

**Senior Financial Officer**

**10 ten actions that MUST be implemented to influence and guide building Optimal value**

1. **Exec team player - Embed yourself at the decision-making table and be the trusted partner**
2. **Strategy evaluation**
  - a. **showcase and illustrate** the strategic plan “picture”; and
  - b. **be versatile** – create capacity to create “what if” and value estimates quickly
3. **Financial reporting**
  - a. **continuous reporting of performance v budget;**
  - b. **rolling forecast;**
  - c. **drive better decisions with timely/relevant data;**
  - d. **showcase quality of earnings;**
  - e. **demonstrate quality reported data through a clean audit**
4. **Future**
  - a. **understand key drivers of value; and**
  - b. **focus strategic appraisal/reappraisal of the value model**
5. **Business model appraisal –**
  - a. **identify place in the range of value;**
  - b. **strengths/weaknesses to Best in Class comparables;**
  - c. **ratio comparability to market averages**
6. **Internal control system – operate a suitable system of IC and document systems and operations**
7. **Systems and IP – have SoP’s for all systems and ensure up-to-date with Organization charts**
8. **Fixed assets –**
  - a. **maintain** up-to-date asset base;
  - b. **industry appropriate assets for size of business; and**
  - c. **budget capital needs**

**Continued.**

9. Working Capital

- a. understand **normal level of working capital**

10. Risk

- a. identify and **appraise the risks facing the business;** and
- b. review periodically with the business
- c. **document and secure Systems and IP** – quality; documentation; and leverage efficiency

**Key: showcased during the presentation**



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# **1 WORK DONE TO DATE**

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## **1.1 VALUE BUILDER QUESTIONNAIRE COMPLETED**

1.1.1 The Value Builder Questionnaire was completed online by Brad Geddes. The output from this questionnaire was reviewed by Rizolve. The answers in the questionnaire were reviewed by the Family team and answers questioned in certain cases. The Rizolve team then performed sensitivity analysis to identify which questions allowed the greatest opportunity for valuable improvement actions.

## **1.2 INITIAL MEETING**

1.2.1 Initial meeting with CEO/ Senior Director Sales in Rizolve's offices to determine needs and expectations in May 2018.

## **1.3 ON-SITE REVIEW**

1.3.1 Onsite review in June 2018 with members of Geddes Family team to review the business operations; understand strengths, weaknesses, opportunities, threats ("SWOT"); and identify current priorities and direction.

## **1.4 SWOT**

1.4.1 Performed a team based current SWOT analysis with ranking of top two themes for each attribute.

## **1.5 QUESTIONNAIRE ANSWER REVIEW & SENSITIVITY ANALYSIS**

1.5.1 Reviewed all Value Builder questions jointly with the Family team to get consensus and to probe areas of potential discrepancy. Rizolve has identified the sensitive areas and has developed a range, where appropriate, to aid the review and assessment analysis.

## **1.6 REVIEW AND ASSESSMENT**

1.6.1 A desktop review / assessment was performed subsequent to the site visit that analyzed the inputs from the questionnaire, the initial meeting with executives and the on-site day's visit with the Family team. The review and assessment has been able to identify the value drivers from the Value Builder methodology that are likely to drive the most significant improvements in value and to boost the Value Builder score such that, if achieved, would predict a substantial 2-3x increase in then probability of achieving a successful sale.

## 2 SWOT

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### 2.1 SWOT SUMMARY

2.1.1 We have summarized the results of the SWOT analysis that the team compiled on the on-site day in Appendix A.

### 2.2 KEY SWOT ITEMS IDENTIFIED

2.2.1 **Strengths** - You felt that the strength of partner relationships and employee loyalty were strong bases on which to build growth, fueled by leveraging the current market position, company history, longevity and passion.

2.2.2 **Weaknesses** - The weaknesses identified were the ability to scale the current model based on the processes and technology and access to qualified human resources that the existing business has at its disposal currently.

2.2.3 **Opportunities** - The team highlighted the following opportunities, in particular, the growth potential of the business and the possibilities for expansion.

