Ignition Controls, Inc.

Exit Planning Case Study

Presented at the Credentialing Program:

CEPA
Certified Exit Planning Advisor

This case study is based on a real exit planning client although the names of the company and its owners and all other identifying information has been changed to protect their privacy.

REQUIRED READING:

Read *The $10 Trillion Opportunity,* by Richard Jackim and Peter Christman, before you read this case study.

Marketing and Sales

Two business owners have contacted you to learn more about their options are in connection with some issues they are facing.

You talk with them briefly on the telephone and learn that they were referred to you by an accountant you met with several weeks ago. Instead of collecting a lot of data on the phone, you schedule an appointment to go to see them in person. While meeting with your new prospects you learn the following.

Fred Bantom and Ben Morgan, own a company is called Ignition Controls, Inc. ("Ignition" or the "Company"). Ignition is a designer and manufacturer of electronic controls. The Company provides electronic controller for hand held power tools and for gas powered residential and commercial appliances. Ignition's products range from simple discrete electronic designs to more complex micro controller-based controls and systems. Their products are sold to major original equipment manufacturers (OEMs) and suppliers in the U.S. and overseas.

Fred and Ben founded Ignition Controls in 1990 when they joined together to design and manufacture igniters for Maytag, Amana & GE. Eventually the Company developed an entire line of igniters including one for the overseas market and a natural gas appliance control unit.

By the end of 2012, the Company employed a total of 38 full-time employees and 2 part-time employees, all non-union at 2 facilities. Additional temporary employees are also utilized as needed. Ignition's headquarters is located in Marysville, Indiana. The 9,000 square foot facility also houses the Company's engineering department. Ignition manufactures its products in a 28,000 square foot facility in El Paso, Texas. Both facilities are owned by Fred Bantom and leased to the Company at market rates.

The Company produced $6.1 million in sales in 2011 and sales of $6.2 million in 2012. Ben has been working on the development of a number of new products. Despite several technical delays, the fundamentals of the products feature superior engineering. Ben anticipates these products will go into production in late 2013. As a result, Ben and Fred are extremely optimistic that sales in 2014 and beyond will grow by 15% per year for the next 5 years. The sales optimism is well founded based on customer feedback and demonstrated engineering enhancements, but there are no guarantees. There are no direct competitors with the product attributes on the market currently, but Ben and Fred are aware that other companies are working on prototypes. Orders for sample products have been somewhat on target, and Fred and Ben firmly believe the best is yet to come. Ignition's products currently enjoy gross margins of over 30% with EBITDA margins of over 10%.

Fred and Ben say they are interested in retiring and want you to help them with their exit plan. Fred is 68 and has a number of relatively minor health issues but is ready for retirement while he can still enjoy it. He realizes that selling the Company likely means he needs to be engaged for a limited time frame to assist with the transition. Flexible terms including a sliding part time schedule over the next 1-3 years is one of his goals. Ben is in his mid-fifties and is in good health. He is very energetic and envisions working until he is in his mid-sixties. He wouldn't mind continuing to work for a few years for the new owners of the company if the chemistry and terms were right.

Fred says he had a net worth of approximately $4 million and that he needs approximately $400K per year to support his lifestyle. Ben isn't exactly sure of his net worth but thinks that he also needs approximately $400K per year to support his life style.

Both Fred and Ben have heard that companies like theirs typically sell for 1.5 times revenues or 7-8 times EBITDA. As a result, they think their company is worth around $10 million. They would like your opinion.

The Company's facilities are located in a heavily worn single story office/warehouse building. It is clear that the shareholders, while proud of their business, spend very little money on the interior or exterior of the building. Both shareholders have told you, both directly and indirectly, that they believe their success is due to their ability to pinch every penny. Additional information about the company follows.

Now that your initial meeting with these prospects is complete:

1. What do you recommend?
2. What next steps do you suggest?
3. What would be the pros and cons of an exit plan for these owners?

Business Overview

CUSTOMERS

The Company began serving ABC, one of the world's largest manufacturers of hand-held building equipment, in 1995. ABC was having failure problems with its hand-held nail guns. Ignition solved the problem by developing a "noise-canceling" circuit and the failure rate dropped significantly. Over time, Ignition became ABC's sole source supplier for all of its ignition systems.

Since the late 1990s, 45% of the Company's products have been sold to various divisions of ABC. Once Ignition developed a successful solution for ABC's Nailgun Division, its capabilities became known throughout ABC. Based on that success, the Company began developing products for 3 other ABC divisions.

Each of ABC's divisions operates independently and is responsible for its own purchasing decisions. As a result, the Company considers them to be 4 independent companies. Ignition is currently in discussions with a fifth ABC division to provide additional products.

Ignition does business with the following divisions of ABC:

1. **The French Division** has been providing European construction industry professionals with fasteners and tools for over 50 years. They sell anchors, fixings, powder actuated tools, gas tools, and drilling and diamond tools.

2. **The Nailgun Division** designs & manufactures pneumatic nailing and stapling systems for construction and manufacturing.

