



Users Conference 2013

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METRICS & MEANING

BARNESASSOCIATES

SedonaOffice Users Survey

	Historical Compounded Annual Growth Rate						ANNUAL ATTRITION RATE ¹					
	REVENUE			RMR			2007	2008	2009	2010	2011	2012
	1 Year	3 Year	5 Year	1 Year	3 Year	6 Year						
Industry Rate	(0.7%)	(0.8%)	(1.5%)	6.0%	5.4%	4.8%	11.8%	12.1%	12.5%	12.1%	11.9%	??
Average SedonaOffice Users	12.2%	9.9%	7.6%	11.4%	9.1%	8.5%	11.1%	11.9%	11.5%	11.3%	10.8%	10.7%
SedonaOffice Users to Industry Rate				1.9x	1.7x	1.8x	(70bp)	(20bp)	(100bp)	(80bp)	(110bp)	

¹ - Excluding 2 outliers

- Excellent average SedonaOffice user performance relative to industry
 - Revenue growth positive vs. industry rate negative
 - RMR growth at almost 2x industry rate
 - 20bp – 110bp better average attrition rate

Congratulations!!!

Digging Through Operations

The Highest Level View

RMR RECONCILIATION

Beginning	\$	100,000
Added		17,100
Lost		(12,100)
Ending	\$	105,000
Gross Attrition Rate		12%
RMR Growth Rate		5%

*KPI's
Everything EXPENSED
Very Important!!!*



INCOME STATEMENT

Revenue	\$	1,765,500
Costs		1,535,238
NOCF	\$	230,262

Key Metrics:

Margin

RMR Creation Multiple

By Activity

Monitoring & Service	Sales & Installation
\$ 1,338,000	\$ 427,500
610,128	925,110
\$ 727,872	\$ (497,610)

54%

29x

An Important Nuance

RMR RECONCILIATION

Beginning	\$	100,000
Added		17,100
Lost		(12,100)
Ending	\$	105,000
Gross Attrition Rate		12%
RMR Growth Rate		5%

Bridge to EBITDA...and helps understand effect of capitalization policy

INCOME STATEMENT

Revenue	\$	1,765,500
Costs		1,535,238
NOCF	\$	230,262
Capitalized Costs		287,039
EBITDA	\$	517,301

By Activity	
Monitoring & Service	Sales & Installation
\$ 1,338,000	\$ 427,500
610,128	925,110
\$ 727,872	\$ (497,610)
-	287,039
\$ 727,872	\$ (210,571)
54%	
	29x
	58%

Key Metrics:

Margin	54%
RMR Creation Multiple	29x
Capitalization Percentage ¹	58%

¹ - Capitalized Sales & Installation costs as a % of the NOCF associated with Sales & Installation activity

Addressing G&A...a 50%/50% Allocation Between Activities Works +/-

RMR RECONCILIATION

Beginning	\$	100,000
Added		17,100
Lost		(12,100)
Ending	\$	105,000
Gross Attrition Rate		12%
RMR Growth Rate		5%

- Remove excess owners compensation & perqs
- Move as much to Direct Costs as possible

INCOME STATEMENT

Revenue	\$	1,765,500
Direct Costs		1,114,095
Gross OCF	\$	651,405
G&A		421,143
NOCF	\$	230,262
Capitalized Costs		287,039
EBITDA	\$	517,301

By Activity	
Monitoring & Service	Sales & Installation
\$ 1,338,000	\$ 427,500
399,557	714,539
\$ 938,443	\$ (287,039)
210,571	210,571
\$ 727,872	\$ (497,610)
-	287,039
\$ 727,872	\$ (210,571)

Key Metrics:

Gross Margin	70%
Net Margin	54%
Gross RMR Creation Multiple	17x
Net RMR Creation Multiple	29x
Capitalization Percentage	58%



Adding the Build-Up to Margin and Multiple

RMR RECONCILIATION

Beginning	\$	100,000
Added		17,100
Lost		(12,100)
Ending	\$	105,000
Gross Attrition Rate		12%
RMR Growth Rate		5%

- *More detailed build-ups can be insightful*
- *Comparisons to prior periods are EXCELLENT!!*

