ProShop
Digital Manufacturing EcoSystem

Unlocking Superior Enterprise Value with ProShop

Why ProShop Helps Increase Enterprise Value Significantly More Than Traditional ERPs.

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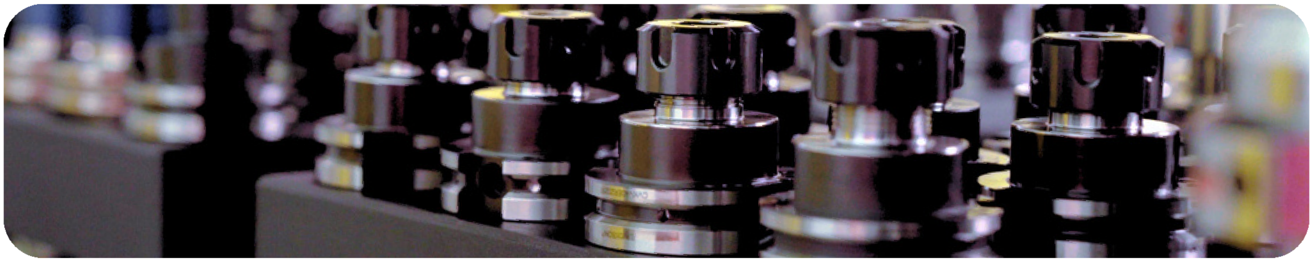
Introduction

People start, buy, or take over machining businesses for many reasons. Chief among them is to create value that can turn into wealth to support the owner's family and estate. The American dream of creating financial freedom by being a business owner is rooted in the fabric of our nation. It turns out, this is much harder than it sounds. In today's competitive landscape, precision machining companies constantly seek an edge—nearly all chase production efficiency, but some also consider overall enterprise value of what they're building as the true north star. While Enterprise Resource Planning (ERP) systems have long been the backbone of manufacturing operations, a new paradigm is emerging with solutions like ProShop, which redefines what an "operating system" can be for these specialized businesses.

This whitepaper explores how ProShop, unlike traditional ERPs, delivers a compounding effect on enterprise value by fostering truly robust business processes and accelerating top-line revenue growth.



The Fundamental Flaw of Traditional ERPs in Precision Machining

Traditional ERP systems, while comprehensive, often fall short of being a true "operating system" for precision machining companies. They typically provide modules for various functions—accounting, inventory, production planning—but frequently leave significant gaps. These gaps are often filled with:

- **Disparate Systems:** Spreadsheets, standalone Quality Management Systems (QMS), project management tools, and disconnected data silos.
- **Unstructured Processes:** Manual handoffs, tribal knowledge, and paper-based workflows that are prone to error and inefficiency.
- **Limited Data Integration:** Difficulty in connecting real-time production data with financial metrics or quality records, leading to delayed insights and reactive decision-making.

This fragmentation inherently limits the ability to achieve peak operational excellence, directly impacting the most crucial driver of enterprise value: a high EBITDA multiple.

The Realities of Machine Shop Value

Of the tens of thousands of precision manufacturing companies in North America, the majority are owned and operated by baby boomers. Whether they founded the business or took it over from their families, it's been their life's work and they are often relying on the value of the business to create a windfall to support their families in their retirement years. Too frequently, these businesses are operating with antiquated systems and processes, reliant on tribal knowledge and the owner's decades of experience to operate. It's nearly universal that the owners of these businesses have an inflated sense of what their companies are worth. They believe that because they've poured their blood, sweat and tears into their business for years, and they have lots of expensive equipment, that means that someone else should be willing to pay handsomely to acquire their companies. This could not be further from the truth. When a company like this goes to the market, the stark reality is that only 20-30% of them will end with a successful sale[1]. Those that do sell often

1 - https://www.score.org/princeton/resource/blog-post/current-rise-small-businesses-being-sold-over-next-10-15-years

sell for a fraction of what the owner was originally hoping it was worth. This is a tragic outcome, given that this was often the entire reason for business ownership in the first place. There is a solution that can be implemented relatively quickly and at a low comparative cost.

ProShop: The True Operating System for Precision Machining

ProShop stands apart by functioning as a unified, deeply integrated operating system specifically engineered for precision machining companies. It consolidates and digitizes virtually every aspect of the business, from quoting and sales to engineering, manufacturing, quality, and even the Business Management System (BMS) aka QMS. This intrinsic connectivity is what makes ProShop significantly more powerful and effective than a collection of disparate systems surrounding a traditional ERP.

