

“Taking a Deal from 3x to 7x”

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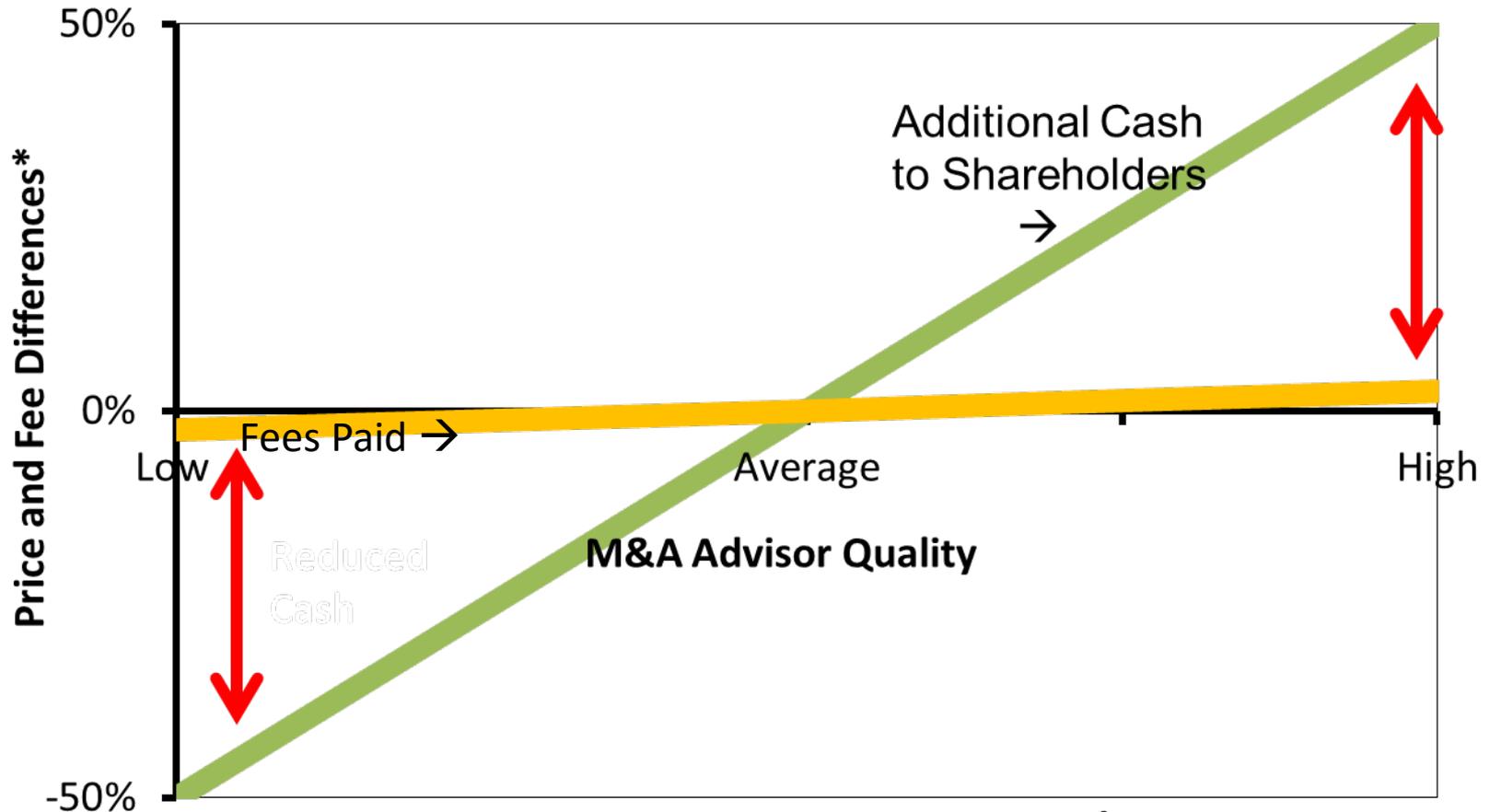
The First Step

- Hire a really good M&A Advisor
- Why are you laughing?
- I'm serious!
- Isn't going "from 3x to 7x" a good summary of the main reason to hire an M&A Advisor?