INCOME STATEMENT

Revenue	\$	1,765,500
Direct Costs		1,114,095
Gross OCF	\$	651,405
G&A		421,143
NOCF	\$	230,262
Capitalized Costs		287,039
EBITDA	\$	517,301

Key Metrics:

Gross Margin	70%
Net Margin	54%
Gross RMR Creation Multiple	17x
Net RMR Creation Multiple	29x
Capitalization Percentage	58%

By Activity					
Monitoring & Service			Sales & Installation		
\$	1,338,000	100%	\$	427,500	(25x)
	399,557	30%		714,539	42x
\$	938,443	70%	\$	(287,039)	17x
	210,571	16%		210,571	12x
\$	727,872	54%	\$	(497,610)	29x
	-			287,039	
\$	727,872		\$	(210,571)	

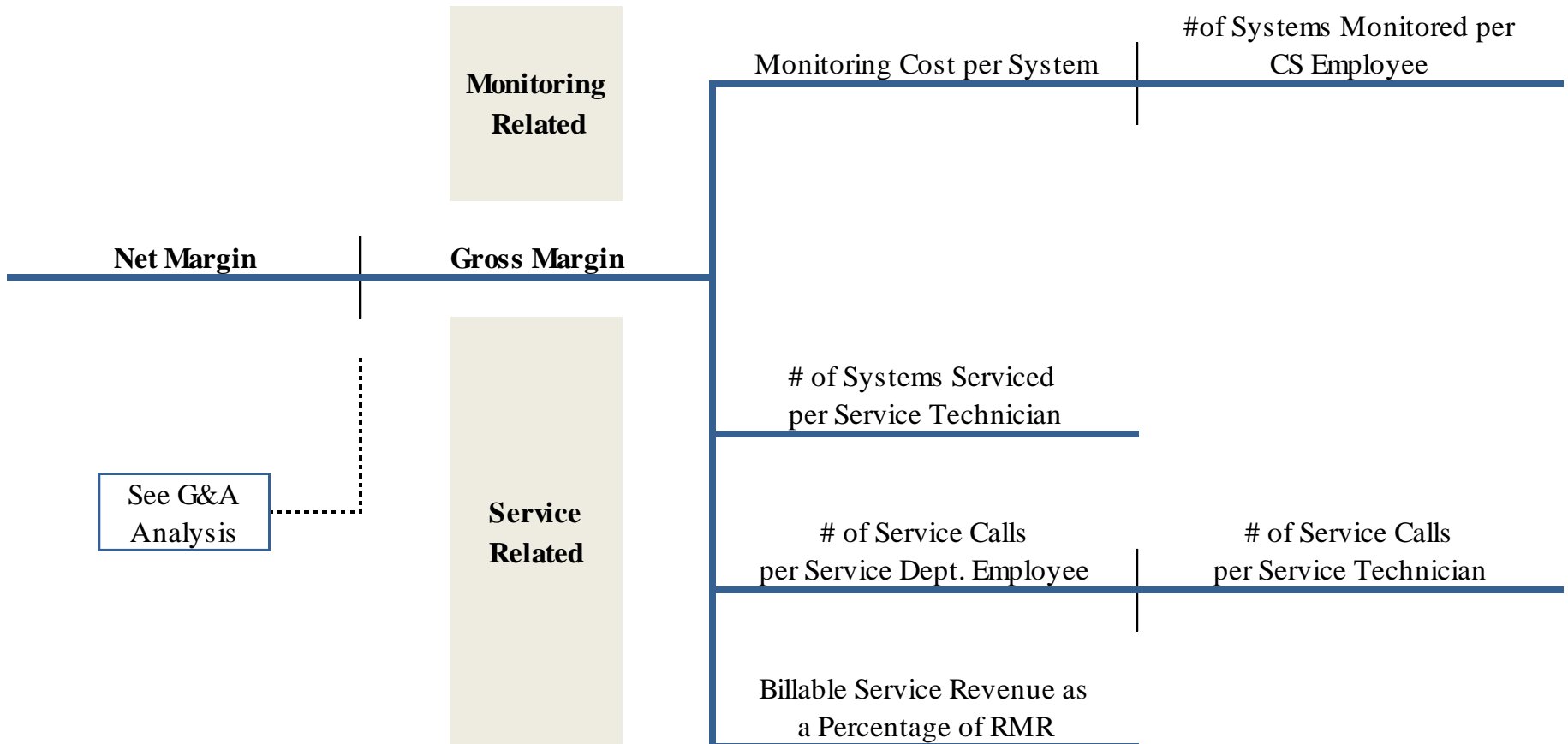
Example

NOTE: Beware of non-RMR jobs distorting results in Sales & Installation activity!!!

