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Maximizing the value of your business for a sale

In order to obtain the highest sale price for their company, business owners should strive to maximize the value of all elements of their organization. Once a decision is made to sell a business, it is imperative to conduct a thorough internal analysis of the organization in order to avoid any issues or roadblocks that may be uncovered during the due diligence process by a potential buyer. At Wentworth Strategy Group, we work closely with clients, advising them through the key steps to maximize the value of their businesses in preparation for sale.

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Organizational assets and attributes that maximize business value

Past and current profitability and potential to scale
• One of the key factors looked at by potential buyers is the **profitability** of a business and its ability to generate **continuous revenue**. Buyers often want to understand the timeline of profits - how a company is doing currently compared to previous operational years, and whether there is expected growth of profits in the future. A business will be valued higher if it has a significant capacity to grow and if there is a structure set in place to achieve the projected revenue.

Diversification of revenues
• The value of a business is perceived to be more robust if there is a **diversified client base and revenue streams**. Having a concentrated client base is perceived as higher risk to a buyer. If one or a small group of clients contribute to more than 50% of the revenues, then the value of the company might be negatively impacted. Furthermore, having an appropriately diversified set of product or service offerings makes a company less susceptible to fluctuations in a given market. However, diversification needs to be carefully thought through. It can be a mistake to pursue activities which do not offer desirable returns and may present challenges and needs beyond a company's expertise. Recurring revenue sources are also preferable (as opposed to those pursuing ad hoc or one-time income), and typically lead to a higher valuation.

Current and well-organized company information, records, and financial statements
• An owner needs to instill confidence in potential buyers as they analyze the business and complete their due diligence. One of the key ways of doing this is by maintaining a **well-organized and accurate** history of your company's financial information and other material documents. Inconsistent or unclear financial reports and key information are often considered to be red flags and may decrease the value of a business.

Carefully consider the impact of tax minimization strategies
• Business owners often model their operations to minimize income tax. However, this may not be the optimal strategy for businesses that are trying to maximize their value. Minimizing taxes by **decreasing a company's profitability** may adversely impact the presentation of profitability, and by extension, the market value of a company.

Make the owner obsolete
• Businesses that completely rely on one person or a group of people for important operations such as day-to-day management, relationships with customers or clients, or to know key facts, may be perceived as unable to continue to perform at a high or consistent level if these parties exit following a sale. Companies need to have a **knowledge repository** that systematically captures and records knowledge-based information. If multiple people are involved in any given activity, the knowledge is retained within the company and the risk of any important information falling through the cracks is mitigated in the event of departure of personnel.

Be integrated with trusted advisors
• Having trusted professionals on board to help direct the current and future business health is essential for any type of business. **Experienced strategic consultants** have a wide range of expertise and can help recommend and integrate affiliated service providers such as accountants, lawyers, and business valuators. Especially when selling or buying a business, niche, targeted expertise is a critical element in a successful transaction.

