

A background image showing a group of people in a meeting, looking at and pointing to various financial charts and graphs on a table. The charts include pie charts, bar graphs, and line graphs. The scene is dimly lit, with a focus on the hands and the documents.

Key Factors Affecting the Value of Your Business

A Look at Your Company
Through the Eyes of a Buyer

Executive Summary

Sophisticated business buyers consider a number of factors in their evaluation of a company. Based on our years of combined experience selling and valuing companies, our firm has identified 54 important factors that buyers consider in determining the value of a particular company. Each section below provides a list of factors affecting value. The factors are divided into Personal, Business Operations, Industry, Legal/Regulatory, Financial, and Economic/Mergers & Acquisitions Market. It is important to consider these questions when evaluating the worth of a business.

Personal Factors

Age/Motivation of Owner(s)

How old is the owner? Does the owner have a specific plan in place regarding what he or she will do after exiting the business? Buyers will be concerned that a lack of a plan may indicate the owner is not committed to exiting and the owner may change his/her mind just before closing.

Attitude of Owner

Does the owner demonstrate a positive and cooperative attitude? Is the owner enthusiastic and committed to the business' future? Is the owner in no hurry to sell? Does the owner answer all questions honestly and openly?

Family/Partner Consensus

Are the owner's spouse, family members, and/or other shareholders in full agreement about the exit plan? Do any family members or other shareholders have any hidden agendas?

Reasonable Expectations of Value

Are the owner's expectations in line with recent sales of comparable businesses? Has the owner received a business evaluation from an independent third party and does the owner consider the enterprise value to be acceptable?

Open to Deal Structure

Is the owner insisting on an all cash transaction or will he or she consider various forms of deal structure, including seller notes, non-compete payments, consulting agreements, earn outs, and /or reinvestment? Is the owner willing to provide a buyer with the normal indemnifications and warranties that are typical in similar transactions?

Business Operations Factors

Products/Services

If the company is a manufacturer, does the company manufacture a proprietary product, or is it a job shop? If the company is a distributor, does it provide value-added services? If the company is a service-provider, does it offer a differentiated service?

Management Team

Does the company have a strong and experienced management team in place that has demonstrated a track record of success, or is the company largely dependent on the owner for its success?

Sales Team

Does the company have a strong sales team with a record of new account growth? If the company utilizes sales reps, is the company's business a significant and profitable part of the reps' business? What types of agreements are in place?

Sales and Marketing Literature

Are the company's sales and marketing materials up-to-date, attractive, and informative?

Customer Base

Do any of the company's customers account for more than 10 percent of revenues? Does the company have a long history with its major customers? Are new customers being added on a continuing basis? Are the company's customers consumers, retailers, or large corporations? Does the company have any supply agreements?

Customer Relationships

Does the company have positive and long-standing relationships with its customers or do customers turnover quickly? Are the relationships with the company or are they dependent upon the owner(s) remaining with the company?

Vendor Concentration

Is the company dependent on any single vendor or group of vendors? Are the company's raw materials and other inputs readily available from multiple sources at competitive prices? Does the company have any vendor supply agreements?

Business Operations Factors Continued

Product/Service Quality

Are the company's products or service high quality compared to competitive products/services? Has the company received a quality certification such as ISO 9000?

Employees

Does the company have an ample source of qualified and competitively priced labor? Are employees well trained and motivated? Are salaries and hourly pay in line with comparable jobs in the geographic area? In certain areas, does the company have employment agreements?

Employee Benefits

How do the company's benefit programs compare to other industry players?

Union

Is the company's labor force unionized? If the Company is organized, is there a history of good relations with the union and no strikes? If organized, is the company's union contract set to expire within the next two years? Is the company a party to a multi-employer pension plan and what is the funding status?

Employee Relations

Does the company have dedicated employees with positive attitudes and low employee turnover?

Facilities

Are the company's land and buildings clean, well maintained, and in compliance with all building codes and regulations? Do the company's facilities demonstrate an efficient layout? Is there room for expansion within the existing facilities? If owned, is the seller open to either selling or leasing the facility to the buyer? Is a recent appraisal available? If the company's facilities are leased, is the remaining term of the lease five years or less (including renewal options)?

Computer Systems

Are the company's computer and data processing systems up-to-date and fully integrated? Is the system's capacity sufficient to meet the company's needs over the next several years or will it require an upgrade or replacement in the near term? Does the company use standard software packages or does it operate proprietary software that was developed in-house?

Business Operations Factors Continued

Company Website

Does the company maintain and operate a website? If so, is the website attractive, easy to navigate, and up-to-date and is it part of a fully developed Internet strategy?

Fixed Assets

Are the company's fixed assets up-to-date and well maintained? Are fairly recent equipment appraisals available?