3. **The Building Division** markets self-drilling screws, anchors, toggles & other fastening systems for attachment to steel, wood and concrete.

4. **The Ramset Division** manufactures fastening systems used by the construction industry for attachments to concrete and steel.

5. **The Temperature Division** is one of the world's leading manufacturers of temperature indicating products. Their products were developed for the welding, metal fabrication and heat-treating industries to accurately determine surface temperatures. They have developed many other applications for manufacturing process temperature control. Temperature indicators are available as sticks, liquid, pellets and self-adhesive labels in a wide range of temperatures.

COMPETITION

Since many of Ignition's products are sole source and, in some cases, patented, Fred and Ben do not feel they have any direct competitor for any particular product. In reality however, there are many companies that provide the same types of services and manufacturing capabilities to OEMs including very large companies like Invensys (ISYS) (Robertshaw), Kidde-Fenwal, Honeywell (HON), Johnson Controls (JCI) and Ametek (AME) (National Controls).

Ignition competes effectively against these larger competitors by providing innovative and cost competitive designs that often offer additional functionality at the same price. Fred and Ben maintain that all of their products are of equal or better quality than the competition. Ignition's low overhead (compared to many of its larger public company competitors) and its low-cost manufacturing facility in El Paso enables the Company to be very cost competitive while retaining 30+% margins.

PRODUCTS

The table on the following page highlights the unit volume of the Company's various products over the last 3 years.

Item Description		2010	2011	2012
MSU 1	Nailgun	196,500	226,200	239,605
MSU 2	Nailgun	81,800	127,300	116,000
MSU 3 Connector	Ramset	86,332	77,884	38,156
MEFI 700E (fuel injected – Europe)	SPIT	1,500	6,010	7,548
MEFI 700P Table (fuel injected – Europe)	SPIT	4,000	11,000	13,000
MEFI US Fuel Table (fuel injected)	Ramset	0	5,976	1,008
MEFI Ramset Fuel Table (fuel injected - special)	Ramset	0	0	250
Board Assembly (used with 4 above items)		20,000	20,000	20,000
MEFI-2 Electronic Control (new product)	SPIT	0	0	323
MEFI-2 Battery Board (for new framing tool)	SPIT	0	0	600
MEFI-2 Motor Board (for new framing tool)	SPIT	0	0	700
Clean Sweep Relay Board (new product – cleaning	Pitco	0	40	900
Ignitor 110 Terminal (appliance ignitor)		0	1,000	500
All Other (reader, ignitors, liquid level controls, etc.)		15,237	252	406
		405,369	475,662	438,996

PRODUCTS (CONT.)

New Product Initiatives

As mentioned above, Ben has been working for several years on the design and development of a series of new products. These products are as follows:

1. **Adaptive Defrost Module.** Design is 95% completed. Delivery expected to start in quarter four of 2013. Could result in Whirlpool or Maytag OEM contract downstream.

   ⓘ *Fred predicts 7,500 units per year at $10 each.*

2. **New cooking computer for specific high-end customer.** Electronic are 90% completed. Small quantity delivery by quarter four 2013.

   ⓘ *Fred says there is potential to sell approximately 20,000 units per year at $125 each.*

3. **Specialty control for major cooking equipment company.** Product currently in low volume delivery (500 units so far).

   ⓘ *Fred thinks 2014 volume will be 500 to 10,000 units, price undetermined as of the time you spoke with him.*

4. **Liquid Level Control.** Designed and delivered to specific customer. Field testing in process. 100 units delivered. UL Completed.

   ⓘ *Fred says this product is current in field testing with the client. They don't know what the total market will be once the product is approved.*

5. **Intermittent Ignition System and Direct Spark Ignition (DSI).** Electronics complete and ready for CSA Agency approval. Large OEM market available.

   ⓘ *Fred says that he thinks he can find customers who will purchase 25,000 units per year at a unit price of $14.00.*

MARKETING

The Company's sales efforts are handled primarily by Fred Bantom. The Company's does not really have a marketing strategy. Fred feels that marketing isn't really needed. New business has come in based on the superior service the Company provides to its existing customers. Historically, this has enabled the Company to earn new business from existing clients as these customers develop new products or improve existing ones. Fred feels that new customers typically find Ignition through "word of mouth" or referrals from existing customers.

PATENTED TECHNOLOGY

The Company holds 3 patents including a Gas Range Ignition, Reignition Device and a Power Control System for a Framing Tool (patent shared with ABC) and a Microcontroller Power Circuit. There is an average of seven years remaining on these patents.

ENGINEERING AND PRODUCT DEVELOPMENT CAPABILITIES

Ignition's strong engineering capabilities have been its key to success. The Company's engineers not only have the ability to design innovative and cost competitive products to solve customer problems but also to continue to develop those products over time by providing added features or reducing cost. These efforts ensure customer satisfaction and help the Company keep ahead of any potential competitors. Ben Morgan handles all new product development and is supported by two project engineers and 1 regular engineer.