2.2.4 **Threats** - Placing all you eggs in one basket was felt to be a threat coupled with the ability to leverage technology in a flexible way. The team highlighted meeting deadlines and the pace of change as other threats.

### 3 RIZOLVE INITIAL COMMENTS

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- 3.1 Based on the Value Builder model, Rizolve believes that the strengths to capitalize on are: Zucora's contractual model that it is being developed into a direct to consumer; monthly subscription business; and its position in the Canadian market build on strategic partnerships and its growth potential.
- 3.2 Several of the key value drivers need to be improved as each exhibit good points but have weaknesses and threats attached to them that need to be dealt with for incremental value to attributed by a third party (See APPENDIX B).
- 3.3 Customer and human capital appear to be strong but as key intangible assets they need to be packaged and evidence needs to be available of their existence/ownership and transferable nature through institutionalization of the relationships and the conversion of mental processes/ models into company property.

### 4 GAPS IDENTIFIED IN SWOT

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- 4.1 The Value builder model confirms some of the strengths that have been developed by the company but also highlights some weaknesses and threats in APPENDIX C.
- 4.2 Examples of weaknesses:
  - 4.2.1 Strategic Partnerships with major retailers is identified by the company as a key strength though there is Customer concentration which arguably is set to increase and which could be a valuation issue;
  - 4.2.2 The company identifies customer satisfaction as high though it appears that the Company has no evidence of the rate at which customers approve of its performance and social media carries unaddressed social issues;
  - 4.2.3 Financial performance looks impressive but is not based on GAAP reporting and lacks the credibility of independent corroboration;
  - 4.2.4 Several significant risks face the business that need to be formally identified and addressed by the team with mitigating controls e.g. Business model transfer; succession planning; customer concentration; customer satisfaction management

## 5 VALUE BUILDER RANKING

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### 5.1 RANKING SUMMARY

- 5.1.1 We have summarized the Value Builder questionnaire answers and have performed sensitivity analysis in order to adjust for perceived over optimistic answers and to also identify the key value drivers where value can be affected in Appendix C.

### 5.2 BASED ON THE VALUE BUILDER MODEL – INITIAL ASSESSMENT

#### **ZUCORA VALUE STRENGTHS ON WHICH TO CAPITALIZE:**

- 5.2.1 The recurring income model that has been developed and is being further strengthened and refined;
- 5.2.2 The monopoly position that the company has developed through its strategic partnerships with the key retail groups;
- 5.2.3 Its growth potential through its unique relationship with Leons / Brick; Product expansion opportunities and Direct to consumer marketing opportunity; and

#### **ZUCORA OPPORTUNITIES FOR VALUE IMPROVEMENTS:**

- 5.2.4 Switzerland structure – where key reliances need to be addressed such as reliance of Owner/CEO; Customer concentration (Leons); and key employees;
- 5.2.5 Customer satisfaction – lack of evidence of customer approval/support – which is important to be able to demonstrate as it is extremely highly correlated to a successful business;
- 5.2.6 Financial performance – Detailed, written operating plan with key goals and accountabilities identified aligning with strategic plan; Non-GAAP reporting and audit formality; identification of margin leverage points
- 5.2.7 Identification and mitigation of risks facing the business e.g. model conversion risk

## 6 EXIT PLANNING - ADVANCED VALUE CREATION

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- 6.1 Zucora has initially chosen to apply the Value Builder system that highlights certain core drivers of value creation based on a statistically proven methodology to help identify areas for value improvement. There are however other methodologies that have more detailed scope that would identify further opportunities for value improvement at a broader and more granular level of assessment. The added advantage of such an approach is also the ability to monitor balance when assessing value improvements across the portfolio of assets of initiatives. This approach is also integrated with a strategic review of the needs of the shareholder when formulating plans a strategies (both business and personal) to exit the business.
- 6.2 An example of such alternative systems that we use with our clients developing exit strategies is Valuemax which assesses 154 different value factors in order to assess the quality and harmony of those factors in assessing attractiveness of the business and readiness to sell. Given Zucora's plans to execute an exit strategy in three years time, this methodology is highly applicable and should be considered as a strategic tool for implementation in say 12 months time.

