

Multiple Expansion Exercise

Agency 1	1M EBITDA	5M Life	8M Annuity	\$5,000,000 value
Agency 2	500K EBITDA	2.5M Life	4M Annuity	\$2,000,000 value
Agency 3	500K EBITDA	2.5M Life	4M Annuity	\$2,000,000 value
Agency 4	3M EBITDA	15M Life	24M Annuity	\$18,000,000 value

Step 1

Agency 1 and **Agency 2** merge creating a 1.5M EBITDA agency.

Synergies = _____

New EBITDA = _____ x 5 multiple New value _____

Agency 1 owns 66.6% of Newco. Agency 2 owns 33.3% of Newco.

Step 2

Newco (Agency 1 & 2) buy **Agency 3**.

_____ EBITDA Agency buys a 500K EBITDA Agency _____ EBITDA

Synergies = _____

New EBITDA = _____ x 6 multiple New value _____

(Value goes up with new synergies and a 1-2 multiple change.)

Agency 1 owner owns 54.498%. Agency 2 owns 27.257%. Agency 3 owns 18.24%.

Step 3

Newco (Agency 1-3) merge with **Agency 4**.

_____ EBITDA Agency and a 3M EBITDA Agency merge.

Synergies = _____

EBITDA now increases to _____ x 7.5 multiple New value _____

Agency 1 owns 25.286% Value increased from 5M to _____

Agency 2 owns 12.647% Value increased from 2M to _____

Agency 3 owns 8.466% Value increased from 2M to _____

Agency 4 owns 53.601% Value increased from 18M to _____

Simple **Synergies** and **Multiples**

Some synergy types:

Contracts: Are contracts higher for the combined company either through one Agency having a higher contract or the combined Agencies qualify for a higher contract?

Employees: Are some jobs redundant and not needed in the new combined company? Will you give up higher paid employees for lower paid trained employees? Some jobs may be eliminated because of no need any longer like too many case managers, C&L, receptionist or a bookkeeper.

Rents: This can happen when both Agencies are in the same city usually. The rents and utilities on one location can be saved.

Leases/ Software/Technology: savings on phone systems, copy machines, duplicated software, websites etc.

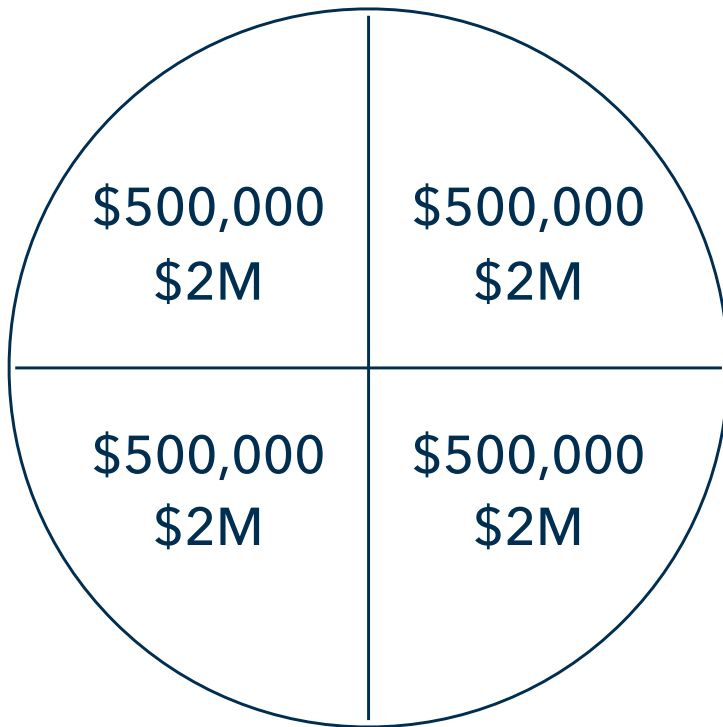
Advertising: costs of advertising, buying lists all with duplications, reduced lead costs etc.

Common Multiples:

EBITDA	Multiple	Value
\$500,000	4X	\$2,000,000
\$1,000,000	5X	\$5,000,000
\$2,000,000	6X	\$12,000,000
\$5,000,000	7.5X	\$37,500,000
\$10,000,000	9X	\$90,000,000
\$20,000,000	10X	\$200,000,000

Multiple Expansion Theory

Pre-Merger Values



(4) \$500,000 Shops
Value: \$2M each - Total \$8M

Post-Merger Value

