

What's Your Company Worth?



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Valuation

What is Value?

The most common description of value is “fair market value”.

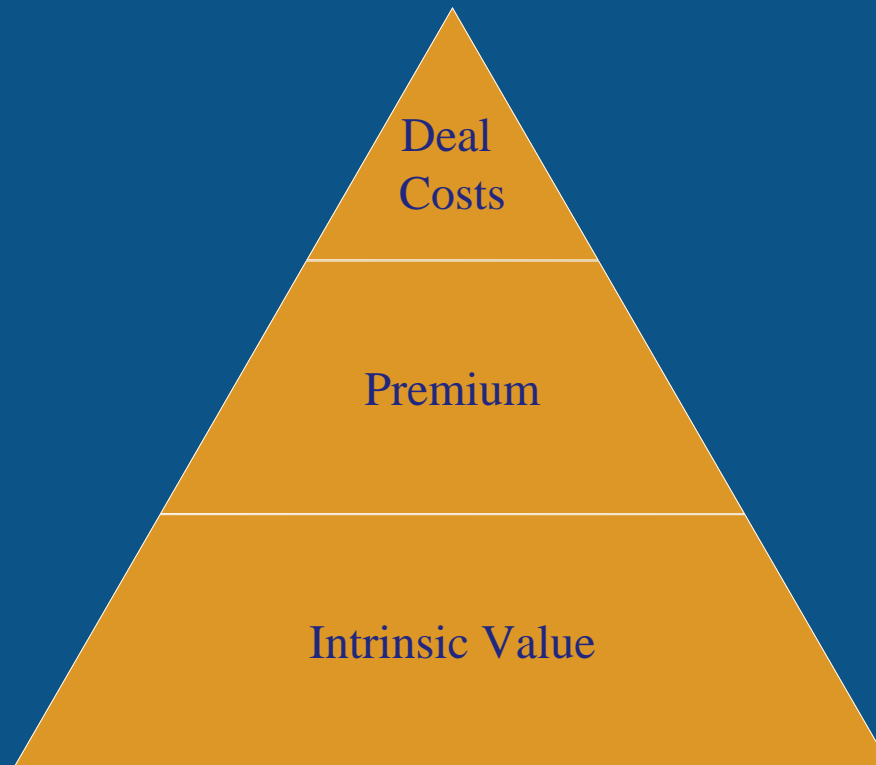
The definition of fair market value is the highest price obtainable in an open and unrestricted market between informed parties dealing at arm’s length where neither party is under any compulsion to act.

In other words

The value of a company is what buyers are willing to pay for it.



Value of a Company



Value

The intrinsic value of the company is a combination of

- Current EBITDA and Cash Flow
- Expected Growth
- Redundant assets
- Depth of management
- Capital structure – debt vs. equity
- Capital requirements



Valuation Approaches

Valuation Approaches

- Capitalized Earnings or cash flow
- Discounted Cash Flows
- Adjusted Net Asset Value
- Liquidation Value
- Rules of thumb or industry specific methods



Valuation

The Multiple

- The multiple reflects the risk of the investment. A risk free investment, say a 10 year government bond, with a return of 4% would give us a multiple of 25.

$$100/4\% = 25$$

- An investor would be prepared to pay \$25,000 to earn \$1,000 of income.

Investors are willing to pay 25 times income for the bond because:

- The investment is guaranteed
- It is very liquid (it can be sold immediately)
- The investment requires no time from the investor and comes with no other liabilities.