MANUFACTURING PROCESS

The manufacturing process is straightforward. Orders are input in the order entry system by customer service and transmitted to the Company's El Paso facility. The orders are then scheduled for production. During production each product goes through at least two levels of testing and quality control. The completed products are then packed, shipped and billed to the customer. Typical lead times from order to shipment ranges from 2 days to 2 weeks.

SUPPLIERS

The Company utilizes a number of suppliers for the material and components used in its products such as microprocessors, components, wire and potting material. Most have been suppliers to Ignition for many years. While the Company has some sole source suppliers, all are readily replaceable.

END MARKETS

Ignition's products are manufactured for customers in two end-markets; appliances and power tools.

APPLIANCE MARKET

Total large kitchen appliance shipments in the U.S. in 2012 totaled over 69 million units according to *Appliance Magazine*[1]. In the appliance market Ignition Controls sells products such as ignitor systems for gas ranges and defrost modules for refrigerators. Growth for these two appliance segments has been steady since 2007. According to *Appliance Magazine*, refrigerators grew 3.9% per year over the period to a level

[1] Appliance Magazine March 2013

of 11.1 million units while gas ranges increased 3.2% annually to a level of 3.8 million units in 2012 as shown in the chart below.

Appliance Market Prospects:

Between 2008 and 2012 the U.S. demand for major household appliances grew 4.3% per year to a level of 67.2 million units. In a January 2013 report, The Freedonia Group[2] estimated that U.S. demand for these products would grow at an overall rate of 2.8% per year over the next five years to a total of 77 million units. While the expected growth rate will slow somewhat due to the combination of market maturity and household saturation levels, demand will be supported by replacement demand as users both replace broken equipment and trade up to newer models.

Since the life cycle of most white goods is over ten years, manufacturers will continue to introduce new technological innovation as a way to encourage upgrades. Technological and aesthetic improvements may convince consumers to replace existing, functional appliances, thereby shortening replacement cycles. Value-added appliances are becoming more important to an aging population with higher levels of discretionary income and a tendency to purchase appliances that offer style and convenience.

POWER TOOL MARKET

The total demand for power tools (including imports) in the U.S. in 2012 was $8.0 billion. U.S. shipments (excluding imports) were $5.5 billion.

Power Tool Market Prospects:

From 2008 to 2012 demand for power tools in the U.S. grow at a 4.0% annual rate. In an April 2013 report, Freedonia Group forecasts that the demand for power tools over the next 5 years will increase at a rate of 4.4% per year to a level of $9.9 billion in 2017. The growth will result from upgrades to more powerful, high-end power tools and by the continuing diffusion of cordless products. Growth in consumer tool demand will outpace the professional market through 2017 due to the ongoing popularity of do-it-yourself activities and the trade-up by consumers to feature-laden power tools. Professionals use a greater variety of tools, most of which are also more expensive than those used by consumers.

Since the construction industry comprises the largest portion of professional demand, gains will be limited by decelerating growth in construction expenditures. Manufacturers will turn to technological innovation both to inspire replacement sales and to counter a difficult pricing environment. Many innovations will focus on making tools lighter and easier to use, key product characteristics in the consumer market.

[2] The Freedonia Group, Inc. Cleveland, OH

CORPORATE STRUCTURE AND OWNERSHIP

Ignition Controls, Inc. is an Indiana corporation organized as an "S Corporation" under the Internal Revenue Code. It is capitalized with one class of common stock with no par value as follows.

Status	Number of shares
Authorized	10,000
Issued and Outstanding	10,000

The Company's stock has never been traded on any exchange or in the over-the-counter market. The Company's shares are held as follows:

Shareholder	Percentage held
Fred Bantom	50.0%
Ben Morgan	50.0%

An affiliated company, Bantom Products, Inc., is located in El Paso, Texas and provides manufacturing services to Ignition. Bantom Products is a C-Corporation (Texas) and is equally owned by Fred Bantom and Ben Morgan. For analysis purposes the results of operations for Bantom Products, Inc. are consolidated into the financial statements of Ignition.

EMPLOYEES

As of the end of 2012, Ignition operated with 30 full-time employees in the El Paso facility supported by an additional 10-15 temporary employees as needed. The Maryville Office employs 8 full-time employees including the owners and 2 part-time employees. All employees are employed by Bantom Products and are charged back to Ignition Controls. Fred and Ben are employed by Ignition Controls for purposes of their defined benefit plan.

MANAGEMENT

The Company's key employees have been with the Company for an average of more than 20 years. Key managers are as follows:

- *Fred Bantom, President:* Manages existing customers and calls on new customers. 23 years with the Company.
- *Ben Morgan, Vice President:* Handles calls on new customers. He is responsible for new product design and for manufacturing operations. 23 years with the Company.
- *Jerry, Project Engineer:* Provides engineering support to Ben Morgan. He's been with the Company for 16 years.
- *Manny, Controller:* Handles accounts payable, accounts receivable and payroll. 22 years with the Company.
- *Bob, Purchasing Manager:* Purchases raw materials. 22 years with the Company.
- *Joe, Production Manager*: Supervises production in the El Paso facility. 22 years with the Company.

