



## **Beyond Market Multiples: Increasing the Value of Your Company Before the Sale by Kenneth H. Marks**

Great news! After a long drought of M&A activity, the market for private companies is showing signs of life and recovery. If you own or operate an emerging growth or middle market company, what does this mean for you when thinking about shareholder liquidity or selling the business? And how can you improve the odds of getting a deal done?

From a private equity perspective, the dollars invested in middle market companies more than doubled from 2009 to 2010. Publicly traded strategic buyers like the S&P 500 companies have historical levels of cash, and are seeking to deploy part of this hoard to generate significant revenue through external growth initiatives like acquisitions ...which can provide access to new customers, higher margin product lines, new technologies and entrepreneurial talent.

While the number of transactions is increasing and appears to be rebounding, the character of the market and deals is different from that of the pre-great-recession vintage. In the period of 2004 to early 2008, there was significantly less scrutiny in underwriting and financing transactions. Today, the performance bar has been raised high with a flight to quality. Transactions are being done with only the very best industry players within a market; and these companies are able to garner valuation multiples at nearly 2008 levels. However, the average and lower performing businesses will likely find greatly depressed multiples, or worse, no interest from buyers or investors at all.

Thus the quandary - what is the typical company to do to create a partial or complete exit for its owners? Here is an approach that has proven successful in increasing the value of a company before the sale and enhancing the likelihood that a transaction will occur -

1. Start the process by clarifying the objectives and desires of the owners. The game plan for creating an exit needs to be aligned with the ambitions of the shareholders.
2. Determine how the company really compares to the industry - in terms of financial performance (i.e. profit margins, sales growth rates, productivity, etc...), competitive position, growth strategy, customer base and concentration, and talent. In effect, conduct what a buyer may call "strategic due diligence" on your business and grade your performance.
3. Shore-up the fundamentals - why sell your company and leave untapped value for the buyer? ...value that you can realize by making some of the predictable improvements that a buyer will make, but do it before you sell. This step, by itself, can create a significant premium in value for the average business. Keep in mind that making performance improvements takes time ...it may take from a few months to over a year to complete; so plan a head.
4. Think about your business from the buyer's perspective - your company is an investment. What is the growth opportunity and strategic value beyond today's numbers? Even with your house in-order and a strong foundation, what investments

could be made by management if more capital was made available to further increase the value of your business?

The overall objective in positioning for an eventual sale, recapitalization or ownership transition is to address the low hanging fruit, in terms of operational performance and strategic position, and shore-up the critical value drivers ...fundamentally making the business stronger. And, in the process identifying the longer-term investment opportunities. This then allows you to lead the process with a robust investment opportunity beyond the foundation that exists today.

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