

What is Your Company Worth?



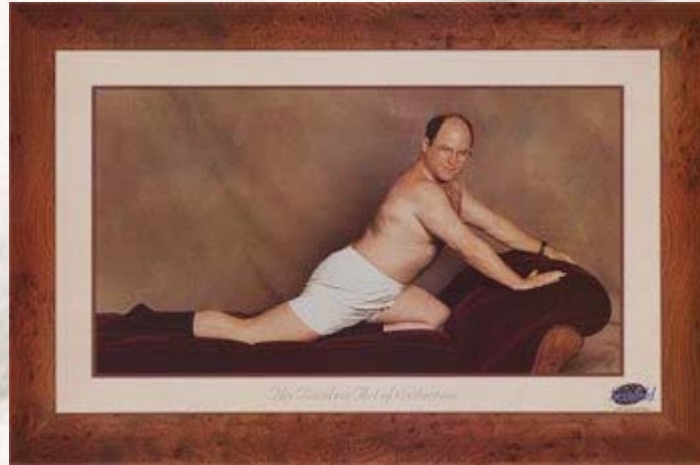
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A Business is like Art...



{It is only worth what someone is willing to pay}



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Why AREN'T Small Business Owners selling ?

- ▶ Sale price expectations are high
- ▶ Strong Economy
- ▶ Manager may be running the show
 - ▶ The Manager may be making the business more profitable & therefore, harder to purchase
- ▶ The future is bright, the hard work is done



What else are you going to do?



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Company & Industry Characteristics Determine Value

- History of cash flow
- Revenue growth
- High gross margins
- Branded products
- Technology advantage
- Management team
- Information systems
- Level of capital expenditures
- Size of company
- Great markets make great Companies



Customers & Suppliers Influence Value

Customers

- Few or many
- Churn
- Repeat vs. one-time purchase
- Growth trends
- Length and term of contracts

Suppliers

- Few or many
- Ownership of technology
- Length and term of contracts



Financial vs. Strategic Buyers

Financial Buyers

- ✱ The world is awash in private equity, prices being bid up
- ✱ An owner/operator values a company like a financial buyer



Strategic Buyers

- ✱ Traditionally they would pay more
- ✱ Product extension or sell into existing customers
- ✱ To take out a competitor
- ✱ Cost savings and revenue growth are important factors



Normalized EBITDA

- Independent of how the business is financed
- Net earnings plus +
 - Interest
 - Income taxes
 - Depreciation & amortization
- Normalization
 - Bonuses to owners
 - Auto, travel, family members on the payroll
 - “One time” events
 - Maintenance Capital Expenditures



Valuation - Comparables

- ⊕ Multiples of cash flow (EBITDA)
 - ⊕ Company with \$1 million of EBITDA
 - ⊕ 3 to 4 times EBITDA in 2000
 - ⊕ 4 to 5 times now
- ⊕ Revenue multiples used for
 - ⊕ Fast growing businesses
 - ⊕ Businesses without cash flow



Valuation Metrics



● Discounted cash flow

- Valuation can vary greatly depending on assumptions of discount rate and terminal value
- Useful if the business depends on key contracts, technology is changing the industry, or regulations determine the market
- Not really used for small businesses

● Transactions in the Industry

- Public information from public companies
- Tends to be for bigger companies, a discount would apply for smaller companies



Floor for Valuation

- **Book Value** (accounting measure)
 - Gives rise to goodwill as a multiple of EBITDA

- **Tangible Asset Value**
 - Appraisals for fixed assets
 - Fair market value of assets & liabilities



The Amount of Financing Available Drives the Value

- Debt Service Coverage ratio is the key financial covenant
- Bank debt
- Sub debt
- Near bank: factors, asset based lenders, etc.
- Vendor

Determines the return on equity



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Thank You

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