EMPLOYEE BENEFITS

Ignition Controls maintains a motivated and productive work force through a combination of effective management techniques and employee benefits. Employee benefits include:

Health Insurance: All employees are covered by a 100%, Company funded health plan. Employees pay $10 per week for family coverage. A dental plan is offered to the Maryville facility employees but is not offered to the El Paso facility employees.

Life Insurance: The Company provides life insurance to employees in the amount of one × salary.

Paid Vacation: The Company offers its employees two to four weeks paid vacation, depending upon length of service; 2 weeks – first 5 years; 3 weeks after 5 years; 4 weeks after 20 years. Employees also have the 9 traditional holidays.

401k Plan / Profit Sharing Plan: The Company offers its employees a safe harbor 401k plan. The plan does provide a 3% of annual payroll contribution. The Company also has a discretionary bonus and profit-sharing plan in place.

LAND AND BUILDINGS

Both facilities are owned by Mr. Fred Bantom and rented at market rates. The Corporate Office is 9,000 square feet and the El Paso manufacturing plant is 28,000 square feet. For financial analysis Mr. Bantom will retain the facilities and lease them to the new owner at current rates (which are market rates) for a 3-5-year period or a negotiated period at the election of the buyer. At the end of the lease the new owner may have an option to extend the lease for 3 more years or elect to acquire the buildings at the then fair market value.

EQUIPMENT, CAPITAL EXPENDITURES, AND CAPACITY

Ignition's machinery and equipment (excluding automobiles) included on the Company's balance sheet has a gross fixed value of over $400 thousand but has been almost fully depreciated. The El Paso facility has additional equipment that is utilized for manufacturing Ignition's products but is owned by a sister company (Bantom Data Products). A complete listing of all machinery and equipment used to manufacture Ignition's products is included in Exhibit 1.

Over the last several years, capital expenditures have been minimal due to sufficient machine capacity to meet the production demands. Management estimates that the facility has production capacity with one shift to produce revenues of approximately $20 million. As a result, minimal capital expenditures are projected for the next 5 years other than a new surface mount line at $100 thousand and replacement/maintenance items.

FINANCIALS

Ignition Control's financial statements are compiled. The following table presents a summary of historical and projected financial performance from 2009 to 2013 for the Company (in thousands).

	2009	**2010**	**2011**	**2012**	**2013**
Sales	$5,910	$6,910	$6,110	$6,240	$7,230
Cost of Sales	4,050	4,690	4,150	4,250	4,920
Gross Profit	1,860	2,220	1,960	1,990	2,310
As a % of sales	*31.47%*	*32.13%*	*32.08%*	*31.89%*	*31.95%*
Operating Expenses	1,530	1,710	1,550	1,540	1,780
Pre-Tax Profits	280	420	340	320	550
As a % of sales	*4.74%*	*6.08%*	*5.56%*	*5.31%*	*7.61%*

Based upon market research and historical client data, Management projects that Ignition Controls' revenue will increase from $7.2 million in fiscal 2013 to approximately $15.0 million in 2016.

The Company has modest interest-bearing debt and has fully depreciated all of its tangible assets.

In addition to distributions of the Pre-Tax Profits shown above, the Company's two owners receive the following compensation (in thousands).

	2010	**2011**	**2012**	**6 Months 2013**
Actual Owners' Compensation (includes salaries, bonuses, and company paid personal expenses)	772	867	989	320

KEY PRIDE POINTS FOR THE OWNERS

Ignition Control's capability to design and manufacture innovative products, its significant growth potential, its strong relationships with existing customers and its high contribution margins make it an attractive acquisition candidate. Key points are:

- *High Product Margins:* Ignition's gross margins are over 30% and its EBITDA margins exceed 10%.
- *New Product Development:* Management has identified and is developing a number of new products that are expected to provide significant growth ($16+ million potential) over the next few years. Many of these products are now in field-testing. Products include liquid level controls, an intermittent ignition system and direct spark ignition, a defrost control and a temperature measuring device among others. The sales optimism is justified on the technical merits of the product enhancements and development. To attain the projected revenues several factors beyond the control of the Company must occur. Revenue is dependent on a current strong overall economy and a lack of aggressive competitors. There are no guarantees about the economy and the current lack of competitors. Accordingly, there are some risks with the projected revenues being realized as represented by the owners.
- *Strong Engineering Capabilities:* Ignition has an experienced engineering department that has proven its ability to solve customers' problems with innovative and cost-effective product designs.
- *In-House Expertise in Ignition:* Over the years the Company has developed expertise in ignition systems (successfully marrying a microprocessor with ignition) and other electronic controls. In many cases the Company has been able to utilize this expertise in solving customers' problems in which some

of its larger competitors have been unsuccessful.