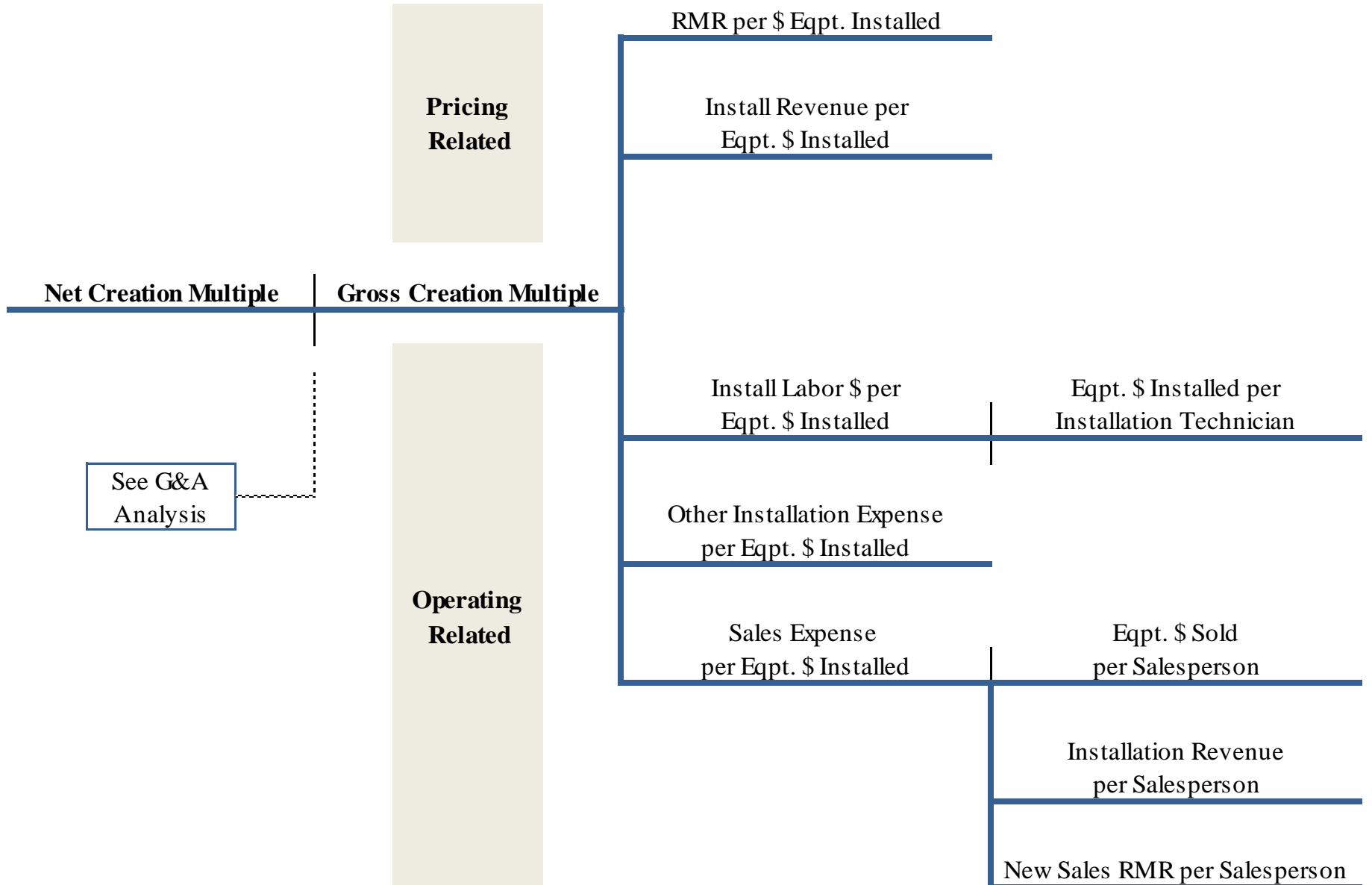
Sales & Installation Activity									
	Prior Period		Current Period		Change				
RMR Originated	\$	15,390	\$	17,100	\$	1,710	Up 11%		
Installation Revenue	\$	406,000	(26x)	\$	427,500	(25x)	\$	21,500	(13x)
Sales Costs		184,680	12x		214,783	13x		30,103	18x
Installation Labor		184,680	12x		199,341	12x		14,661	9x
Material Costs		277,020	18x		300,415	18x		23,395	14x
G&A Costs		184,680	12x		210,571	12x		25,891	15x
Net	\$	(425,060)	28x	\$	(497,610)	29x	\$	(72,550)	42x

