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WEALTH ADVISORS

What Today's Buyers Are Looking For From Your Company - Transaction Planning

Owners who think about exiting their business should wonder who the future owner will be and what attributes of their business those buyers will seek when acquiring the business. The marketplace of buyers for businesses changes – like many markets – and today's buyers are interested in growth. This newsletter is written to help owners understand some of the traits that professional buyers today are looking for when considering the purchase of a business so that they can think through the plans for an exit or transaction and make decisions today that are aligned with the traits being sought. Let's begin with today's marketplace in general.

A Robust Seller's Market

Today's low interest rate environment coupled with an abundance of equity and debt capital makes this a 'seller's market'. What this means is that there is a larger supply of capital than companies willing to take that capital into their business. As basic economics tells us, when there are more buyers than sellers, the market is in favor of the sellers. So, when a good company comes to market, there is a high likelihood that the business will be met with strong levels of interest, which - all things being equal - can create a competitive bidding environment and potentially drive up the value as buyers compete with one another for the acquisition. Let's look at what a 'good company' is in general.

A 'good company' in today's market has the following attributes:

- Solid products / services
- Competitive pricing and margins
- Empowered leadership teams
- Organized financials
- Proper capitalization
- Thoughtful strategic direction with demonstrated ability to execute
- Solid integration of good people and appropriate systems
- Low levels of risk / high barriers to entry for competitors
- Growth

Growth Trumps All Other Categories Today

Of all of the attributes of a good company, the strongest in today's marketplace is 'growth'. As it turns out, growth is more important to today's buyers than any other attribute and demonstrating current and continued growth is the key component to an attractive selling company today.

Growth includes the ability to demonstrate the market acceptance of your product (revenue growth) with sustained / growing margins (profit growth) as well as a continued ability to deliver into the market (operational improvements). Put together, growth is what is attracting the greatest capital today and the attribute that buyers will pay the most for.



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Defining 'Growth'

One way to view growth is to look at overall revenue and profit / EBITDA (Earnings Before Interest Taxes Depreciation and Amortization) trends. One recent study from GF Data defined an 'above average company' as one with +10% Trailing Twelve Months ("TTM") revenue growth and a +10% EBITDA margin. This means that the current 12 months of revenue is at least 10% higher than the twelve months preceding this measuring period. In addition, the company consistently exhibits a 10% net / EBITDA margin.

Premiums Being Paid for Above Average Companies

For businesses that exhibit this measure of Above Average financial performance, recent data indicates that buyers are willing to pay a premium for these businesses – we see this trend in trading multiples. A trading multiple is your company's cash flow (or EBITDA) times a certain number. For example, if a company sold for '5 times EBITDA' this means that a company with cash flow / EBITDA of \$2 million sold for \$10 million (5 times the \$2mm EBITDA).

Companies that are Above Average in the GF Data set demonstrate recent average selling multiples of 7.2x EBITDA versus the less than above average companies that trade at an average of 5.7x EBITDA.

To illustrate this point, we will use our previous example and assume that Company A is demonstrating revenue growth of +10% with a +10% EBITDA margin, generating \$2mm in EBITDA. This business will sell – all things being equal - in today's market for \$14.4 million. Whereas Company B, which has slower growth, will sell for closer to \$11.4mm. This difference of \$3 million represents a 26% premium that the market is paying today for growth.

How to Prepare to Meet These Buyers

So knowing that growth is a key driver of value in today's marketplace, what can an owner do to be prepared? Simply put, owners can focus on sales initiatives that continue to drive profit to the bottom line but don't overly complicate the business. Further, if owners can show visibility into that continued growth into the future, then the marketplace will react favorably to this data – this is best demonstrated in a detailed financial forecast that accompanies a well thought out strategic plan.

Concluding Thoughts

For many owners who are thinking about selling their business in the near future, you may want to discuss the importance of growth with your professional advisors. It is helpful to know what potential buyers



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are looking for so that you can make decisions today that are aligned with achieving a successful outcome. In addition, if getting the highest value for the sale of your business is one of your goals, then having solid growth is the path today towards getting paid a premium for your business.

We hope that this newsletter is helpful in having you think through who a future owner of your company may be and what they may be looking for from your business.

Regards,

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