Driving a High EBITDA Multiple Through Robust Business Processes

One of the most critical variables for achieving a high EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) multiple is the execution of truly robust business processes by an effective, well-aligned team. This is where ProShop creates a profound impact:

- **Standardized Workflows:** ProShop enforces standardized, digital workflows for every process, from order entry to final inspection. This eliminates variability, reduces errors, and ensures consistency across all operations.
- **Real-time Data & Transparency:** All data, from machine utilization to quality deviations and inventory levels, is captured in real-time and instantly accessible. This unprecedented transparency allows for proactive management, immediate problem-solving, and continuous improvement.
- **Elimination of Waste:** By integrating QMS, BMS, MES and ERP functions into a single platform, ProShop drastically reduces redundant data entry, eliminates paper-based processes, and minimizes non-value-added activities.

- **Empowered Teams:** With clear, digital instructions, integrated workflows and real-time feedback, teams are more effective and efficient. Training is streamlined, and accountability is enhanced, leading to a more productive and engaged workforce, and candidly, a far better work environment with less stress and tension.

The result is an operation characterized by predictability, efficiency, and exceptional quality—qualities that private equity firms and strategic acquirers value highly, leading to a significantly higher EBITDA multiple. Where traditional ERPs still allow for many unstructured processes and data in scattered systems, ProShop imposes structure and connectivity, translating directly into enhanced operational performance and, critically, higher valuations. And a true test of this model, is if the owner can easily take a vacation of 2, 4, 6 weeks or more, being entirely disconnected from the daily operations and decision making of the business, and still have the business operate just as effectively (or better) as if they had their hands in it every day. The numbers that result when this is the case: While a company with no ERP, or a poorly implemented and ill-fitting one, relying on the owner to operate, can often expect no more than a 2-3x EBITDA multiple, companies that have realized the improvements of an operating system like ProShop can typically expect multiples of 4-6x or more - a doubling of the multiple. And that's just half of the equation.

Accelerating Top-Line Revenue Growth: ProShop as an Effective Sales Tool by building trust with customers

Beyond the system that drives operational efficiency, growing top-line revenue is the other indispensable lever for driving enterprise value. Increasing EBITDA through effective selling is paramount, and ProShop plays a unique role in this aspect. When an end customer delivers a purchase order to a precision machining company, they are giving up control. They have transferred control to the team and the systems within that vendor, with the hopes that everything comes together so that the vendor can deliver perfect parts on schedule. Those customers know that far too often, vendors don't execute well enough to achieve the goal of quality parts, on-time. This is extremely risky to the customer, with financial ramifications that are far greater than the value of those parts being ordered. Because the stakes are high, savvy companies are seeking vendors with lower levels of risk to do business with.

- **QMS/BMS as a Confidence Builder:** ProShop's integrated Quality Management System (QMS) and Business Management System (BMS) are not just internal tools; they are powerful external validation. Prospective clients, especially larger, more lucrative customers, demand stringent quality controls and predictable delivery. ProShop provides unparalleled visibility into a company's adherence to these standards.

- **Data-Driven Quoting & Proposals:** The system's ability to easily track detailed historical data on production times, material costs, and quality performance allows for highly accurate and competitive quoting. This data-backed approach builds trust and demonstrates professionalism. As an example, when ProShop allowed Chad Vanderbeek at Hibshman Screw Machine Products to realize he had double digit losses on many part numbers, the data he could share with his customers, justifying the increase made the conversations much more productive, and he was able to retain and grow the business with those double digit price increases.

Chad was able to grow the business with double digit price increases, while retaining his customers.

- **Streamlined Communication & Project Visibility:** Clients can often gain a level of insight into their project's status that is impossible with traditional systems, fostering greater trust and long-term partnerships with improved performance on customer service, delivery, and quality. ProShop allows for seamless communication and real-time project updates, which are critical for winning and retaining high-value customers.

The result of these elevated levels of trust and confidence in the vendor: More volume or more lucrative orders and contracts.

The Compounding Effect: Why ProShop Dramatically Outperforms Traditional ERPs in Enterprise Value

The true power of ProShop in enhancing enterprise value lies not just in its individual strengths but in the synergistic effect of boosting both EBITDA and the associated valuation multiple.