## 7 COMPARABLES – DRIVERS OF VALUATION

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7.1 In performing this analysis, we have also reviewed numerous different comparables which Zucora should be prepared to benchmark itself against.

### 7.2 REGULATION COMPLIANCE AND FORMALITY

7.2.1 Of note is that fact that the market in the US is more mature than in Canada and depending on the jurisdiction subject to differing levels of regulation.

7.2.2 Regulation would appear to take a number of forms in different jurisdictions but primarily seems to affect several areas of formality affecting the business model:

- Financial reporting standards
  - *Revenue recognition;*
  - *cost provisioning;*
  - *product risk segmentation; and*
  - *accounting for contingent liabilities.*
- Actuarial assessment of future liabilities;
- The restriction of the use of net assets for distribution to outside shareholders;
- The requirement to hold certain minimum capital and net worth levels;

which represent standards by which an acquiror would judge a target and therefore price the business accordingly.

### 7.3 OPERATING BENCHMARKS

7.3.1 Operating statistics by which these US located comparables are scored and given a rating by [www.thehomewarrantyreview.com](http://www.thehomewarrantyreview.com) are:

- Customer service;
- Service timeliness;
- Repair service;
- Overall rating.

#### **7.4 TRANSACTION COMPARABLES**

- 7.4.1 We also have a subscription to a private equity database ([www.pitchbook.com](http://www.pitchbook.com)) that also gives us information on private company transaction comparables to give private transaction
- 7.4.2 This benchmarking would provide solid evidence of the Company's position in the range of value in addition to the Company specific drivers that Value Builder would create justification for.

### **8 OTHER AREAS FOR ENQUIRY**

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- Level of planning formality
- Product Margin visibility by product risk category
- Financial reporting – GAAP deficiencies
- Barriers to scalability
- Quality of current structural capital – systems and tools implemented
- Model transfer risk
- Extent of “redundant” assets
- Cash flow sensitivity, margin of error and available liquid resources
- Project management accountabilities and systems of reporting
- Management team and Human resource plan



## APPENDIX A

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### COMPANY GENERATED STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS

<u>SWOT</u>	
STRENGTHS	WEAKNESSES
<b>Relationships - Partners and Service providers</b> <b>Employees - Loyalty and dedication</b> Passion Leadership in Home furnishings industry Big Ideas Industry Knowledge/Company History Family owned enterprise Growth and Longevity Deliver comfort and peace of mind Community support	<b>Technology</b> x2 Processes x2 Scaleability x2 <b>Meeting deadlines</b> <b>Pace and Change</b> Systems Flexibility People - lack of
OPPORTUNITIES	THREATS
<b>Growth Potential</b> x2 <b>Global expansion</b> Capitalize on proven profit systems New business with current retailers Expand product offering Flexibility to change quickly	<b>Technology shift</b> <b>Market down</b> All eggs in one basket Partners Cash flow Copy Cats

Note: Highlighted items were collectively identified by the team as the top two themes for each attribute

## APPENDIX B

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### Zucora SWOT analysis

#### 8 Drivers

	<b>S</b>	<b>W</b>	<b>O</b>	<b>T</b>
Financial Performance	X			
Growth Potential	X	X	X	
Switzerland structure		X		
Valuation teeter totter				X
Recurring revenue				
Monopoly control	X			
Customer Satisfaction				
Hub and spoke				

### Rizolve

#### 8 Drivers

	<b>S</b>	<b>W</b>	<b>O</b>	<b>T</b>	<b>Comments</b>
Financial Performance	X	X	X	X	Reported numbers?
Growth Potential	X		X	X	Change to new model; Scaleability; (Growth Quad)
Switzerland structure		X	X		Mgt team; Customer concentration; CA Relationships
Valuation teeter totter	X			X	WC and funding
Recurring revenue	X				
Monopoly control	X				
Customer Satisfaction	X	X	X	X	Change-over risk; social media; data; NPS
Hub and spoke		X			Reliance on Brad, Family

