hurricane sale. If circumstances are unavoidable, and a sale or merger is absolutely necessary, then there is a completely different approach that business owners should take to preserve value than putting their business up for sale immediately with a business broker or investment banker.

Below are the steps that Cutwater takes with business owners so they can see the marketplace from 10,000 feet. Most times, all the different paths outside the box are then easy to see and implement to achieve the optimal exit:

- CIA Analysis™
- Salability Profile™
- Company Stabilization Program
- Exit Strategy at Optimum Value Analysis & System
- Cutwater Restructuring Program

Cutwater Equity Revitalization Series

Two Innovation Solutions to Preserve Value

THE SITUATION

Two Innovation Solutions to Preserve Value

If yesterday's fax machine is today's scanner...what was your "yesterday's product" prior to the COVID-19 pandemic and have you developed your strategic plan to capitalize on "today's product"?

When the Covid-19 pandemic hit the world, commerce changed forever! Some companies, such as sanitizer manufacturers and sterilizing companies hit demand levels that they couldn't keep up with. Other companies such as face-to-face recreation companies, restaurants and bars suffered such a loss of business that they shut their doors for good...those aren't the companies we are referring to.

Our focus lies with those companies that need to either change the way they do business, or switch to a modified product or service to deliver the goods and services to their clients. Below are the components of the strategic analyses that need to be conducted to successfully navigate this value proposition change for an organization:

- Product/Service analyses to include usefulness, demand, delivery methods, future sustainability
- Analysis of the business climate for each product/service – short-term or long-term changes
- Components Analysis – are there components of your obsolete products/services that can be used in surviving products/services?
- Taboo Analysis – what products/services just won't survive the public's perception?
- Competition Analysis – What are your competitors doing to remedy the above issues...and have they already changed the playing field?
- Products of the Future – Can you develop and implement a strategic plan that delivers products/services to the future marketplace based on where things are likely to go?

Two Areas of Innovation That Cannot Be Ignored

After conducting the above analyses, there are two areas of innovation that all companies should be engaged in before the end of 2020:

1. Morphing existing products/services to become Covid-19 friendly, assuming Covid-19 will never go away.
2. Creating new products/services with existing raw goods/services that will fill a void in the future marketplace assuming Covid-19 never goes away.

Both of the above innovative solutions should not cost a lot of money to rework, just a lot of creativity, collaboration and foresight.

Once the new products/services are designed and storyboarded, a financial analysis should be conducted on each to then look at the overall profitability going forward.

If your company does not have an economic analyst on board, hire them! The business climate will be ever-changing for at least the next three years and only skilled economists that identify trends, track leading indicators and trailing research will be able to effectively provide the data necessary for a business to navigate these choppy waters of the next several years.

Cutwater Equity Revitalization Series

Two Innovation Solutions to Preserve Value

OUR SOLUTIONS/SYSTEMS

Christopher Riley, founder and CEO of Cutwater Shift, recaps the dozen industries that he has owned or operated businesses in over the past three decades with his strategic partners. In his recap, he highlights the twists and hairpin turns certain industries took during challenging times and the beneficial results for ownership ranging from preventing dangerous consequences to realizing up to 600% increased returns. Below are some of the companies, and their results, when the appropriate innovation was created and implemented to keep each company ahead of the curve.

- ▶ **Hospitality** - Tripled profits after doubling compensation to employees over a three year period with 127 customized incentive programs. **Increased enterprise value by 308%**
- ▶ **Content Management Co.** - Increased average client from \$25M to \$100M; Gross Margin quadrupled to 35%. **Increased Enterprise Value by 415%**
- ▶ **Software Services** – Tripled revenues to over \$23 Million and increased EBITDA from 5% to over 12% in 3 years. **Increased enterprise value by more than 600%.**
- ▶ **Hospitality** – Turned down a sale offer, re-focused sales & marketing, restructured two unions with new incentive programs and **sold company for 162% above prior sale offer** in 14 months.
- ▶ **Software Services** – Cutwater halted a proposed sale of a software company, restructured offering while business increased profits by 30% and implemented transaction 12 months later for **30% higher proceeds to each owner.**
- ▶ **Automotive** - Took over 1,000 person \$200MM company under multiple investigations and created an industry leading compliance system that reshaped the industry. Worked directly with 10 Attorneys General to gain full compliance while Increasing profits by 44%. Final compliance audit from industry regulatory law firm stated, *"A sincere dedication to regulatory compliance permeates the [company's] current business practices.*
- ▶ **Online Software** - Investment and operations takeover of internet software company. Riley performed undercover investigation, Identified fraud, ousted bad players, restructured company and merged with strategic acquirer to prevent liquidation.
- ▶ **Software Services** – Tripled revenues to over \$23 Million and increased EBITDA from 5% to over 12% in 3 years. **Increased enterprise value by more than 600%**
- ▶ **Construction Company** - Turned around a failing roofing company in danger of insurance fraud by eliminating poor leadership, changing the culture from cutting corners to achieving high margins through quality workmanship. Negotiated with bankers, creditors and restored compliance to create a sustainable model. Owners walked away without blemish.
- ▶ **Hospitality** - Worked through the tragic events of September 11, 2001 with swift business model shifts. Retrained staff while increasing employee camaraderie and customer loyalty alike.
- ▶ **Digital Web Development** – In a 24-month engagement, we designed and launched new sales and business development system that increased average project size by 3.5X to \$75,000. Company was acquired at a 40% increased value.
- ▶ **Stone Fabrication** – Restructured highest quality granite, marble and tile company in St. Louis from a declining situation to an industry-leading entity and sold company at highest valuation in company history...and company still growing at 20%.