- *Patents:* Ignition owns 3 patents and has applied for a fourth patent. All of these are integral to the Company's success.
- *Low Cost El Paso Facility:* All of Ignition's products are manufactured in its El Paso facility. With an average direct labor rate (before fringes) of about $13.50 per hour, the plant is very cost effective.
- *Strong Relationship with ABC:* Ignition began working with ABC's Nailgun Division in the mid 90's. As the Company established a reputation as a reliable supplier and a problem solver, other ABC divisions turned to Ignition for assistance. The owners view their deep and long-lasting relationship with ABC as one of the Company's strengths. Currently the Company provides products to 4 divisions of ABC and is working with another division to develop a completely new product.
- *Sole Source Products:* Since the Company's products are often custom designed and, in several cases, patented, Ignition is normally the sole source supplier of the product to its customers.
- *Continual Product Improvement:* After a product has been developed and sold to a customer, Ignition strives for continual product improvement. Improvements can include lower production cost, which is often passed on to the customer, or additional product features. These improvements help maintain Ignition's competitive edge and build trust and confidence with its customers.

Ignition Controls, Inc.
Comparative Adjusted Income Statements ($ in 000)
December 31, 2009- 2013

	2009	2010	2011	2012	2013*
Net Sales	5,910	6,910	6,110	6,240	7,230
Less: Cost of Sales	4,050	4,690	4,150	4,250	4,920
Gross Profit	1,860	2,220	1,960	1,990	2,310
SGA Expenses	1,530	1,710	1,550	1,540	1,780
Other Expenses (Income)	(90)	(40)	(30)	(60)	(50)
Interest Expense	140	130	100	80	70
Miscellaneous	0	0	0	0	0
Total Expenses	1,580	1,800	1,620	1,560	1,800
Operating Income (Loss)	280	420	340	430	510
(Loss) Sale of Assets	0	0	0	(110)	40
Extraordinary Gains	0	0	0	0	0
Pre-tax Income (Loss)	280	420	340	320	550
Income Taxes (Net)	0	0	0	0	0
Net Income	280	420	340	320	550
Pre-tax Income (Loss)	280	420	340	320	550
Adjustments to Income					
Adjustment 1	0	0	0	0	0
(Gain) Loss on Asset Sale	0	0	0	0	0
Adjustment 2	0	0	0	0	0
Adjustment 3	0	0	0	0	0
Adjustment 4	0	0	0	0	0
Other Candidates	0	0	0	0	0
Total Adjustments	0	0	0	0	0
Adjusted Pre-tax Income					
Estimated Taxes (35%)					
Adjusted Net Income					

*Projected

Ignition Controls, Inc.
Comparative Adjusted Income Statements (Amounts Expressed as Percentages)
December 31, 2009 to 2013

	2009	2010	2011	2012	2013*
Net Sales	100.00	100.00	100.00	100.00	100.00
Less: Cost of Sales	68.53	67.87	67.92	68.11	68.05
Gross Profit	31.47	32.13	32.08	31.89	31.95
SGA Expenses	25.89	24.75	25.37	24.68	24.62
Other Expenses (Income)	(1.52)	(0.58)	(0.49)	(0.96)	(0.69)
Interest Expense	2.37	1.88	1.64	1.28	0.97
Miscellaneous	0.00	0.00	0.00	0.00	0.00
Total Expenses	26.73	26.05	26.51	25.00	24.90
Operating Income (Loss)	4.74	6.08	5.56	6.89	7.05
(Loss) Sale of Assets	0.00	0.00	0.00	(1.76)	0.55
Extraordinary Gains	0.00	0.00	0.00	0.00	0.00
Pre-tax Income (Loss)	4.74	6.08	5.56	5.13	7.61
Income Taxes (Net)	0.00	0.00	0.00	0.00	0.00
Net Income	4.74	6.08	5.56	5.13	7.61
Pre-tax Income (Loss)	4.74	6.08	5.56	5.13	7.61
Adjustments to Income					
Discretionary Expense	0.00	0.00	0.00	0.00	0.00
(Gain) Loss on Asset Sale	0.00	0.00	0.00	0.00	0.00
Retirement Plan Adjustment	0.00	0.00	0.00	0.00	0.00
Inventory Adjustment	0.00	0.00	0.00	0.00	0.00
Non-recurring Legal	0.00	0.00	0.00	0.00	0.00
Other Candidates	0.00	0.00	0.00	0.00	0.00
Total Adjustments	0.00	0.00	0.00	0.00	0.00
Adjusted Pre-tax Income	0.00	0.00	0.00	0.00	0.00
Estimated Taxes (35%)	0.00	0.00	0.00	0.00	0.00
Adjusted Net Income	0.00	0.00	0.00	0.00	0.00

*Projected

Ignition Controls, Inc.
Summarized Comparative Balance Sheets ($ in 000)
December 31, 2009 to 2013

