Fallon-Houle, Nancy

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Positioning Your Company For Value

by Richard E. Jackim

In our last newsletter we discussed the current "seller's market" and encouraged business owners to understand their options.

Despite the huge demand for deals, private equity groups (PEGs) and strategic buyers are not an option for all business owners. These sophisticated buyers are looking for attractive companies with solid growth prospects.

According to Jack Emmons, Managing Director with The Christman Group, the market is showing a great deal of interest in private companies in certain industries, but he cautions, "business owners should not expect that a rising tide will float all boats."

Emmons, a transaction specialist at The Christman Group, spends most of his time talking with buyers about their acquisition criteria. Emmons suggests that even in today's market owners still need to have a plan regarding how to best position their companies in order to command top dollar.

"To get top dollar, owners of middle market companies need to make their companies attractive to other corporations and strategic buyers, rather than to individual investors," says Emmons. "The difference between an average company and a stellar company in today's market can increase the selling price by as much as 2 times earnings or more at the end of the day."

Market Appeal

The elements that make a company a stellar performer vary by market, the industry, and the buyer's needs and assets, but Emmons says several factors are likely to appeal to most potential buyers:

Steady growth—As long as expenses are in line with growth, steady growth signals buyers that they can expect a good return on their investment.

Diversity in growth—A company whose growth comes from one major customer will be less attractive than a company with multiple customers. Similarly, a business whose customers are concentrated in one industry will appear to have less opportunity for significant growth than one with customers in a range of industries.

Profitability—It's important to remember that increased market share does not automatically translate into increased profits. To be an attractive candidate for a merger or acquisition, companies must carefully control costs and show fiscal responsibility. If a company's margins shrink during growth, buyers will think the company bought market share and will wonder if that growth is sustainable.

History of innovation—Potential buyers value firms that can demonstrate they've evolved as their markets have changed, either by introducing new products or services, entering new markets, or by diversifying through acquisitions.

Niche specialty—Companies that are niche players in one clearly defined market are likely to be valued more highly than companies that are good at many things. Potential buyers are always seeking "platform" companies on which they can build significant business either through organic growth or through complementary acquisitions.

Assessing The Value Of Your Business

Positioning a company to attract top dollar through a merger or acquisition requires strategic planning and discipline, says Emmons.

"Companies that are focused on getting new customers or entering new markets should focus on providing *new* products or services to *existing* customers and then marketing *existing* products or services to *new* customers,' he advises.

"Business owners also need to focus on best practices, which demonstrates that they are aware of what's going on with their competitors and in their industries, and are committed to achieving superior results."

A strong management team is also a significant asset, according to Emmons. "The purpose of a merger or acquisition is often to allow the founder to exit," he notes. "As a result, one of things buyers look for in a good business is a plan to acquire and train good leaders so there is a layer of management to keep the company going—and growing after the founder leaves."

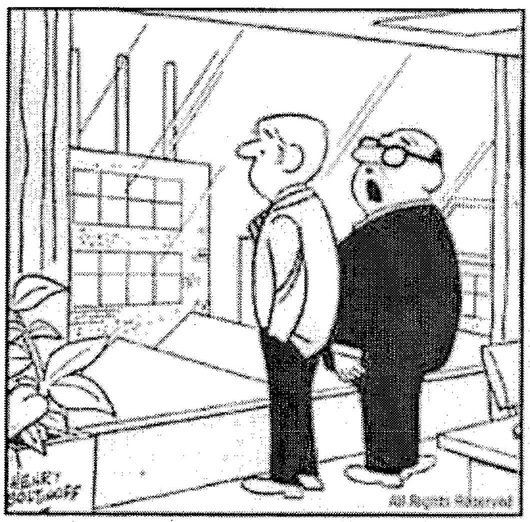
Finally, everybody understands the value of efficient operations, so managers must always be thinking about improving plant usage as well as worker productivity. Even if a business owner does not have the time or the resources to maximize efficiency, being aware of these issues and addressing them is a good sign to a potential buyer.

"Self-assessment, strategic planning, a team approach to getting things done—it's important that everyone in the organization be focused on how operations can be made more efficient and more profitable," Emmons says. "These aren't new approaches, they're just common sense and common sense adds up to real dollars."

In the end, Emmons says, "buyers in today's market basically want a low risk profile." They still remember what happened in 2001 after they paid top dollar for companies in 2000. They want to know they're buying a company that has the vision, drive, and processes in place that they'll need to prosper and grow."

If you would like to learn more about how The Christman Group can help you successfully exit your business, please contact Richard Jackim at 847-303-6554 or The Christman Group office in your area.

The Humor of Exit Planning and Privately Owned Businesses



Someday, Son, this will all be yours —
unless I can come up with a better solution.

The Christman Group LLC

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