Another Way to Look at It

- Here's another way to think about increasing the selling price from 3x to 7x:
- Selling a business for 3x is a heck of a lot easier than selling it at 7x
- Just about anyone can facilitate a sale at 3x
- Increasing the value to 7x takes a lot of skill, strategy and patience

Selling Price and M&A Advisor Fees



* Estimated Ranges

Maximizing Exit Value

- For most companies there are many ways to maximize the selling price
- A full discussion of the strategies and tactics could easily be a week long workshop
- Today we have less than an hour
- Here are some highlights

Maximizing Exit Value

Some of the generally applicable ways to maximize the final selling price include:

1. Increasing the growth rate
2. Structural value increases
3. Capitalizing on inefficient markets
4. Illuminating strategic value
5. Maintaining multiple bidders
6. Sales and negotiating skill

Valuation Principles

- Most valuation methods are based on discounted future cash flow (profit or EBITDA)
- Factoring in the cost of capital and the imperfect predictability of future earnings
- An easier way to think of it is to imagine the buyers want to debt finance the entire deal
- And have the company pay off the entire debt in 5 to 7 years

Valuation Principles – No Growth

Zero Growth	Profit in the year	Present value of this year's profit
End of this year	1,000,000	\$820,000
End of next year	\$1,000,000	\$672,400
Three years from now	\$1,000,000	\$551,368
Four years from now	\$1,000,000	\$452,122
Five years from now	\$1,000,000	\$370,740
Six years from now	\$1,000,000	\$304,007
Seven years from now	\$1,000,000	\$249,285
Eight years from now	\$1,000,000	\$204,414
Nine years from now	\$1,000,000	\$167,620
Ten years from now	\$1,000,000	\$137,448
Total Present Value		\$3,929,403

In this zero growth example the value is about 4x the current year profit (EBITDA)

Valuation Principles - 25% Growth

25% Growth	Profit in the year	Present value of this year's profit
End of this year	\$1,000,000	\$820,000
End of next year	\$1,250,000	\$840,500
Three years from now	\$1,562,500	\$861,513
Four years from now	\$1,953,125	\$883,050
Five years from now	\$2,441,406	\$905,127
Six years from now	\$3,051,758	\$927,755
Seven years from now	\$3,814,697	\$950,949
Eight years from now	\$4,768,372	\$974,722
Nine years from now	\$5,960,464	\$999,090
Ten years from now	\$7,450,581	\$1,024,068
Total Present Value		\$9,186,773

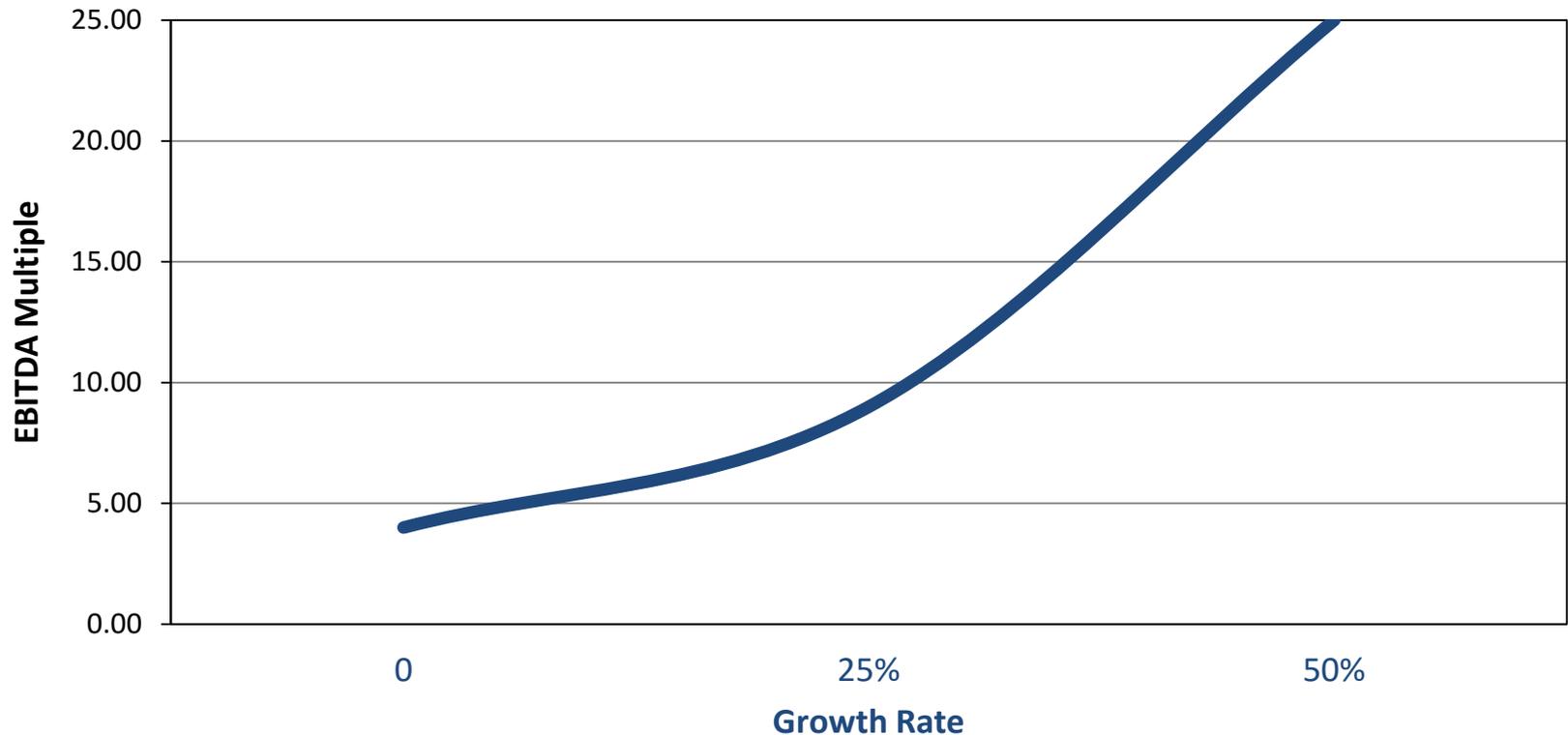
In this 25% growth example the value is about 9x the current year profit (EBITDA)