ASSETS	2009	2010	2011	2012	2013*
Cash & Equivalents	110	140	100	140	200
Accts. Receivable - Trade	970	1,130	1,090	1,040	1,110
Accts. Receivable - Other	20	0	0	0	0
Inventories	1,060	1,170	1,210	1,230	1,250
Other Current Assets	30	40	60	70	110
Total Current Assets	2,190	2,480	2,460	2,480	2,670
Notes Receivable	0	0	0	0	0
Investments and Misc.	40	90	50	60	160
Total	40	90	50	60	160
Property, Plant & Equip.	2,850	2,960	3,050	3,210	3,420
Additional Property	0	0	0	0	0
Less: Accum. Depreciation	(930)	(1,140)	(1,270)	(1,420)	(1,590)
Total Property, Plant & Equip.	1,920	1,820	1,780	1,790	1,830
Total Assets	4,150	4,390	4,290	4,330	4,660
LIABILITIES & EQUITY					
Notes Payable	40	40	40	0	0
Long Term Debt - Current	200	200	200	200	220
Accounts Payable - Trade	480	530	470	450	480
Accounts Payable - Other	0	0	0	0	0
Taxes Payable	10	20	20	30	40
Accrued Expenses	40	110	150	300	350
Deferred Revenue	0	0	0	0	0
Total Current Liabilities	770	900	880	980	1,090
Long Term Debt & Leases	1,800	1,700	1,400	1,200	1,000
Other Debt	0	0	0	0	0
Deferred Taxes	0	0	0	0	0
Other Deferred Credits	0	0	0	0	0
Total Long-Term Liabilities	1,800	1,700	1,400	1,200	1,000
Preferred Stock	0	0	0	0	0
Common Stock	10	10	10	10	10
Paid-in Capital	0	0	0	0	0
Retained Earnings	1,770	1,980	2,200	2,340	2,760
Less: Treasury Stock	(200)	(200)	(200)	(200)	(200)
Total Shareholder Equity	1,580	1,790	2,010	2,150	2,570
Total Liabilities & Equity	4,150	4,390	4,290	4,330	4,660

*Projected

Ignition Controls, Inc.
Summarized Comparative Common Size Balance Sheets (All Amounts Expressed as Percentages)
December 31, 2009 to 2013

ASSETS	2009	2010	2011	2012	2013*
Cash & Equivalents	2.65	3.19	2.33	3.23	4.29
Accts. Receivable - Trade	23.37	25.74	25.41	24.02	23.82
Accts. Receivable - Other	0.48	0.00	0.00	0.00	0.00
Inventories	25.54	26.65	28.21	28.41	26.82
Other Current Assets	0.72	0.91	1.40	1.62	2.36
Total Current Assets	52.77	56.49	57.34	57.27	57.30
Notes Receivable	0.00	0.00	0.00	0.00	0.00
Investments and Misc.	0.96	2.05	1.17	1.39	3.43
Total	0.96	2.05	1.17	1.39	3.43
Property, Plant & Equip.	68.67	67.43	71.10	74.13	73.39
Additional Property	0.00	0.00	0.00	0.00	0.00
Less: Accum. Depreciation	(22.41)	(25.97)	(29.60)	(32.79)	(34.12)
Total Property, Plant & Equip.	46.27	41.46	41.49	41.34	39.27
Total Assets	100.00	100.00	100.00	100.00	100.00
LIABILITIES & EQUITY					
Notes Payable	0.96	0.91	0.93	0.00	0.00
Long Term Debt - Current	4.82	4.56	4.66	4.62	4.72
Accounts Payable - Trade	11.57	12.07	10.96	10.39	10.30
Accounts Payable - Other	0.00	0.00	0.00	0.00	0.00
Taxes Payable	0.24	0.46	0.47	0.69	0.86
Accrued Expenses	0.96	2.51	3.50	6.93	7.51
Deferred Revenue	0.00	0.00	0.00	0.00	0.00
Total Current Liabilities	18.55	20.50	20.51	22.63	23.39
Long Term Debt & Leases	43.37	38.72	32.63	27.71	21.46
Other Debt	0.00	0.00	0.00	0.00	0.00
Deferred Taxes	0.00	0.00	0.00	0.00	0.00
Other Deferred Credits	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	43.37	38.72	32.63	27.71	21.46
Preferred Stock	0.00	0.00	0.00	0.00	0.00
Common Stock	0.24	0.23	0.23	0.23	0.21
Paid-in Capital	0.00	0.00	0.00	0.00	0.00
Retained Earnings	42.65	45.10	51.28	54.04	59.23
Less: Treasury Stock	(4.82)	(4.56)	(4.66)	(4.62)	(4.29)
Total Shareholder Equity	38.07	40.77	46.85	49.65	55.15
Total Liabilities & Equity	100.00	100.00	100.00	100.00	100.00

*Projected

Ignition Controls, Inc.
Selected Financial Data ($ in 000 Where Appropriate)
December 31, 2009 to 2013