Leases & Other Significant Contracts

Are the company's leases and other contracts assignable or would they place restrictions on new owners? Is the rent the company pays on its building comparable to local market rates?

Location

Is the company location convenient to vendors and customers? Are competitive transportation services available? How does the cost of living in the local area compare to other areas? Is skilled labor readily available?

Industry/Market Factors

Consolidation Stage

Is the company's industry undergoing consolidation in which smaller competitors are purchased and consolidated into larger companies to achieve benefits of scale and the elimination of duplicative costs? Depending on the stage, this factor could be positive or negative.

Industry Outlook

Is the company's future favorable in terms of future growth projections, profit margins, competition, legislation etc.?

Opportunities for Growth

Have significant and feasible opportunities for growth been identified? Are plans in place and have preliminary actions been taken to implement them?

Industry/Market Factors Continued

Availability of Industry Data

Is information on the industry readily available from industry associations or business press including growth projections, industry trends, competitors etc?

Barriers to Entry

Do significant barriers to entry exist for new competitors including barriers such as high-invested capital, patents, brand names, reputation, significant expertise etc.?

Market Position

Does the company have a strong market share or a protected niche in the industry?
Does the company have a well-known brand name and excellent reputation?

Product/Service Obsolescence

Does the company have a favorable long-term outlook for its products or services that is not threatened by technological obsolescence or global competition?

Legal/Regulatory Factors

Corporate Structure

Was the company originally incorporated as an S corporation or switched to S classification?

Board of Directors/Advisors

Does the company have a board of credible outside directors/advisors in place who are consulted regarding major decisions of the company?

Lawsuits

Does the company have any current lawsuits or a history of lawsuits?

Taxes

Is the company current on all tax filings and tax payments? Has the company been audited recently by IRS and received a clean report?

Legal/Regulatory Factors Continued

Environmental

Has the company ever used hazardous materials in its manufacturing? Have the facilities had a recent Phase I or Phase II audit? Does the company have any underground storage tanks? If past problems exist, has cleanup been completed and have local, state, and federal environmental agencies provided signoff documentation? Does the company have a history of EPA fines? Is a specific individual in the Company formally responsible for compliance?

OSHA

Has the company had an OSHA inspection in the last two years? What were the findings? If the review did identify needed improvements, have all been completed? Does the company have a history of OSHA fines?

Product/Service Liability Insurance

Does the company have sufficient insurance in place to cover potential liability? Is insurance coverage on an "occurrence" rather than a "claims made" basis?

Patents, Trademarks, & Registered

Have intangible assets such as patents, trademarks, and copyrights been properly registered and fully protected? In the case of patents, does the patent have over half of its original life remaining?

Financial Factors

Track Record

Does the company have a consistent record of growth in both sales and profits over the last several years? Have sales growth and profit margins been equal to or better than overall industry?

Business Plan

Does the company have a documented business plan for the next three to five years in place? Is the plan comprehensive, believable and does it include specific and measurable objectives? Does it include all the necessary action steps along with costs and investments to implement the plan?

Financial Factors Continued

Cyclicality

Are the company's revenues affected by the economic cycle?

Seasonality

Do monthly sales, expenses, and working capital requirements vary significantly throughout the year?

Revenue Size

Are the company's revenues in the upper half of all competitors in the industry? If not, is the company of sufficient size that it could serve as a "platform" for consolidating a number of companies in the industry?

Operating Margins

Are the company's operating margins equal to or better than industry norms?
Have margins been stable or improving over last several years?

Overhead

Are the company's overhead costs consistent with industry norms? What increases in overhead costs are required to support future growth?

Assets less Liabilities (Equity)

Does the company have a substantial base of leveragable assets with a relatively low level of liabilities? What is the company's debt load?

Receivables

Does the company have average receivable days that are consistent or better than the industry norm? Has the company had any serious bad debt write offs?

Inventory

Is the company's inventory turnover consistent or better than industry norms? Does the company have little or no obsolete stock? Has the company's written off inventory been physically discarded?

Current Liabilities

Are the company's accounts payable current and consistent with industry norms?
Are the company's other current liabilities consistent with industry norms?

Financial Factors Continued

Annual Capital

Are the company's annual capital expenditure requirements relatively low? Does the company anticipate any major capital expenditures in order to support future growth?

Financial Statements

Does the company have audited financial statements?

Company Records

Are the company's records in good order and easily accessible?

Economic/M&A Market Factors

Economy

Is the general economy expanding and are indicators such as interest rates and the stock market positive?

M&A Marketplace

Is the M&A market positive including ready availability of financing, low interest rates and favorable tax laws? Are both financial and strategic buyers actively acquiring companies?

For more information regarding Exit Planning, contact Michael Pappas, CPA, CEPA at mp@barneswendling.com.

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