November 22 - December 5, 2010

SAN FERNANDO VALLEY BUSINESS JOURNAL

LOS ANGELES • GLENDALE • SANTA CLARITA VALLEY • BURBANK • CONEJO VALLEY • SIMI VALLEY • SAN FERNANDO • CALABASAS • AGOURA HILLS • ANTELOPE VALLEY

# Getting Top Value For Your Company

By Gordon Gregory

Knowing what your business is worth is vital when planning for the sale of your company, raising capital or retirement. Some companies command a premium value, while others do not. Take a look at your business with the checklist below. It will expose strengths and weaknesses of your company which buyers and investors measure in determining their interest and establishing value. With this understanding you can go about improving the value of your company, as well as positioning your company for optimum appeal.

There are many factors which contribute to value. Some are reflected in revenue growth, others are accounted for in terms of reduced costs or improved profit margins, and still others are the desirable attributes which make your operating processes and the markets you serve less risky, not subject to economic whims and supplier influences. These factors become the basis for developing discounted future cash flows, the most common analytical method for estimating value. It is also helpful to both identify and define other risks and success elements of your business so that you can clearly explain your business to others.

In a manufacturing company, for example, some of the value drivers to look for include:

• Is there a central visionary who drives your company to industry leadership? And if so, will this person remain available for the next few years?

• How deep, experienced and cohesive are your top management? Your middle management? What retention program does the company have for key managers?

• If your company is technology-based, how are future innovations assured?

• Are your major accounts controlled by only a few key people?

Have you and your management defined a clear corporate mission and culture? When establishing your team, did you also identify the unique features of your business? A good place to start is to survey your customers. You will find that the uniqueness of your business will be based upon one or more of the following:

• Clear product and service advantages.

• Niche market or markets with limited competition.

• Significant market share, even in a competitive environment.

• Proprietary technology edge.

• Responsive manufacturing processes.

• Customer loyalty from a broad customer base instead of limited customer concentration.

• Special vendor relationships not available to your competitors.

• Access to additional markets, such as export.

From a valuation standpoint, there may be other internal aspects of your business of equal importance to your external customer attributes. They may include:

• The debt to equity ratio within your company.

• Gross and operating profit margin expansion or contraction.

• The retention of or availability of earnings to finance future growth.

• Minimum future unfunded liabilities for health, retirement, and pension/stock plan payout.

• Viable operational controls, especially with regard to efficient computer systems and the manufacturing processes they coordinate. ISO 9001 compliant.

• Documented financial, human resources and information management controls.

• Ability to maintain a product and service edge via on-going innovations through research and development, special know-how, formulas and processes.

• Knowledge of production costs plus an ability to quickly adapt your manufacturing processes to customer buying habits and needs.

• Plans for outsourcing when needed, or off-shoring to remain competitive.

• Known and limited exposures to environmental issues.

• Certifications in place which were grandfathered or are otherwise difficult or impossible to obtain, such as pollution emissions, FDA approval and air rights.

• Favorable leases, whereby current rent is less than market rate.

• Non-union labor force.

• Advantageous credit facilities, either with senior lenders or other debt instruments.

• A backlog with significant contracts in force.

• Capacity of your installed capital base, as well as capital expenditures required to sustain future growth.

Many different factors contribute to a premium value. Each will be analyzed for its impact on top line revenues, gross and net profit margins, and risks relating to sustainable future performance.

*Gordon Gregory, JD, MBA is Chairman and Managing Director of Mosaic Capital LLC and Mosaic Capital Securities LLC - member FINRA/SIPC, one of the leading providers of investment banking services to the middle market. With offices in Southern California and around the globe, Mosaic executes sale and divestiture transactions, mergers and acquisitions, partner and management buyouts, debt and equity financings, and valuations. www.mosaiccapital.com or (818) 728-7555.*