Six things you can do to increase the value of your company

By Peter Wright

LIKE THE OLD SAYING, "beauty is in the eyes of the beholder," the value of a company means different things to different people. A word of caution before you cash out and move on, however: A company's ultimate value is what a seller is willing to accept and a buyer is willing to pay. The question you should ask yourself is this: "Does the offer meet my goals and is it fair in regards to current market conditions?"


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Having acted as an advisor and personally been involved in the sale of my own security integration company, here, in my opinion, are the top six value drivers in order of importance.

1. Earnings—Whether you refer to it as net earnings; earnings before interest, taxes, depreciation and amortization (EBITDA); or profit, it is still the bottom line. When I ran my integration business I used to say: "Revenue is vanity, cash flow is sanity and profit is reality." You have to have a profitable company to build real, tangible value.

2. Recurring Revenue—Whether it is monitoring contracts, service contracts or a repair-and-parts business, a buyer wants to know there is a base to build on. Do not underestimate the value of a written contract. Specifically, make sure as much of your revenue stream as possible is supported by a written contract, preferably containing an automatic renewal provision. You should also make sure that there is fair protection or indemnification in the contract to protect your business.

3. Management Team—Buyers are leery of buying a company that doesn't have a strong team. They will understand if there are certain areas that need to be built upon. Most buyers understand that the seller/owner will eventually leave, whether it's day one, in six months or three years. As the owner of the business you should address who is key to your team in sales and operations. For most small- to medium-sized businesses, the accounting function is one that is replaced easily, but the buyer will need to have confidence that your historical operating results and related financial statements have been prepared consistently and appropriately. Consider including or rewarding your key managers from a successful sale of the company by granting them stock options, phantom stock or a retention bonus. Many deals have fallen apart because the owners announced the deal to their loyal management and the team walked away to compete on their own.

4. Customer Base—Buyers place a premium on the customers you have. Do you fill a "strategic hole" for the buyer, whether it's a product line or geographically? Buyers will also be interested in your historical sales growth and mix, and tend to be concerned about customer concentrations over 8- to 10-percent of your revenues.

5. Revenue—I just said it was vanity, right? Well, the reality is that most strategic buyers, and almost all financial buyers feel more comfortable about acquiring you if your company has over $10 million in sales. There are always exceptions, of course, especially for what buyers consider tuck-in acquisitions within a geographic market, service offering or product line.

6. Establish an Advisory Team, Now—This group should include three types of professionals: an attorney, an accountant and an investment banker. One of the biggest challenges an owner can face is responding to an unsolicited offer to buy their company. Take the time to properly build the value of your company by focusing on the value drivers listed above, and create a team to help advise you through the process. SSN

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