Let's consider a hypothetical scenario demonstrating the improvement over a two-year period, starting from a common baseline:

Comparison Over Time			
Metric	Base Case (Year 0)	Traditional ERP Company (Year2)	ProShop Company (Year 2)
Annual Revenue	$4,000,000	$4,410,000	$4,840,000
EBITA Margin	10%	11%	18%
Annual Revenue	$4,000,000	$4,410,000	$4,840,000
Calculated EBITA	10%	11%	18%
EBITA Multiple	2.5x	4x	5.5x
Enterprise Value	$1,000,000	$1,940,400	$4,791,600
Total Value Increase (vs. Base)	N/A	$940,400	$3,791,600
Percentage Value Increase(vs. Base)	N/A	94%	380%

- **Assumptions over 2 years:**
  - **Traditional ERP Company:** Experiences modest annual revenue growth of 5% and a slight EBITDA margin improvement to 11% due to general market growth and minor process tweaks. The EBITDA multiple sees a slight uptick to 4x, reflecting an incrementally better system compared to a very basic setup.
  - **ProShop Company:** Achieves more significant annual revenue growth of 21% due to its enhanced sales capabilities and client confidence. Operational efficiencies and waste reduction drive the EBITDA margin to a more substantial 18%. The deep integration and robust processes also lead to a higher investor confidence, boosting the EBITDA multiple to 5.5x.
- **Higher EBITDA:** As demonstrated, ProShop's profound efficiency gains, waste reduction, and enhanced team effectiveness directly translate into a significantly higher EBITDA margin and, consequently, a much larger absolute EBITDA number. Even with a higher revenue growth, the margin expansion is a key driver here.

- **Higher Multiple:** The predictability, transparency, and robust, integrated processes inherent in a ProShop-run operation are highly attractive to investors. A company with a fully integrated QMS, real-time data, and standardized workflows is perceived as less risky, more scalable, and better positioned for future growth. This translates into investors being willing to pay a higher multiple on the company's EBITDA.

The combined effect is exponential: A company leveraging ProShop not only generates substantially more profit (higher EBITDA) but also commands a premium valuation for each dollar of that profit (higher multiple). In our example, the ProShop company achieves an enterprise value of $4.79 million after two years, representing an increase of nearly 380% from the base case. This dramatically outperforms the Traditional ERP scenario, which sees a 94% increase over the same period, highlighting ProShop's compounding, superior advantage in enterprise value creation.

A Real-world Example: Hill Manufacturing & Fabrication is a contract manufacturing company in Oklahoma. When Mike Payne bought the company in 2017, the company was operating on a more traditional system of spreadsheets and paper. While the company had a strong 40 year history, the value was not maximized. Within a year, Mike had installed ProShop ERP, seeing massive gains in throughput and revenue growth immediately. With the increases in office and shop floor throughput, and with fresh demand from renewed sales efforts, revenue skyrocketed with the same staff and equipment. Hill saw 50% percent growth per quarter for the next several quarters.

Mike averaged a

4X

return on their investment in each shop.

Mike added five more machine shops to the Hill brand. In each example, he bought an old tired shop without strong systems and processes in place for an average of just under a 3x multiple. **By adding ProShop** and his other tech stack, and building strong processes, and driving revenue over the subsequent year after acquisition, **Mike averaged a 4X return on his investment in each shop.**

Hill Manufacturing achieved significant cost efficiencies with each acquisition; for example, each shop previously required dedicated resources for procurement. The combined entity, with significantly more efficient purchasing workflows, allows a part-time person to easily support the procurement requirements of all six companies. This demonstrates one more example of increasing the EBITDA number with more efficient end-to-end workflows in ProShop.