Works equally well for Monitoring & Service activity!

Some More Detailed Metrics for Monitoring & Service...That I Like



Some More Detailed Metrics for Sales & Installation...That I Like



Steady-State Cash Flow

Calculating Steady-State Cash Flow

$|b(T, z, a, b)| \leq 2$
 $\varphi(\sigma_1 t) \varphi(\sigma_2 t) = \varphi(\sqrt{\sigma_1^2 + \sigma_2^2} t)$
 $\sum_{k=1}^r \int_{b_k}^{x+b_k} \left(\int_0^t \Psi_k^*(\tau) d\tau \right) dt - x \int_0^{b_k} \Psi_k^*(\tau) d\tau = \frac{x^2}{2} B(x) + \int_0^x (x-u) \sum_{k=1}^r \Psi_k^*(u) du$
 $A(x) = \sum_{k=1}^r b_k \Psi_k^*(b_k x)$
 $\ell(\alpha) = \frac{\sum_{k=1}^r P_k^* \log_2 \frac{1}{P_k}}{\sum_{k=1}^r P_k^*}$
 $c_{ik} \sigma_k^2 = \lambda_i c_{ik}$
 $y = \phi(x) = \frac{1}{\sqrt{2\pi}} \int_{-\infty}^x e^{-\frac{t^2}{2}} dt$
 $\eta_1 = \sum_{k=1}^n a_k \xi_k$
 $\log \varphi(u) = -\frac{\sigma^2 u^2}{2}$
 $i^2 = -1; j^2 = -1; k^2 = -1$
 $S(\alpha; T) = \frac{2}{\pi} \int_0^{\pi} \frac{\sin \alpha t}{t} dt$
 $P(\eta_{\infty} < x) = F(x)$
 $\lim_{n \rightarrow \infty} \frac{(2n)}{(2n)} = e^{-2z^2}$
 $S_n = A_n U \pi A_n$
 $W_k = \binom{n}{k} p^k (1-p)^{n-k}$
 $P(\eta < y | \xi = x) = \sup_{y' < y, y' \in \mathbb{R}} P(\eta < y' | \xi = x)$
 $f(t|y) = \frac{2e^{\frac{y^2}{2}}}{\sqrt{2\pi}} \int_{\frac{y}{\sqrt{t}}}^{\infty} \frac{e^{-\frac{u^2}{2}} du}{(1 - \frac{y^2}{ut})^{\frac{3}{2}}}$
 $\Delta N = \sum_{n=1}^N \frac{En}{n}$
 $|A_n| = \frac{n!}{2} \left| \int_{|x|>A} f(x) \log_2 \frac{1}{f(x)} dx \right| < \varepsilon$
 $g^{-1} \cdot g = e$
 $y = \sqrt{\frac{\lambda u}{\nu u}} \left(\frac{\eta_{2u}}{\sqrt{2u}} + \frac{\eta_{2u} - \eta_{2a}}{\sqrt{2u}} \right)$
 $H_r(x) = \frac{G_r(x)}{1 + G_r(x)}$
 $U_n^+ = \binom{2n}{n} - \binom{2n}{n-c}$
 $\sum_{k \leq b} \prod_{i=1}^{n-1} M_i; \bigcup_{i=1}^{\infty} X_n$
 $f_n(t) = \frac{2^n t^{n-1} e^{-2t}}{(n-1)!}$