	2009	2010	2011	2012	2013*
LIQUIDITY					
Cash & Equivalents	110	140	100	140	200
Accounts Receivable	970	1,130	1,090	1,040	1,110
Total Current Assets	2,190	2,480	2,460	2,480	2,670
Total Current Liabilities	770	900	880	980	1,090
Working Capital	1,420	1,580	1,580	1,500	1,580
Current Ratio	2.84	2.76	2.80	2.53	2.45
Quick Ratio	1.40	1.41	1.35	1.20	1.20
ACTIVITY					
Days in Receivables	59.91	59.69	65.11	60.83	56.04
Days in Payables	43.26	41.25	41.34	38.65	35.61
Sales/Receivables	6.09	6.12	5.61	6.00	6.51
Cost of Sales/Inventory	3.82	4.01	3.43	3.46	3.94
Sales/Net Fixed Assets	3.08	3.80	3.43	3.49	3.95
Sales/ Total Assets	1.42	1.57	1.42	1.44	1.55
PROFITABILITY					
Sales	5,910	6,910	6,110	6,240	7,230
Cost of Sales	4,050	4,690	4,150	4,250	4,920
Gross Profit	1,860	2,220	1,960	1,990	2,310
Gross Profit Percent	31.47%	32.13%	32.08%	31.89%	31.95%
Pre-tax Income	280	420	340	320	550
Net Income	280	420	340	320	550
Net Income/Sales	4.74%	6.08%	5.56%	5.13%	7.61%
Net Income/Equity	17.72%	23.46%	16.92%	14.88%	21.40%
Income Adjustments - Net	100	190	250	320	310
Adjusted Pre-tax Income	380	610	590	640	860
Adjusted Net Income	247	397	384	416	559
Adjusted Net Income/Sales	4.18%	5.74%	6.28%	6.67%	7.73%
Adjusted Net Income/Equity	15.63%	22.15%	19.08%	19.35%	21.75%
COVERAGE/LEVERAGE					
Total Debt	2,040	1,940	1,640	1,400	1,220
Equity	1,580	1,790	2,010	2,150	2,570
Debt/Equity	1.29	1.08	0.82	0.65	0.47
Fixed Assets/Equity	1.22	1.02	0.89	0.83	0.71
Interest Expense Coverage					
Depreciation	180	210	130	150	170
EBITDA/Interest Expense	9.98	11.91	14.73	21.75	29.81
Adj. EBITDA/Interest Exp.	10.69	13.37	17.23	25.75	34.24

*Projected

Ignition Controls, Inc.

Exit Planning Case Study
Additional Financial Information

Owners Compensation

There are two owners each with 50% of the stock. Mr. Fred Bantom is the President and new account relations manager. The fair market compensation range for him is between $210,000 and $250,000 per year the past three years including bonus. Mr. Ben Morgan is the Vice President with responsibilities for operations and existing account relationships. The fair market compensation range for him is between $170,000 and $220,000 per year the past three years including bonus.

Annual bonuses typically range between 10% to 25% of base salary depending on financial results. A recent trend is to provide a deferred compensation program for senior officers that may be between 5% to 10% of base salary accrued for periods up to 5-7 years.

During 2011 and 2012 the son of Fred Bantom (Scott) was employed during the summers while in college. Compensation to Scott is deductible to the Company and reported as income in the amount of $5,000 each year. The compensation costs for Scott are competitive with other part time summer employees, and his position was operationally justified.

Fringe benefits are valuable because they are paid with pre-tax dollars with no personal income tax liability to the individual if there is adequate documentation.

> Fringe benefits for Mr. Bantom and Mr. Morgan include Company life insurance ($10,000 for each owner)
>
> Each owner has a Company automobile which is entirely expensed by the Company. Each vehicle is leased and with operating costs annual expenses average $8,000 per owner. Mr. Bantom maintains a log supporting 70% business use. Mr. Morgan does not maintain a log, but the automobile is largely for personal use.
>
> Mr. Bantam is a licensed pilot and has billed the Company $43,000 annually for prorated airplane lease and operating costs. The airplane costs are primarily business related, but there is an element of personal enjoyment. Comparable commercial reservations could run at least twice the cost as the billings to the Company.

Retirement Plan Information

The Company has a retirement plan that is classified as a safe harbor 401(k) retirement plan that basically compels the plan sponsor to contribute a minimum of 3% of qualifying payroll to the plan regardless of participant's contributions. The Company has consistently made the 3% payments but in 2010 a discretionary additional $10,000 was contributed and in 2011 a discretionary $45,000 was contributed.

The Company also maintains a "gainsharing" financial incentive plan that is based on achieving production related goals and is paid as a quarterly bonus to all employees based on their estimated annual cash compensation. Quarterly payments have averaged $8,000 the past two years. The gainsharing program is popular with the employees (the "extra payroll check" during the quarter). The current owners view the gainsharing entirely as a discretionary item and not part of operations. Further they question its effectiveness.

Production Expenses and Inventory Adjustments

Production is carefully monitored, and every attempt is made to instituting process improvements. Special inventory adjustments (write-offs) have been made the past several years: in 2009 a total of $57,000 of inventory was written off; in 2010 a total of $68,000 was written off; in 2011 there was an inventory gain of $14,000; in 2012 a total of 39,000 was written off; and finally, in 2013 an accrual candidate for inventory write down of $110,000.

Legal and Professional Expenses

During 2010 the Company terminated the employment of a supervisor, who subsequently brought a legal action for wrongful discharge against Ignition. Legal fees regarding this matter to the Company were $45,000 in 2010, and $60,000 in 2011 with an additional compensation settlement to the former supervisor of $25,000.