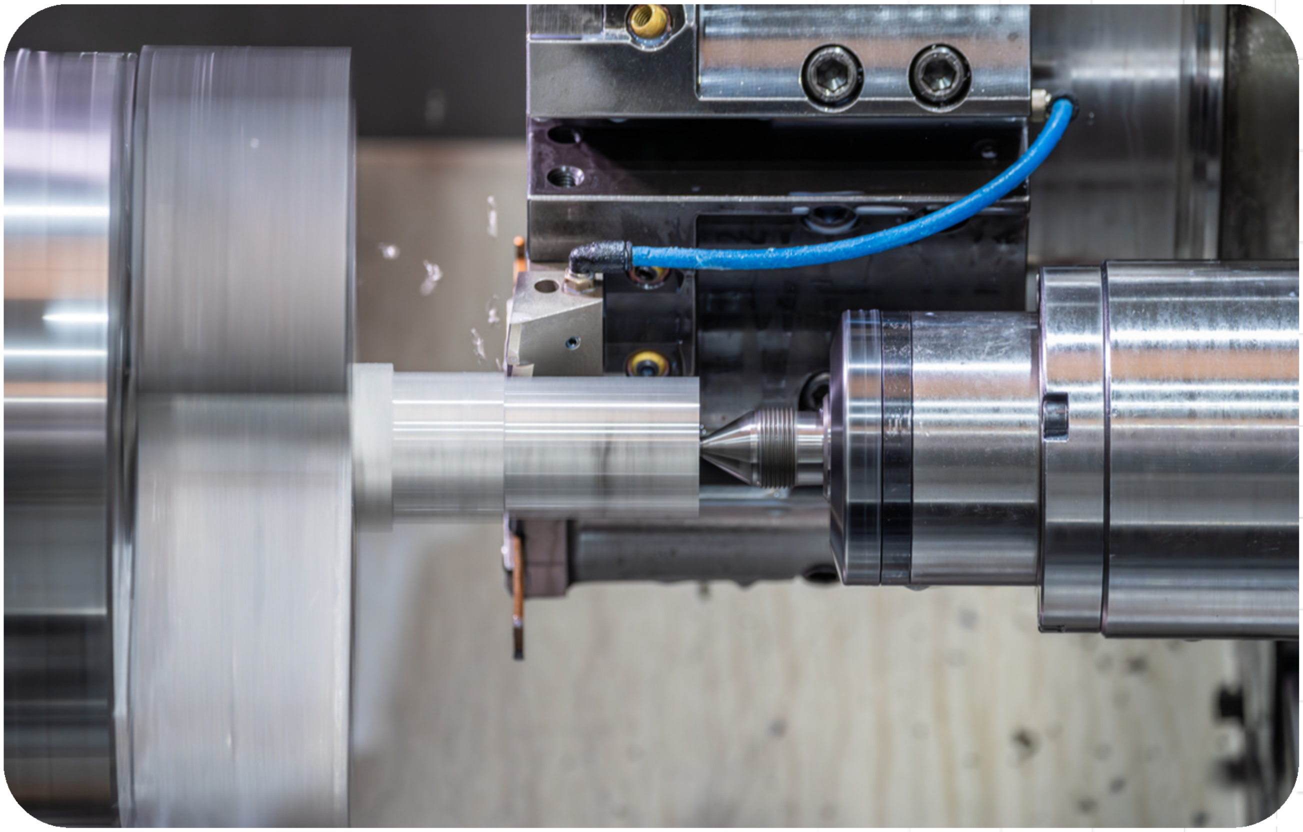
Conclusion: ProShop as the Catalyst for Unprecedented Value Creation

In the precision machining industry, the choice of an operational backbone is no longer merely about efficiency; it's about strategic enterprise value creation. While traditional ERPs offer foundational support, their inherent limitations in integrating quality, business management, and granular operational data leave significant untapped potential.

> **Like taking a college course in how to run a machine shop effectively.**
>
> **James Marzilli**
> Marzilli Machine Works

ProShop fills this void by acting as a true operating system, unifying disparate functions, enforcing robust processes, and providing unprecedented transparency. ProShop clients have shared countless anecdotes of this fact, such as James Marzilli of Marzilli Machine Works, who shared that after running his company for 8 years on a traditional ERP, moving to ProShop was “like taking a college course in how to run a machine shop effectively.” This leads to not only a higher, more sustainable EBITDA through operational excellence but also a higher valuation multiple from savvy investors who recognize the reduced risk and increased scalability.

For precision machining companies aiming to maximize their realizable enterprise value, ProShop is not just a new software; it is a fundamental shift that empowers them to achieve financial outcomes significantly beyond the reach of traditional ERP solutions. It’s the difference between merely managing operations and truly optimizing for superior valuation.



Talk to Us About Increasing Your Shop's Value

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