February 2018

EXECU-BRIEF®

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Consulting Intermediaries
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A Voice of Authority in Mergers & Acquisitions

Valuations

BY: DOUG ROBBINS

What is your business really worth? Well, the good news is there are hundreds, if not thousands of experts (**almost everyone is an expert**). Experts come in all shapes, sizes, knowledge and experience and not only are there countless experts, there are many different ways a business can be valued:

1. EBITDA (Earning Before Interest, Taxes, Depreciation and Amortization) times a multiple
2. Historical Earnings times a multiple
3. Future Earnings times a multiple
4. Present value
5. Fair market value
6. Asset value
7. Future discounted earnings times WACC (Weighted Average Cost of Capital) with a terminal value
8. Strategic valuation
9. Synergistic valuation
10. Investment valuation
11. A multiple of gross revenue
12. Comparable values of completed transactions
13. Share valuation versus asset valuation
14. Rules of thumb
15. **In reality, there are dozens of valuation methods to choose from**

The underlying problem in valuing a business, is **the subjectivity applied to the valuation.** Every business valuation I have ever seen, has subjectivity embedded into the valuation. Subjectivity comes in many forms:

- The selection of the earnings multiple
- Selecting WACC The recasting/normalization of earnings
- The future projections
- The calculation of true economic depreciation
- The reason for sale
- The emotions involved, (life-altering decisions)
- Should a child take over the family business?
- The alternatives to selling (there are at least 14)
- The financial structure of the transaction
- Funding provided by the Seller, along with security for the unpaid portion of the purchase price.
- Off balance sheet funding/financing
- Business structure of the transaction
- The impact of taxation on the transaction
- The business itself ... Is it growing? Its market; its market share; quality of the employees; the competition; the products or services; technology; offshoring; regulations; etc.
- There are countless issues that determine the final selling price of a business. (One recent transaction almost collapsed until the Purchaser agreed to give the Seller a life interest in his personal office … the Seller's wife said it was OK to sell, but also said "he had to leave the house between 9 and 4:00 every day" … ***"BELIEVE IT OR NOT"***

New Opportunities:

Garden Centre Nursery & Greenhouse

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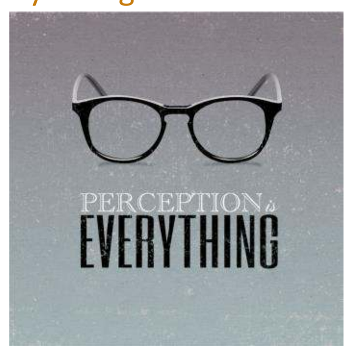
Other Opportunities

Our Latest Blog:

Perception is Everything

By: Doug Robbins



Past Issues:

Crazy M&A Myths You Need to Stop Believing

A Review of the Emotional Journey of Selling Your Business

The Robbinex Mission

We provide our clients with experience-based knowledge to maximize the value of their companies, to help them make:

…the right exit decision,
…at the right time
…for the right reasons.

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We must not forget the Purchaser’s issues, many of which are also subjective:

- Why do they want to buy?
- The emotions driving a Purchaser to buy
- How much is needed to pay for the business?
- What is it really worth?
- The cash on hand for the purchase
- The availability of financing
- The synergies, and the strategic fit
- Expansion of geographical footprint
- Merger/acquisition of equipment
- The location
- Acquisition of customers
- Acquisition of expanded product line
- Acquisition of a new supply source
- Acquisition of new/key employees
- Tax structuring
- Shareholder objectives
- Solves a unique problem the buyer has, and
- ***The list goes on, and on and on***

When contemplating selling a business, one of the most important parts of valuing a business is to know who the ultimate buyer is likely to be and determine why they may want to buy it; what will they do with it; how does it fit within their existing organization; and what will it do to their overall ability to impact their earning power.

Simple! The higher the impact on a Purchaser’s profit, the more a Purchaser will pay for it.

So why spend the money to do a valuation? Often a valuation is used for estate planning, resolving a partnership/shareholder dispute, long term tax structuring, a divorce, passing on to a son or daughter, etc.

However, if the purpose of a valuation is to establish a price for selling out, a competent valuator/analyst will in effect, while establishing a value range, perform a Due Diligence on the business, and in doing so will learn the **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats surrounding the business. Often referred to as a **SWOT** analysis, if done properly, it will help the owner understand the value potential of the business. At Robbinex, our COSATA® Analysts wear *“**phantom buyer’s hats**”’* to complete at least four valuations, sometimes as many as six or seven, to truly grasp the actual position of the business. During this process, we will recognize value enhancement opportunities that may significantly increase value. Should the Seller, for whatever reason, decide not to take the time to implement the identified value enhancements; those opportunities, if properly presented to a Purchaser, will increase the purchase price received by the Seller. A competent Managing Intermediary will always use a NAPP™ (no asking price program) when they take a business to market.

The Bottom Line: *A proper analysis/valuation on a privately held business will provide the owner with a realistic view of the likely selling price range, value enhancement opportunities, alternatives to selling, along with the ideal tax structure of a transaction, thereby providing the information necessary to assist the Owner in making that life-altering decision, for the right reasons at the right time, for the right price.*

It will also empower a competent Managing Intermediary (also known as an I-Banker, Broker, Advisor) with the tools needed to negotiate the best price, terms, structure, and conditions to generate the highest net after tax yield for the Owner. The final price comes after all the emotions are dealt with, all the opportunities are clearly identified, the impediments are removed, and the final negotiations are completed. Then, and only then, will we know the multiple, because it can only be calculated when the transaction is completed.