A customer has a product defect claim against Ignition and is seeking $250,000 in damages. Ignition takes the position the claim is entirely without merit since the customer mishandled the components while in their custody and control. The customer blames Ignition for selecting an unreliable common carrier and disputes the fact that they were in control of the product. The customer is threatening litigation is the matter is not resolved within the next 60 days. If the customer files a lawsuit legal counsel for the Company thinks defense costs could be as much as 50% of the original claim even if the Company prevails in the dispute.

Advertising

The Company has advertising costs the past few years in the amounts: $25,000 in 2009; $30,000 in 2010; $52,000 in 2011; $32,000 in 2012 and $29,000 in 2013.

Consulting Fees

The Company engaged a compensation and behavioral consultant to thoroughly review operations during 2011 and 2012 with costs of $32,000 and $29,000 respectively.

Study Questions:

After completing the Certified Exit Planning Advisor (CEPA) program, you will be able to answer following questions:

1. Concisely state each of the client's personal, business and financial goals.
2. Determine an approximate fair market value for the Company.
3. Estimate the amount of money each shareholder would need to invest in order to support their existing life style.
4. What are the likely net proceeds each shareholder would receive from a third-party sale?
5. Use the three timing charts to plot the timing for this situation.
6. Discuss 4-5 value enhancement opportunities that are available to the Company.
7. What exit options would you recommend to the owners and why? Itemize and be prepared to discuss the pros and cons of each.
8. List 4-5 personal action items that you would recommend for each owner. Itemize and be prepared to discuss the cost vs. benefit of each.
9. What 4-5 business action items would you recommend for each owner? Itemize and be prepared to discuss the cost vs. benefit of each.
10. What do you estimate the potential ROI on an exit planning assignment for this Company to be? Quantify (illustrate with numbers) the ROI potential.
11. Which other advisors do you think should be included on the client's advisory team? Make a case for the value that each would bring.

Ignition Controls, Inc. Case Study Worksheet

Determining Adjusted Earnings (EBITDA)

Description	2012	2013	2014	2015	2016	SUMMARY
Pre-tax Reported Income						
Add Interest Expense						
Adjustments						
Other						
Other						
Other						
Other						
Other						
Other						
Other						
Other						
Adjusted Pre-tax Income						
Selected Multiple Range				x	x	x
Suggested Offer Price						
Subtract outstanding debt						

EBITDA Multiple Range	
2 to 2.5 Highly risky	4.5 to 5.0 Reduced volatility
2.5 to 3.5 Moderate risk	5.0 to 6.0 Strong profit and growth
3.5 to 4.5 Well established	Over 6.0 Unusually promising future

Case Study: *The Growing Family*

MTM*360*

Your net worth is *More Than Money*™

Facts:

- The family was about to grow and parents (Gen 1) wanted a firm family foundation and a "shared family vision/purpose".
- Family is geographically dispersed.
- Gen 2 felt "dictated to" and sought to be more involved in the family purpose (unbeknownst to Gen 1).

The Family's Challenges:

- How do we engage the entire family to create a "shared vision/purpose"?
- How do we engage a family that is very busy and geographically dispersed?
- How do we build structures to handle the growing size of our family over the next decade?

Results:

- Improved communication; all generations felt they "had a voice".
- Each individual identified the core values most important to them.
- The shared core values of the family were identified.
- Family unity was strengthened by the increase in communication and transparency.
- Family established a clear, shared vision for the next three years.
- Each family member invested less than 10 hours over 6 months, including the Family Meeting.

Case Study: *The Black Sheep*

MTM*360*

Your net worth is *More Than Money*™

Facts:

- Family has one “black sheep” that seeks to disrupt unity within the family.
- Gen 1 would like the family to “work together more”.
- The family is growing in size and complexity.

The Family’s Challenges:

- What do we do with our “black sheep”?
- How do we create a “shared vision/ purpose”?
- Family needs specific roles for family members and a deeper level of governance as the family will continue to grow in numbers.

Results:

- Every family member engaged in a multi-generational process, except for the “black sheep”.
- Rest of the family started an in depth conversation about the importance of communication and core values.
- Family felt that starting with core values as an “easy way to get us going again” as a family unit.
- Black sheep joined the family seven months later and is now engaged in the process with his family.
- Black sheep still thinks this is a “waste of time”, but will now participate since its important to his family.

Case Study: *The Family Business*

MTM*360*

Your net worth is *More Than Money*™

Facts:

- Family owns a business that is successful. Members of the younger generations have expressed interest in working in the family business.
- The oldest generation is between 62–68 years old. The younger generation ages range from 19 to 32 years old.
- Grandchildren are now being born and siblings are getting married.

The Family's Challenges:

- How do we decide which of the younger generations will be involved in the business?
- Once decided, how will the family members not actively involved in the business be treated?
- How can the family business embody the core values and legacy of our family?

Results:

- Three members of the next generation decided to actively work in the family business
- The remaining family members took to "running the business of the family" by taking the lead on the legacy, philanthropy and governance planning
- The entire family established a clear three year vision of what success will look like for the family
- A family Legacy Mission Statement was agreed to and adopted by the family business
- The family business is establishing programs that further family unity, gratitude and promote positive learning life experiences for employees.