

MAXIMIZE YOUR COMPANY'S VALUE IN TODAY'S ENVIRONMENT



TIM SKARDA

The goal of any business owner should be to maximize their company's value, regardless of whether they plan to continue operating the business for several years or sell in the near future. And while the market of prospective buyers will ultimately determine a company's value, business owners have more influence on that number than they may realize.

INTERNAL FACTORS – MAXIMIZE EARNINGS AND MINIMIZE RISKS

Maximize earnings. The most important thing buyers look for is a healthy income stream with consistent, predictable earnings and a strong outlook. Most buyers want to see a steady or positive trend on earnings, regardless of industry and economic conditions.

It is also important to organize your company's financial statements so that they are transparent and allow prospective buyers and lenders easy evaluation. Audited financial statements will provide further assurance to outside parties. Business owners should also reduce the number of "perk" expenses deducted through the company and eliminate non-operating assets from their balance sheet.

Minimize risks. Many businesses are overly reliant on a single large customer or supplier, a key product line, a key employee or the owner himself. These risks and dependencies decrease your company's value. Try to build a "diversified portfolio" so that your company provides several products and services across a wide base of customers and industries.

A strong infrastructure will also decrease the company's dependency on the owner and/or key manager, increasing value. In other words, strive to make yourself redundant. Trained employees, modern equipment and effective systems for financial reporting, inventory and operations management are a great start.

EXTERNAL FACTORS

(WHO, WHAT, WHEN, HOW)

External factors can significantly affect a company's value and, while they are uncontrollable, they need to be considered during your strategic planning efforts. Even if you don't intend to sell in the near future, keep these factors in mind for when that day comes. Think of these factors as the "who,"

Most business owners have a "magic number" in their head for how much their companies are worth. The more informed they are on how outsiders may value their companies and the more proactive measures they take to increase the values, the more attainable their numbers may be.

"what," "when" and "how" of selling your company.

Who is your buyer? Strategic buyers may pay the most for your company. A strategic buyout focuses on how companies will fit together and anticipates synergies that will enhance long-term earning power.

What are the terms offered to a buyer? Generally, the better the terms offered (such as post-closing payments based on performance or seller financing), the higher the total transaction value. However, seriously evaluate these payments as they can bear significant risks. The deal structure (i.e. asset sale versus stock sale) will also influence the transaction price. Know that proper tax planning is essential to maximize the net proceeds of a sale. Many business owners tend to focus too much on the gross proceeds (before taxes) of a sale rather than the net proceeds.

When are you selling? Timing the sale of your company with economic conditions can increase the value of your business. Debt markets can sway from conservative to aggressive and interest rates vary. Selling your business during a period with more aggressive lending and lower interest rates allow buyers to leverage more debt and ultimately pay more.

How are you selling the company? Many business owners today enjoy higher transaction values due to healthy competition among buyers. Your company's value will increase when financial and strategic buyers bid in a competitive arena.

Although the above factors are distinct from one another, they all have one common trait, an ability to affect the value of your business. Companies that can control, offset and properly present these potential risks have higher values. And if you're not aware of what your business is worth today, you might consider an appraisal on your business.

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Tim Skarda is President of Allied Business Group, Inc., a Leawood, Kan., based mergers & acquisitions and business valuation firm. Allied consults with business owners and prospective buyers on how to buy, sell, appraise and increase the market value of their respective companies.

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