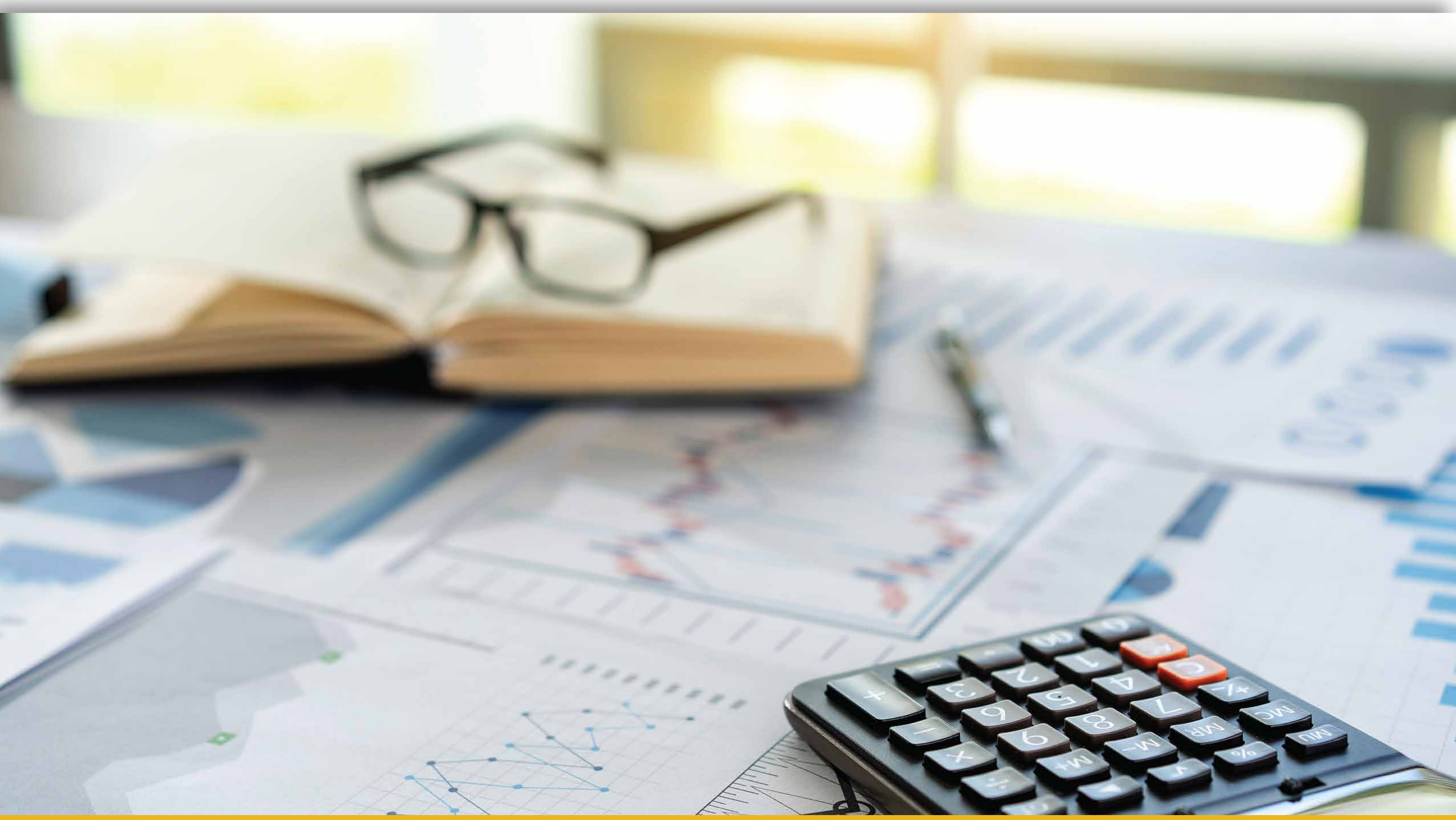
Methods of valuing a business

Owners and executives of privately-held companies, especially small and medium enterprises, are often challenged to determine the value of their business. The three most common methods of calculating business value are discussed below, but it is often a combination of the three that provides true guidance on value:

• **Precedent Transactions:** The precedent transaction approach compares the fair market value of a similar business within the same industry. To hone in on an amount, business valuators review companies that have been **sold or acquired** in the same industry over a recent time period. It is easier to derive an appropriate market value if there is readily available comparable transactions data, and the more recent, the better.

• Comparable Company Analysis: This form of valuation is based on the idea that similar assets sell at similar prices. This type of valuation is also known as **multiples analysis** or valuation multiples. The key here is to have a multiple, for instance, EBITDA, and compare it with the industry-standard multiple. This process is based highly on the financial information of the company and provides you with a valuation range, as compared to similar companies.

• Discounted Cash Flow (DCF): Discounted cash flow is a valuation method used to establish the value of a business today, based on the estimation or forecast of company revenues it will generate in the future. Assumptions that are made about future revenue, expenses and business conditions and can include different scenarios and sensitivity analysis.



Types of buyers that may be interested in your business

As a seller, it is often ideal to tailor a business and its presentation to attract a certain type of buyer. Typical buyer profiles can include:

Shorter Turnaround Time Buyers
• These buyers are looking for an investment opportunity with a quick turnaround time to generate a return on investment. The business and its presentation need to show a clear and imminent opportunity to increase in value to attract this type of buyer.

Longer Term Buyers
• Longer term buyers may be open to purchasing businesses which either offer a likelihood of steady and predictable but less exponential returns, or businesses which have significant upside potential and are selling at an attractive price due to the effort that would be required to realize this potential.

Strategic Buyer
• Strategic buyers acquire enterprises that can complement their current businesses to improve their operations and offerings. For example, a construction company may purchase a cleaning company to provide cleaning services once the construction project is completed.

Angel Investors
• Angel investors commonly work with startups and to help them to launch their business. They invest to either purchase a part or all of a business, and often in companies that have no proven track record. These types of buyers have a significant risk taking capacity.

Venture Capital
• Venture capital firms generally purchase companies that have significant growth potential and who may benefit from the expertise, affiliations, and networks of the venture capital firm.

Private Equity
• Private equity firms pursue ownership or interest in privately owned companies. Generally, these companies are relatively mature and meant to be held as part of the firm's portfolio for a period of time.

How Wentworth Strategy Group can help

Wentworth Strategy Group's trusted advisors work directly with owners, executive teams, and boards of directors to guide businesses through significant financial events. We help business owners evaluate and navigate the process of a business sale, including **maximizing their businesses value before approaching prospective buyers.** Wentworth Strategy Group has extensive working relationships with key corporate finance partners including banking, accounting, legal, business valuation, and strategic business partners. We analyze the current health of the company, help implement key initiatives, and work closely with owners and executives to achieve a successful business exit strategy or specific strategic objective.

Wentworth will often advise on the following scope of services:

Capital Advisory
- Capital structuring
- Debt financing
- Equity financing
- Commercial real estate financing
- Go public process
- Access to institutional and private capital in Canada, the United States, and internationally

Mergers and Acquisitions
- Facilitation of strategic business reviews
- Business valuation
- Acquisition financing
- Assistance in entire transaction process: identifying sale and purchase targets, negotiating terms, performing due diligence, and closing of transactions

Corporate Governance
- Review of best practices
- Review of board of directors and executive team relationships
- Guidance on strengthening corporate governance policies
- Identifying key stakeholders and relationship principles
- Developing risk mitigation strategies

Looking for advice on selling your business?

Contact corporatefinance@wentworthstrategy.com

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Wentworth Strategy Group is a diversified management consultancy focused on helping small and medium enterprises thrive. Our areas of expertise include strategic planning and execution, corporate finance, sales, marketing and communications, accounting, and media buying. We work with both for profit and nonprofit organizations through projects, retainer-based relationships, and in fractional executive roles.

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and information please visit our website.

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