

Dr Lisa Lang

From: Dr Lisa Lang Theory of Constraints [drlisa@scienceofbusiness.com]
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POOGI #51: We are continuing our series based on [The Goal](#) by Eliyahu M Goldratt and the [Theory of Constraints](#). {This series was co-written with [Brad Stillahn](#)}

What's my business worth ... now? continued

Recent events have affected the value of privately held companies, including machine shops.

The market is different. Demand is different. Supply is different. Availability of credit is different. Buyer's taste for risk is different. In most cases-but not all-that means your business is worth less.

We want you to bring your exit strategy up-to-date so you can manage your most valuable asset, your business. For an insider's view of what's happening, we're interviewing one of the top sell-side merger and acquisition specialists in the country and a Viable Vision team member,

Bob Forbes.

Brad: "What's happening on the deals that are getting done?"

Bob: "Seller's are being required to participate by providing owner financing. Banks and the SBA like to see the seller committed to the deal, and having owner financing as part of the deal does that. However, most of the deals that are getting done are using non-traditional financing."

Brad: "If transactions are down by 90%, are there fewer owners trying to sell?"

Bob: "Sure. There are 70% fewer businesses for sale. Some owners will not owner finance. Others have postponed selling for now. Some distressed businesses are running for cash, and will just close. Others are bypassing traditional financing and trying to sell with 100% owner financing."

Brad: "It seems as if the valuations should be dropping under these market conditions."

Bob: "For smaller transactions, and riskier transactions, if the deal is getting done at all, it's often for a lower price compared to a year ago. Then, multiples were in the 3 to 5 times EBITDA range, now they are in the 1 to 2 times EBITDA. These are the kind of deals you'd see main street business brokers handle."

Brad: "What happens to the value of a business that has suffered in these economic conditions?"

Bob: "If sales and/or profits have declined, it is difficult for a buyer to project future earnings. That makes the deal riskier, and most likely the business is worth a lot less, even if the seller has a very good story. The owner should get sales and earnings back on track as fast as possible. We like to see three to five years of improving performance to maximize the sales price."

Brad: "What's your recommendation to an owner that was planning on selling about now?"

Bob: "A good business should still sell for a good valuation. The most important thing is to be prepared. Have your books in order. Understand the selling process. Understand the due diligence process you'll be put through by the buyer. Assemble your team of experienced transaction attorney, CPA, sell-side M&A representative, and other appropriate advisors. Remember that while you'll sell your business

once, the buyer may be very experienced in buying businesses. You don't want to be at a disadvantage by trying to conduct the selling process by yourself.

Deal structures are very fluid now. You need to work with an advisor that is on top of things."

Brad: "Is there a silver lining?"

Bob: "Yes, for bigger and better businesses, there are classes of buyers with cash that are anxious to find good deals, and there aren't very many good deals right now. Our completed transactions, using a controlled auction process, continue to be at the same multiples as before."

What's your business worth? What do you want to sell it for? How are you going to close the gap? What's your exit plan? If you are a business owner that would like to sell your company or create your exit strategy, please contact Brad Stillahn at Brad@ScienceofBusiness.com.

Here's to maximizing YOUR profits!

Brad Stillahn

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