**Warrior Manufacturing[[1]](#footnote-1)  
Representative Valuation Case[[2]](#footnote-2)**

Warrior Manufacturing is a metal products firm located in Northern Utah. The firm focuses on the design and production of aftermarket products for high performance vehicles and motorcycles. Though the firm has been in continual operation since 1997, it enjoyed a rebirth in 2016 as it was taken over by the founder’s oldest child and long-time firm manager such that the current firm bears little resemblance to the legacy firm.

Since 2016 Warrior has seen revenues climb from virtually nothing by the end of 2015 to well over $2,000,000 by the end of fiscal-year 2018 at which time approximately 12% of revenues are from custom design, one-off, products produced in-house, 32% revenues from locally sourced and fabricated products, and the remaining 56% from mass produced products manufactured in China. The firm’s profitability is largely a result of the custom and mass-produced products resulting from the high-cost, low-margin business in local product manufacture.

After-market products for high performance vehicles and motorcycles, including off-road, have experienced robust growth as aging baby boomers with discretionary income and decreased time demands seek to relive the vitality of their youths. The firm’s 2015-2018 revenues are reflective of this trend, but also the outsized ambitions of current firm management. Moving forward, the firm expects to maintain current growth trends, but to reduce its dependency on cash flow from locally produced goods, thereby improving operating margins.

As of the end of 2019 the firm’s estimated assets are expected to include $650,00 in inventory, $420,000 in cash, $350,000 in Accounts Receivable, $1,576,000 in fixed operating assets, and a 49% stake in One Off Distributing (OOD) for which the firm paid $75,000 in 2000 and is currently estimated to have an enterprise value of $1,700,000.

The firm’s current common equity stakeholders include the founder’s son and his spouse, each holding 50% of the firm’s common equity shares (100,000 shares each), and three investors with preferred shares as indicated in the accompanying financials. The common equity holders did not directly contribute financial capital to the business, rather, they were gifted ownership by the now deceased founder.

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Dividend Rate** | **Voting Rights** | **Initial Shares** | **Initial Investment** | **Conversion** | | **Converted Shares** | **Cost Basis Shares** |
|  | **Preferred** | **Common** |
| **Johnson** | 12% | No | 5,000 | 100,000 | 1 | 3 | 15,000 | 6.67 |
| **Bruzzone** | 15% | No | 10,000 | 300,000 | 1 | 5 | 50,000 | 6.00 |
| **Mahlmann** | 9% | Yes | 5,000 | 150,000 | 1 | 3 | 15,000 | 10.00 |

The preferred stakeholders are long-time associates of the firm’s founder, each holding different equity classes with various rights and dividend commitments as follows:

The firm has negotiated a credit line with the founder’s estate of up to $5,000,000 at 7% and is currently looking to acquire other producers operating in the same space with plans to bring newly acquired operations into their Utah facilities to gain operating efficiencies. Plans include acquiring one firm for each of three years, each with average annual revenues of $1,000,000. Simultaneously, the firm expects to continue its organic growth and is prepared to bring on additional management personnel to deal with the increased responsibilities of integrating acquisition targets into the existing operation and managing the newly acquired product lines. Additionally, the firm has approximately $120,000 in Accounts and Wages Payable.

Virtually all of the two owners’ living expenses are run through the business in an effort to reduce state and federal income tax liabilities and each take salaries of $100,000. One of the owners is legitimately the firm’s CEO while the other has the title of COO but is a machinist with modest design experience.

The firm is considering a $10,000,000 equity investment from Opportunity Capital, a venture capital fund as an alternative to using the equity line negotiated with the founder’s estate. The investment would require the firm to obtain a credible valuation estimate for its common equity shares as of the end of 2019 and necessitate the preferred shareholders to convert their equity stakes to common. The firm’s majority stakeholders had shared their estimate of the firm’s equity valuation with stakeholders each year based on a randomly selected Sales and EBIT multiples as follows. They’re expecting this year’s estimated value to be significantly higher.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Estimated Annual Equity Valuation in 1,000's** | | | | | | | |
| **Year** | **Equity Valuation** |  | **Year** | **Equity Valuation** |  | **Year** | **Equity Valuation** |
| 2000 | 2,000 |  | 2006 | 1,400 |  | 2012 | 1,500 |
| 2001 | 1,675 |  | 2007 | 1,200 |  | 2013 | 1,600 |
| 2002 | 1,350 |  | 2008 | 950 |  | 2014 | 1,700 |
| 2003 | 1,250 |  | 2009 | 800 |  | 2015 | 1,800 |
| 2004 | 1,100 |  | 2010 | 1,000 |  | 2016 | 1,200 |
| 2005 | 1,300 |  | 2011 | 1,400 |  | 2017 | 2,200 |
|  |  |  |  |  |  | 2018 | 2,440 |



1. This Valuation Case is representative of actual firms for which live valuation estimations have been performed by the author and/or Associates. The names, locations, and quantitative details have been altered to protect the subject firms’ privacy. [↑](#footnote-ref-1)
2. Developed by Richard Haskell, PhD (rhaskell@westminstercollege.edu), Gore School of Business, Westminster College, SLC, U T, (2019). [↑](#footnote-ref-2)