

How To Optimize Your Company Exit Valuation ***The 5 Essential Elements by Larry O'Toole***

"If I Could Turn Back Time"

This was supposed to be an exciting time for Craig, yet he was somber. "Larry, I was working the dream...started the business and worked my butt off over the years all the while dreaming about the future reward. Now I'm about to ink this deal as I need to sell and move on in my life....and the deal is ok but certainly not what I dreamed of. I thought by having good financials I'd sell for a premium. The buyer's valuation includes other factors I didn't anticipate and now realize it's impacting my exit valuation. If I could turn back time I'd sure do things differently!"

In 20 years as CEO of various businesses, I've heard this reflective comment from Sellers many times. I have felt the pain of selling a business at or below market but have also experienced the euphoria from selling for a premium. There are two primary drivers that might cause a business owner to wish they could turn back time and both are avoidable. The first is not starting preparations early enough, most often caused by the uncertainty of exactly what actions to take. The second is doing some of the right things but not all of the necessary things. Like a pilot working the check list for landing, doing a great job managing just a few of the critical steps isn't enough to optimize the outcome.

It's for this reason I developed a campaign that extracts the uncertainty of how to prepare early and guides an owner through all 5 of the essential elements for maximizing exit value or what I refer to as company worth.

Setting the Targets – What Will Great Look Like

Blake asked Ken, the company owner, what good looked like for the future of his business. Ken replied his goal was to sell within 5 years. Blake asked, "if you hit that goal will it make you ecstatic?" Ken hesitated in his reply and realized at that moment that perhaps it was the wrong target.

This is a foundational element and the starting point for the campaign. Planning templates are used to facilitate setting various key targets. Among them is certainly a desired "when" but much more powerful is identifying "how much". Setting a desired exit valuation allows you to assess the reality of the target and set your company strategies needed to achieve your desired future outcome.

Know Your Environment

Karen was an avid surfer often drawing analogies between surfing and being a CEO. Standing on the shore assessing the tides and waves before heading in, it hit her that she could be doing a better job of having better awareness of her company environment.

An ocean wave can slam you or propel you. The same applies to understanding the dynamics of your market including the cycle of multiples being paid and who the potential acquirers might be. Owners often declare, "I'm not ready to sell." Well, timing might be everything. You don't want to miss a wave that might come from market multiples rising or even a particular company that is aggressively acquiring.

Building the Right Strategic Bridge

Steve read the strategic plan to give insight to his client. He asked, "when this is executed, do you know what the impact will be on your future valuation?" Fran hesitated in answering and that proved Steve's point in asking the question.

Critical with this element is having the templates to make a bridge between your strategic plan and your company worth creation plan. It's common in strategic plans to see the focus on driving revenues and profits, essential of course to do. But it's important to realize that acquirers are looking for more than just great financials. They will be looking at other aspects of your business such as various performance trends, customer concentration, quality of contracts and the list goes on. You need to know early on what these other factors will be and leave time to prepare to impress and excite the buyer.

Having the Right Organization

Mike was expecting the focus of the due diligence work to be around his company's financials. He was surprised by the questions relating to his team and individual people.

Your team in many cases will be what truly excites the potential buyer. You will want to be fully prepared to impress the buyer as they delve into your team's experiences and pedigree's; who the critical personnel are, organization structure, compensation and benefits programs and ultimately your organization culture. Readiness in this area can either excite or turn off a potential acquirer. I have backed away from many deals or adjusted the acquisition price downward because of concerns related to the organization coming along as part of a transaction.

Having the Right Deal Team

Sarah received a call from the acquirer's lawyer. "Hi Sarah, we need to talk about the due diligence process because we are getting frustrated and may withdraw our offer.

I'm sure your lawyer has taken care of you over the years but he's not a transaction attorney and quite frankly is out of his element."

Your company accountant and lawyer that helped you get to this point might not have the proper experience to get your exit deal over the finish line. You don't want to find yourself executing well on all of the other key elements of this campaign only to find that you didn't assemble the right team to get the deal done.

Don't let the uncertainty associated with preparing your business for optimizing company worth at time of exit keep you from starting early and addressing all 5 essential elements. You worked hard starting and running your business, now promise yourself to never utter the words, "If I could turn back time".

*About the Author: Larry O'Toole has over 20 years as an experienced CEO of manufacturing and service businesses. He founded Yosemite Associates, LLC and introduced the **Bank your moment**® campaign to help company owners extract the uncertainty associated with building their company worth. Larry serves on various corporate Boards and assists a diversified group of business owners on their worth creating journey. Larry can be reached at 949.874.0787 or Larry.OTOole@YosemiteAssociates.com.*

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