# APPENDIX C

		Pessimistic	Best assessment	Optimistic	Client assessment
<b>VB Assessment Sensitivity</b>					
#	VB Score	62	69	91	73
<b>Financial Performance</b>		72	76	88	76
17	In the next 12 months, do you expect your revenue (i.e. sales / turnover) to...	6	6	6	6
29	What was your profit margin (before tax) in your most recent completed financial year? NOTE: Please adjust your profit margin to reflect a market rate salary for the owner(s). For example, if you withdrew \$350,000 in compensation but you could hire someone to replace you for \$120,000 then estimate what your profit margin would have been if you had only withdrawn \$120,000	3	3	3	3
30	What was your company's annual revenue (i.e. sales / turnover) in CANADIAN DOLLARS last year?":	5	7	8	7
31	When comparing your most recently completed financial year with the previous year, did your revenue (i.e. sales / turnover)	6	5	5	5
32	Which of the following best describes your approach to financial record keeping?	4	4	5	4
<b>Growth</b>		69	73	92	73
2	Would you say that your industry is.....	4	4	4	4
4	Thinking about the market share for the products / services that you sell, do you sell to?	2	3	4	1
18	Which of the following best describes the possibility of your company selling more to your existing customers?	4	4	4	4
6	Which of the following best describes the typical level of customization which you offer your customers?	2	3	3	2
19	If customers were lined up at your door to buy, would you find delivering FIVE times the current volume of what you sell?	3	3	5	4
20	Would replicating your business to serve a new geographical area be:	2	2	4	3
10	Which of the following best describes your business model?"	4	4	4	4
35	Please estimate your influence by calculating the total number of people who have opted in to receive information from you and/or your company in the form of signing up for your website (e.g. e-newsletter, email mailing list or blog), Twitter "Followers", Facebook "Fans", RSS subscribers or people who have added you to their Google Plus "circles	1	1	3	1
<b>Switzerland Structure</b>		30	40	91	51
16	Please think of the person who contributes the most to each of the following areas of your business. How easy or difficult would it be to replace them? For section a) and b) if this person is YOU, select IMPOSSIBLE.				
	a) Sales and marketing:	4	4	2	2
	b) Product/Service design & delivery	3	3	2	2
	c) External supplier. How easy or difficult would it be to replace your most important supplier?	2	2	1	2
12	What percentage of your overall revenue did your largest customer represent last year?	4	3	1	3
13	Which of the following best describes the potential impact of losing your largest customer. Would your business:	3	3	2	3
<b>Valuation Teeter Totter</b>		63	56	69	56
33	What is your typical gross profit margin?	1	2	2	2
34	Please select which of the following statements best describes your cash needs:	3	3	3	3
11	How do you typically get paid by your customers?	3	2	3	2
<b>Hierarchy of recurring revenue</b>		100	100	100	100
14	What percentage of your sales/revenue (i.e., turnover) is "recurring"? Recurring is defined as subscriptions, maintenance contracts, or annuity streams that your customer must proactively turn off or cancel in order to stop receiving the product or service	5	5	5	5
<b>Monopoly control</b>		75	75	75	75
3	Which of the following best describes the exclusivity of your business to your customers?	3	3	3	3
<b>Customer score</b>		19	19	94	19
7	Please estimate the percentage of your customers who are VERY SATISFIED with the services/products which your company provides	5	5	4	5
8	How often, if at all, do your existing customers refer your company to their friends and colleagues:	5	5	1	5
9	In the last 12 months, what proportion of your customers complained in writing (e.g. email, letter, submission to your website)?	2	2	2	2
<b>Hub and Spoke</b>		57	82	98	94
15	What percentage of your company's revenue (i.e. sales / turnover) is undertaken personally by you or your fellow equity holders?	4	4	2	2
28	Which of the following best describes your management team	3	4	4	4
5	Which of the following best describes your personal relationship with your company's customers?	3	3	4	3
21	How would your business perform if you were out of action for 3 months and unable to work? Would it:	3	2	1	1



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## APPENDIX D

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