Valuation Principles - Growth

- The \$1 million profit, zero growth company is worth about \$ 4 million
- The \$1 million profit, 25% growth company is worth about \$9 million – 2x more
- The public markets rule-of-thumb is that the P/E ratio should roughly equal the growth rate
- In other words a 10% growth company has a P/E ratio around 10x and a 20% closer to 20x

Valuation Principles - Growth

Valuation as a multiple of EBITDA
with an 18% discount



Increasing Growth Takes Time

- This is “Exit Planning” or “Growth Consulting”
- Many companies ready to sell aren’t operating at their maximum growth rates
- Our firm has succeeded in increasing the growth rate in about half of our transactions
- The challenge is that this takes time
- At least several quarters of actual results are required to be convincing to buyers

Structural Value Increase

- Tweaks in the corporate or deal structure can increase the selling price by 10 to 25%
- Sometimes called “Financial Engineering”
 - These can be balance sheet changes
 - Asset vs. share sales
 - Financing mechanisms or deal structures
 - Tax innovations
- Many possibilities and can add \$ millions

Capitalizing on Inefficient Markets

- Markets for selling a business, especially for under \$100 million, are very “inefficient”:
 - Information is difficult to access – no transparency
 - There are a small number of buyers
 - Very few for sale (like your company)
- All of which can be big advantages for sellers
- Most buyers are pros - sellers often leave \$ millions on the table – and never even know

Illuminating Strategic Value

- Identifying strategic value often creates the largest fundamental increase in selling price
- It's not actually creating strategic value, it usually has to be there already
- But it often has to be “illuminated” for the potential buyers (often very challenging)
- This can often be the most valuable contribution from the M&A advisor

Benefits of Multiple Bidders

- Closing on an unsolicited offer (i.e. a single bidder) is almost always a lost opportunity
- Every business sale should have multiple bidders to:
 - Maximize the final selling price
 - Increase the probability of completion
 - Close the transaction sooner
 - Demonstrate good governance

Selling and Negotiating Skill

- There is no question that some sales people are just better – often much better
- Selling a company is just like any other sale – but bigger and more complex
- An outstanding M&A Advisor can often increase the final price by 50% or more
- <http://www.exits-blog.com/great-ma-advisors-sell-companies-for-more/>

Can You Really Get 50% More?

- I've seen a number of companies sold for 50% more than the sellers expected
- I've helped make it happen quite a few times
- Most shareholders find it difficult to believe that a really good M&A advisor can sell a company for 50% more
- 80 to 90% of the time, everyone signs an NDA
- So the stories very rarely get told

Resources on Maximizing Value

- <http://www.exits-blog.com/selling-a-business-can-increase-the-final-value-by-50-or-more/>
- <http://www.exits-blog.com/selling-a-business-inefficient-markets-and-business-valuation/>
- <http://www.exits-blog.com/illuminating-strategic-value-when-you-sell-a-business/>
- <http://www.exits-blog.com/company-sales-need-multiple-bidders-to-maximize-business-valuation/>
- <http://www.exits-blog.com/great-ma-advisors-sell-companies-for-more/>

Thank you.