Just Kidding

 $\int_{-\infty}^{\infty} dG_k(x) \geq \frac{1}{2} \sum_{k \rightarrow \infty} e^{-\frac{k^2 \pi^2}{2}} = H(k)$
 $\int_{-\infty}^{\infty} dG_k(x) \geq \frac{1}{2} \sum_{k \rightarrow \infty} e^{-\frac{k^2 \pi^2}{2}} = H(k)$
 $\int_{-\infty}^{\infty} f_{n-1}(t) = \int_0^1 f_n(u) f_1(t-u) du$
 $\log \varphi(t) = i \gamma t - c |t|^\alpha \left[1 + \beta \frac{c}{|t|} \omega(t, u) \right]$
 $\beta(x) = \sum_{k=1}^r \Psi_k^*(b_k x)$
 $\lim_{n \rightarrow \infty} P \left(\frac{\ln(n-1) - \ln n}{\sqrt{1 - \frac{q}{n}}} \log \frac{q}{1-q} \right) C_n(\alpha) \geq \frac{1}{\prod_{k=1}^n n_k(\alpha)!}$
 $\int_{-\infty}^{\infty} e^{-\frac{u^2}{2}} du = F(x) \left(\frac{1}{\sqrt{2\pi}} \right)^{-1}$
 $|\Psi_{\beta}(t)| = \left| \int_{-\infty}^{\infty} e^{itx} dF(x) \right| \leq \int_{-\infty}^{\infty} e^{-\nu x} dF(x) = \varphi_{\beta}(i\nu)$
 $g^{-1} \log = \{g^{-1} \log | n \in \mathbb{N} \}$
 $Q = F^{-1}(c_q)$
 $q_n(\alpha) = \frac{P_k^*}{\sum_{j=1}^r P_j^*}$
 $PCT_2 =$
 $|X \cup Y| = |X| + |Y| - |X \cap Y|$
 $\lim_{n \rightarrow \infty} \frac{1}{n} k_n \left(\frac{x}{\sqrt{n}} \right) = \frac{1}{\sqrt{2\pi}} e^{-\frac{x^2}{2}}$
 $P_n(k) = \frac{C_n}{P_j^*} P \left(\lim_{n \rightarrow \infty} \sup \frac{|h_n|}{\sqrt{2n \log \log n}} \leq 1 \right) = 1$
 $\varphi(t) = 1 - \sqrt{1 - e^{-it}}$
 $f: X \rightarrow X \cap W$
 $Q(\alpha) = \int_A \chi(\omega) dP$
 $\ell(\alpha) = -\log_2 \left(\frac{\sum_{k=1}^r P_k^* \log_2 \frac{1}{P_k}}{\sum_{k=1}^r P_k^*} - \left(\frac{\sum_{k=1}^r P_k^* \log_2 \frac{1}{P_k}}{\sum_{k=1}^r P_k^*} \right)^2 \right)$
 $f_g(u_i) = f \left(\sum_{j=1}^{\dim V_2} a_j v_j \right) = \sum_{j=1}^{\dim V_2} a_j \left(\sum_{k=1}^{\dim V_2} b_{kj} w_k \right) \frac{(2k)}{2^k} \approx \frac{1}{\sqrt{2k}}$
 $\varphi \left(e^{-x} \sqrt{\frac{1-q}{nq}} - 1 \right) = -x \sqrt{\frac{q(1-q)}{n}} + o \left(\frac{1}{n} \right)$
 $\prod_{k=1}^r \left[g_k \left(\frac{t}{\sqrt{2k}} \right) \right]^{N_0 \alpha_k} = e^{-\frac{t^2}{2}}$
 $P_j^{(m)} = \sum_{c=0}^{\infty} P_j^{(r)} P_{ek}^{(m-r)}$
 $\frac{1}{2\pi} \int_{-\infty}^{\infty} \operatorname{Re} \left\{ \varphi(t) \frac{e^{-ita} - e^{-itb}}{it} \right\} dt$
 $\lim_{N \rightarrow \infty} \int_{-A}^A f_N(x) \log_2 \frac{1}{f_N(x)} dx = \int_{-A}^A f(x) \log_2 \frac{1}{f(x)} dx$
 $P(|\Delta_n| \geq \varepsilon) \leq \frac{C_q}{\log N}$
 $\liminf_{N \rightarrow \infty} \int_{-\infty}^{\infty} f_N(x)^\alpha dx \geq \int_{-\infty}^{\infty} f(x)^\alpha dx$
 $M(|\delta_j - \delta_j^s|) = \int_0^{\infty} |x - 1|^\alpha e^{-x} dx$
 $N_{\varepsilon_1, \varepsilon_2} = \binom{2n}{n+k_2} = \binom{2n}{n-k_1}$
 $D^2(J_n) \leq \frac{K}{n} + 2K \left(\frac{1}{2} \sum_{k=1}^n R(k) \right)$
 $\det(M') = \det(M) + \det(M^*) = \det(M)$
 $h(xy) = \frac{1}{\sqrt{2\pi}} \left[\sqrt{2} e^{-\frac{x^2}{2}} - e^{-xy} \right]$
 $|M(\varepsilon_n, \varepsilon_m)| \leq C_2 \sqrt{\frac{n}{m-n}}$

