

Putting a price on your business

If you hope to attract buyers that will make fair bids for your company, you first need to have a good understanding of its value. M&A advisors and professional appraisers can provide you with information that will help you with everything from setting a reasonable fair market value price to advantageously negotiating your deal's final terms.

Expert opinions

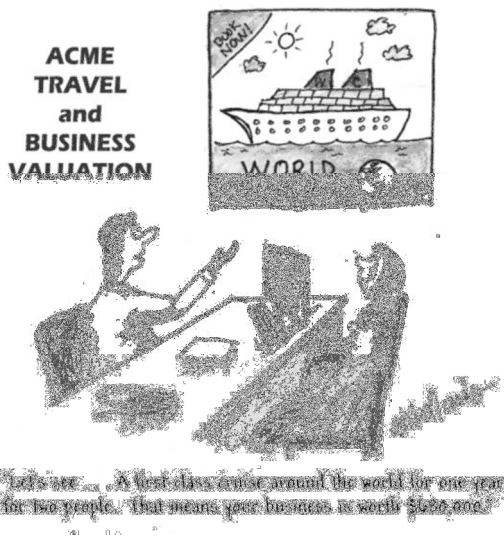
Many business owners hire a professional appraiser at some point — for example, when drafting a buy-sell agreement or making estate plans — to review their

and bonuses, and nonessential items such as club dues or company-owned vehicles.

An appraiser will also consider your accounting method. Many private businesses use a cash basis accounting system, which can accelerate expenses such as depreciation, ignore expenses like debt and defer revenues such as completed contracts for more favorable tax treatment.

Your company probably will look more attractive to buyers, however, if income and expenses are converted to an accrual basis, which records these items in the period they're earned or incurred.

In weaker economies, an appraiser might project your company's future earnings under more favorable economic conditions, based on your historical numbers. These projected earnings can be particularly useful when sale negotiations get sticky and you need evidence for your price position.



company's books and operations and provide a ballpark estimate of its value. An appraiser's services can also be useful when you're ready to sell your business.

One of this professional's critical tasks is to normalize earnings — that is, to adjust them to better reflect your company's performance under different ownership. The appraiser might make adjustments to earnings for one-time expenses, such as tax penalties or legal costs. And adjustments generally are made for discretionary expenses such as inflated (or artificially low) salaries

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Pricing for the market

Although a professional appraisal can give you a general idea of your company's worth and make your financials appear in their best light, you also need M&A advisors to help you set a reasonable market price. Ultimately,

your company's value is the price a buyer is willing to pay — regardless of the number you have on paper.

In setting a price, M&A advisors might consider variables such as the current economic environment, the M&A marketplace, conditions in your industry and recent sales prices of businesses comparable in size, history, current cash flows and future earnings projections, among other characteristics.



That information might be used to set a price based on your company's earnings before interest, taxes, depreciation and amortization (EBITDA), with three to six times EBITDA at the low end and seven to 10 times EBITDA in the higher range.

Companies with powerful value drivers such as proprietary technologies, critical patents or market-leading brands may merit a higher price than standard multiples suggest. And if you or your M&A advisors already have a potential buyer in mind, your initial price will likely reflect what that buyer considers your company to be worth. A competitor, for example, may be willing to pay an above-market price to eliminate you as a threat and gain access to valuable territories, top-performing salespeople or complementary product lines.

Your advisors can also help you take relatively simple steps to enhance your business's attractiveness and potentially boost its price. For example, you may need to clean up your workplace, repair or dispose of nonfunctioning equipment and ensure that your employees look and behave professionally.

Be reasonable

However you arrive at a value for your business, keep in mind that you'll need to remain flexible and open-minded throughout the M&A process. Potential buyers will have their own opinion of your company's value; and if the parties' positions are vastly different, price negotiations are likely to go nowhere.