Price Multiples

Typical Multiple Ranges of EBITDA for Financial Buyers

\$500K to \$1 million 3 to 4x

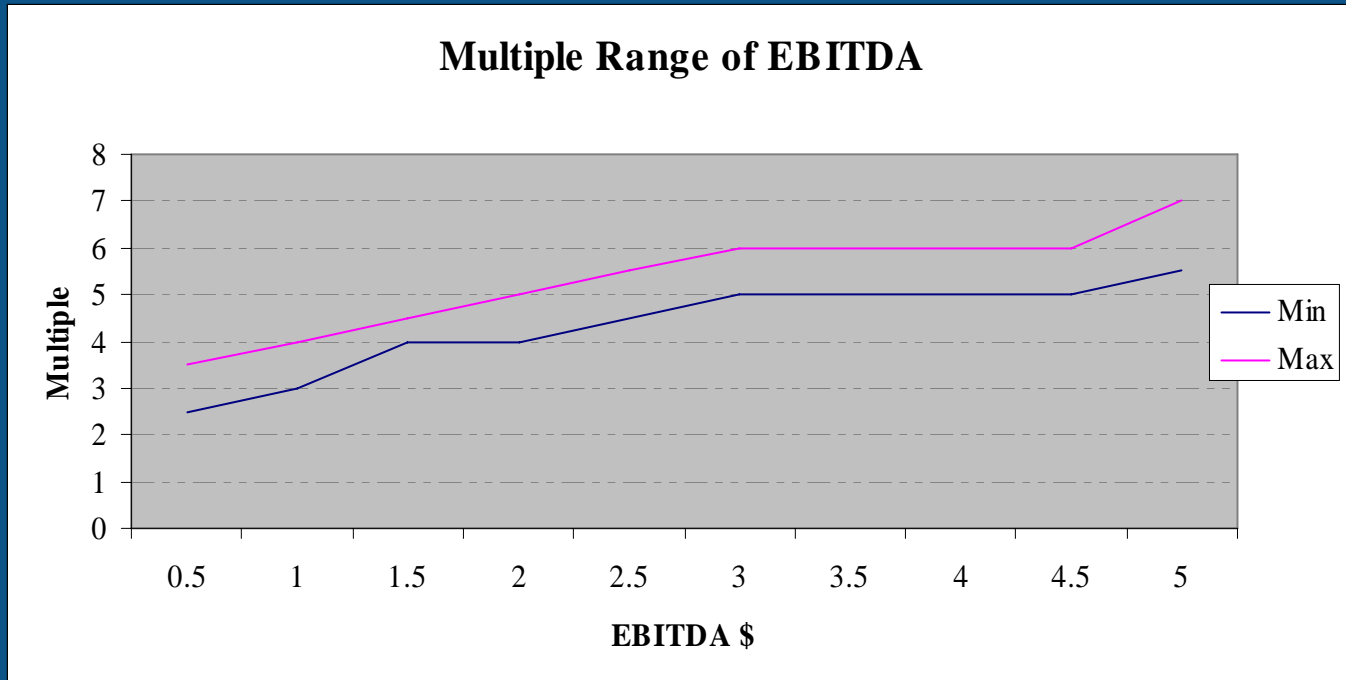
\$1m to \$3m 4 to 5x

\$3m to \$5m 5 to 6.5x

\$5m to \$7m 6 to 7x



Price Ranges



Optimizing Value

Value Drivers

Buyers pay for cash flow streams. The more risk you take away from the cash flow stream the higher the multiple. Key value drivers and risks are:

- Management Team
- Consistency of EBITDA or Cash Flow
- Financial & Operational Systems



Who are the buyers?

There are many types of buyers.

- Institutional Private Equity Buy Out Funds
- Private investment companies
- Industry Consolidators
- Financial buyers (public & private)
- Strategic buyers (public & private)
- Management teams



Financial Buyers

Financial buyers are looking for a return on investment and are limited to the price they can pay for several reasons:

- Lack of industry understanding
- Financing limits (sub-debt and banks usually limit their financing to 4 to 5 times EBITDA)
- Lack of ability to create value in the business

Financial buyers are the most common buyers:

- Management buy outs
- Management buy ins
- Investors
- Executives



Strategic Buyers

Strategic Buyers can pay more for a business than financial buyers due to value creation from cost savings and increased revenue synergies. Companies are also willing to pay more to get into a market.

Strategic Buyers include:

- Competitors
- Customers
- Other suppliers to the market
- Companies looking to get into the market



Summary

To build value in your business you need to understand how value is created.

To sell a business for maximum value you need to understand who the buyers are and what they value.