Concept: What if the RMR level was preserved...but no growth was sought

Step 7

RMR RECONCILIATION

Beginning	\$	100,000
Added		17,100
Lost		(12,100)
Ending	\$	105,000
Gross Attrition Rate		12%

*71% of Added needed
to replace Lost*



INCOME STATEMENT

Revenue	\$	1,765,500
Costs		1,535,238
NOCF	\$	230,262

Key Metrics:

Margin
RMR Creation Multiple

By Activity

Monitoring & Service	Sales & Installation
\$ 1,338,000	\$ 427,500
610,128	925,110
\$ 727,872	\$ (497,610)




54%

29x

Further Segmenting Sales & Installation Activity

Step 2

RMR RECONCILIATION

Beginning	\$ 100,000		71%	29%
Added	17,100		12,100	5,000
Lost	(12,100)			
Ending	\$ 105,000			
Gross Attrition Rate	12%			
RMR Growth Rate	5%			

INCOME STATEMENT

Revenue	\$ 1,765,500
Costs	1,535,238
NOCF	\$ 230,262

Key Metrics:

Margin	54%
RMR Originated (See Added, above)	
RMR Creation Multiple	

By Activity		
Sales & Installation		
Monitoring & Service	Attrition Replacement	Real Growth
\$ 1,338,000	\$ 302,500	\$ 125,000
610,128	654,610	270,500
\$ 727,872	\$ (352,110)	\$ (145,500)
	54%	
	\$ 12,100	\$ 5,000
	29x	29x

Steady-State Cash Flow

Step 3

RMR RECONCILIATION

Beginning	\$ 100,000			
Added	17,100	→	71%	29%
Lost	(12,100)		12,100	5,000
Ending	\$ 105,000		↓	↓
Gross Attrition Rate	12%			
RMR Growth Rate	5%			

INCOME STATEMENT

Revenue	\$ 1,765,500
Costs	1,535,238
NOCF	\$ 230,262

Key Metrics:

Margin	
RMR Originated (See Added, above)	
RMR Creation Multiple	

By Activity		
Sales & Installation		
Monitoring & Service	Attrition Replacement	Real Growth
\$ 1,338,000	\$ 302,500	\$ 125,000
610,128	654,610	270,500
\$ 727,872	\$ (352,110)	\$ (145,500)
54%	\$ 12,100	\$ 5,000
	29x	29x

Steady-State Cash Flow

\$375,762

Run-Rate Adjusted

\$403,568

Marked to Market Equity Return

“Every day you don’t sell your company at the market value...you are buying it at that value”

Calculation

	Prior Period	Current Period
RMR	\$ 100,000	\$ 105,000
Valuation Multiple	36x	36x
Enterprise Value	\$3,600,000	\$3,780,000
xSSCF	9x	9x
Less: Debt	1,400,000	1,400,000
Equity Value	\$2,200,000	\$2,380,000
Change		8%

- *Want conservative multiple...interesting how return changes with different multiple used*
- *Might need to consider Working Capital changes...depends...*
- *“Excess” owners comp & perqs should be added to change*
- *Return should compensate for risk...AND opportunity costs*

THANK YOU

Please Join Us



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Q&A

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