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13 Nov

Top 10 Factors that Influence the Price of Any Business

Written by Richard Jackim

There are 54 factors that affect the value of any closely-held business. Below is a list of the top 10 factors that sophisticated buyers look at when determining the price to pay for a business. They are not listed in order of importance, but taken together, these factors directly impact the value of any business.

Number 1: Industry Outlook

If the outlook for the industry is bright, the price goes up. Buyers look hard at the outlook for a company's gross margins, future growth projections, and basic demand.

Number 2: Depth of Management and of the Sales Team

If an owner wears all of the hats, including generating most of the sales, the price will go down. A strong and experienced management team that can operate the business without the owner is a key value driver.

Number 3: Customer Base

If a company has a diverse customer base with no single customer representing more than 5-10% of revenues, the price goes up. If your customer base is made up of "blue chip" companies, the price goes up too. However, if a company has customer concentration and a single client accounts for more than 10% of revenues, the value of the business will go down.

Number 4: A Good Story to Tell

Telling a company's story is critical in helping the buyer recognize the full value of a business. When a company's story is presented as part of a professionally prepared marketing package, the price of the business goes up. Your investment banker must prepare an extensive offering memorandum that describes the operations, marketing and sales programs, organizational structure, facilities, and financial performance of your company. Without a professionally prepared offering memorandum, the value of your business will not be maximized.

Number 5: Stage of Industry Consolidation

If the industry a company is in is experiencing consolidation with big companies growing through acquisition, prices for smaller companies will rise.

Number 6: Company Track Record

If a company can show a track record of consistently growing profits and sales, buyers will pay more.

Number 7: Type of Business

A manufacturing company with a proprietary product will sell for more than a job-shop manufacturer. If a distributor adds value by offering installation, repair, and/or engineering/design it will sell for more money than a non-value-added distributor. A service company with special expertise will sell for more than a similar service company without this expertise.

Number 8: Revenue Size

A company with larger revenues will generally sell at a higher multiple of earnings. A business with $100 million in revenues may sell for 6-7 times EBITDA while a company with $5 million in sales may sell for 3-5 times EBITDA.

Number 9: Market Position

A company that dominates its market or has a unique niche will sell for a premium over other companies that do not dominate their markets.

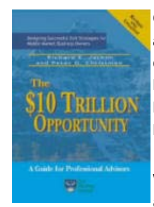
What Others Have to Say

"MidCap did an extraordinary job advising us on the sale of the business. Their insights, expertise and professionalism were invaluable and enabled us to obtain our goals."

Gerald Hallisey

co-founder of Stainless Tubular Products

The $10 Trillion Opportunity



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Number 10: Having Multiple Buyers!

When there are multiple buyers bidding on a business, the price of the business will exceed the price paid for a business that is sold without competitive bids. We see the price paid for companies increase whenever we bring mulitple buyers to the table. It does not matter what the size of the business is; the key to maximizing value is creating a selling environment where competitive market forces work for a company rather than against it.

Richard E. Jackim is an experienced investment banker, a former Wall Street attorney, and the author of the recently published book "The $10 Trillion Opportunity: Designing Successful Exit Plans for Middle Market Business Owners." He may be reached at 224-513-5142 or at rich.jackim@midcapadvisors.com .