

HOW MUCH IS YOUR BUSINESS WORTH?



Presented by:

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PRESENTERS

Ray Melcher

- President and CEO of Marathon Capital Advisors
- Provides M&A Advisory, business brokerage, strategic planning, business performance consulting and loan brokerage services
- Also serves as interim, part-time CEO or COO for companies in transition

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- M&A Advisor and Business Consultant
- 40+ years of experience in various management, leadership and consulting positions
- Provides M&A advisory, business brokerage, strategic planning and business performance consulting services

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WEBINAR OUTCOMES

- Understanding of the business valuation process
- Understanding of valuation “drivers”
- Understanding of transaction structure options
- Understanding of strategies to increase the value of a business



WHAT IS MY BUSINESS WORTH?

Is the value of your business...

your goal, or is it

whatever it turns out to be?

Is it able to be influenced by you?

Is it outside of your control?

Is it 1X revenue and is it the same for all buyers?

Or is it

what your neighbor, brother-in-law, breakfast cook at the local diner, or your barber says it's worth?

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WHAT IS MY BUSINESS WORTH?

Truisms

- The value of a business can be influenced by the owner and set as a goal
- A value of a business is based on many controllable factors
- The value of a business should be stated as a range of value
- The value of a business can range considerably based on the type of buyer
- The value of a business can range considerably based on the sale structure
- To optimize the value of a business and enhance the salability on the best deal terms, an owner should set the business value as a goal, establish a plan and work the plan towards the valuation goal.



WHAT IS MY BUSINESS WORTH?

Non-Truisms

- The value of a business is driven mostly by sales volume
- Businesses sell for one times revenue
- The value of a business is mostly based on the company's physical assets
- The value of a business is the same for all buyers and purposes
- The value of a business is the same regardless of the deal structure
- The value of a business is completely driven by the market and outside the influence of the owner



WHAT IS MY BUSINESS WORTH?

What Drives Value?

- Cash flow / EBITDA
 - Adjusted cash flow (SDE)
 - Historical – min 3 years
 - Projected – 1 - 3 years



WHAT IS MY BUSINESS WORTH?

Type of buyer

- Industry / Strategic Buyer – Synergy / geography / products / talent / technology / capital / customers / sales channels
 - Revenue growth / expense reduction
- Financial Buyer / Investor – ROI
 - cash flow / expense reductions / little or no synergy
- Owner / Operator - Cash flow dependent / Debt service adequacy / Personal income needs / Leverage requirements / Little or no synergy
- Industry Norms – Many alleged norms for valuing a business exist, i.e. 1X revenue, 3X EBITDA, the current value of the assets plus 20% of revenue, 35% of revenue plus 50% of inventory, etc.
 - Be careful! Usually not reliable and can be misleading.

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WHAT IS MY BUSINESS WORTH?

Value Drivers – Qualitative and Quantitative

- Regulations – advantage or disadvantage
- Quality of Earnings – consistent or variable
- Scale – size matters
- Quality of assets – capital expenditures
- Employees – talent reigns
- Technology – a differentiator (capex expectations)
- Facility – advantage or disadvantage
- Owner desires – stay or leave
- State of the industry – hot or not
- Competition – strong or not
- Financibility – assets vs cash flow
- Platform or add-on – important for strategic buyer
- Deal terms – meaningful differentiator

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WHAT IS MY BUSINESS WORTH?

Valuation Methodologies – rigorous

- Discounted Cash Flow
- Industry Comparables
- Asset Method
- Capitalization (ROI)
- Financibility (Debt Capacity)
- Excess earnings method

Not all methodologies work well for all types of business

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WHAT IS MY BUSINESS WORTH?

Transaction Terms Affect Valuation

- All cash – lowest value
- Mostly cash and seller note
- Mostly cash and seller note and earn out
- Modest cash and large seller note
- Modest cash and larger seller note and earn out
- Low cash and large seller note
- Low cash and large seller note and earnout
- highest value
- Owner transition importance – Employment or Consulting contract
- Employee retainage structure
- Lease or buy facility or relocate
- Less than 100% acquisition
- Stock transaction vs asset purchase

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WHAT IS MY BUSINESS WORTH?

Analysis and Planning

At what price do I need to sell for retirement or the next chapter?

What is my business worth today as a baseline for action?

What are the value drivers for my business?

How can I “influence” the value of my business?

How can I increase revenue? – size matters

How can I diversify revenue sources? – concentrations are negative

How can I reduce fixed expenses to lower the “nut”?

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WHAT IS MY BUSINESS WORTH?

Value Enhancers

Increase variable expenses – make profitability consistent and lower the break even point

Keep financials “clean” – reduce owner perks, uncollectable A/R, old inventory, etc.

Deal with employee “issues”

Clean up the facility – eye appeal

Document P&P, quality standards, vendor info, etc. – for easy knowledge transfer

Assemble a “deal team” – attorney / accountant / M&A Advisor / Investor Advisor

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WHAT IS MY BUSINESS WORTH?

Best Time to Sell

- Positive business and financial trends
- Stable environment
- Quality of assets good
- Pre-planning done regularly, tax issues, family implications, key employee
- You are ready to retire, reduce risk, cash out or make an exit for whatever reason... but you are not pressured to do so

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WHAT IS MY BUSINESS WORTH?

When Not to Sell

- Declining business and financial trends
- Quality of assets poor
- Have become uncompetitive / staff not up to speed, etc.
- Forced to sell quickly – financial, health, family, etc.

WAIT if you believe sales and profits will increase and you KNOW you can clean up weaknesses



WHAT IS MY BUSINESS WORTH?

Notwithstanding the current conditions, you should sell anyway if...

- Revenue and profitability are not likely to improve
- Competition is cleaning your clock
- Market is weakening
- Margins are eroding
- You are burned out and not able to commit to what is needed for a turnaround
- Health, age, family, or other “life events” prevent the required commitment

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WHAT IS MY BUSINESS WORTH

Summary

The value of a business can be influenced by the company owner and management

Need a baseline valuation

Need a plan

Need goals

Need to focus on value drivers

(continued)

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WHAT IS MY BUSINESS WORTH?

Buyers pay top value and offer the best deal terms if:

- Books and records are clean, up to date, and complete
- Consistent and increasing cash flow
- Good asset quality
- Positive seller attitude towards ownership transition and willingness to participate in an easy and manageable transition



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ENJOY THE REWARDS

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