

## What's my business worth?

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As a business intermediary selling family businesses of all types and sizes, I get this question from business owners every day. The stakes are high and you want to get it right. You don't want to overprice the business and have it go unsold, and you sure don't want to leave money on the table. To receive a reliable answer involves answering questions, lots of them. Let's discuss some of these questions to help you understand what drives value in your small business.

First question - what's for sale? I know, it seems obvious to you, but it isn't to a buyer. Are you selling stock or assets? Buyers usually prefer to buy assets and will pay more for assets vs. stock. Is working capital included? This impacts a buyer's total investment, and since it's return on investment they're after; this affects how much they will pay. Do you expect a buyer to assume equipment leases, or will you deliver the equipment free of liabilities? If they assume a lease, will that represent partial payment of the sale price? Does your business have non-producing vehicles, equipment or inventory? If so, you can probably sell these assets now, without reducing the value of the business.

Does the sale include real estate? Does your business represent the highest and best use of that property for the next 10 years? If so, you generally maximize value by offering the business and real estate as a package. It is important to know the underlying value of both components, since that's how buyers, appraisers, accountants and lenders will look at it.

What differentiates your products and services in the minds of customers? What are its sustainable competitive advantages? Does it have a protectable market niche? Greater differentiation usually indicates a higher value.

What are your company's proprietary or unique intangible assets? Examples include recipes, patents, registered trademarks, documented and institutionalized know-how, custom software, customer lists, etc. Compared to large corporations, intangible assets for most small businesses are a relatively minor contributor to value.

What are the barriers to entry for this type of business? Examples include high capital investment, tight labor market, exclusive supplier relationships, franchise rights, one-of-a kind location, long-term customer contracts, etc.

How deep is your management bench, and how dependent is the business on you? Generally, the less critical you are to the operations of the business the better. In a workshop we give for prospective buyers we pose the question, "Do the assets go home with the owner at night?" If you're unsure, take a long vacation and see what happens! What happens when key employees leave? Will they take the customers, suppliers, and know-how with them? Do they have a financial incentive to stay with the company? Enough said.

How much of your business do your top customers represent? High customer concentration is a major risk that reduces the price buyers pay. Last year we sold two of such companies. One was a food manufacturer that had 40% of sales with its #1 customer and the other was a building maintenance company with 70% of sales to its top 3 clients. While we were preparing to take the maintenance business to market they lost their #1 account to a national competitor, and overnight their market value dropped in half. During the sale of the food manufacturer one of its top customers closed several retail outlets and another ran into financial trouble (by expanding too

quickly) and defaulted on its account. Buyers recognize these risks. In this case both new owners have wisely diversified their customer bases.

How *does* one grow your business, and what are the risks to future earnings and growth? Can you articulate the investments needed and expected rewards in a way that buyers and their advisors will understand and believe? A business is worth more if it has clear growth opportunities and a written growth plan with specific strategies and financial projections. Of course it's not enough just to have a plan. You have to implement it and meet or beat your projections.

Do you require payment in cash, or are you willing to be paid over time? Generally speaking sellers who provide a substantial percentage of financing receive more for their businesses. One reason is simply supply and demand. A higher initial investment to purchase your business (down payment, working capital and transaction costs) reduces the buyer pool and therefore demand. Also, seller financing attracts buyers because they assume there is less business risk if a seller has the confidence to finance.

Your financial statements answer many questions and provide a starting point for further analysis... What is the trend and stability of sales and earnings? Which expenses are really owner benefits? Are there non-recurring items or related-party transactions? How much working capital does the business need to operate? How is the business performing relative to its industry? High value indicators include clear and consistent financial reporting, positive gross margin trend, high and increasing cash flows, and low working capital.

One of the first steps to selling your business successfully involves answering questions for a qualified, objective advisor who use recognized business valuation methods to provide you with a credible and reliable estimate of value. Too many business owners rush through this step and end up frustrated or disappointed when they try to sell. After all, you only get one chance to sell your business. You have to do it right. You don't get to do it over.

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