

# Understanding and maximising business value.

Presented by:  
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**Hibernia**  
Corporate Finance

Company Disposals | Acquisitions | Equity Fundraising

# Acronyms & Terminology

## EBITDA

Earnings Before Interest Tax Depreciation & Amortization

## Enterprise Value

The Market Value of the business.

## Business Equity

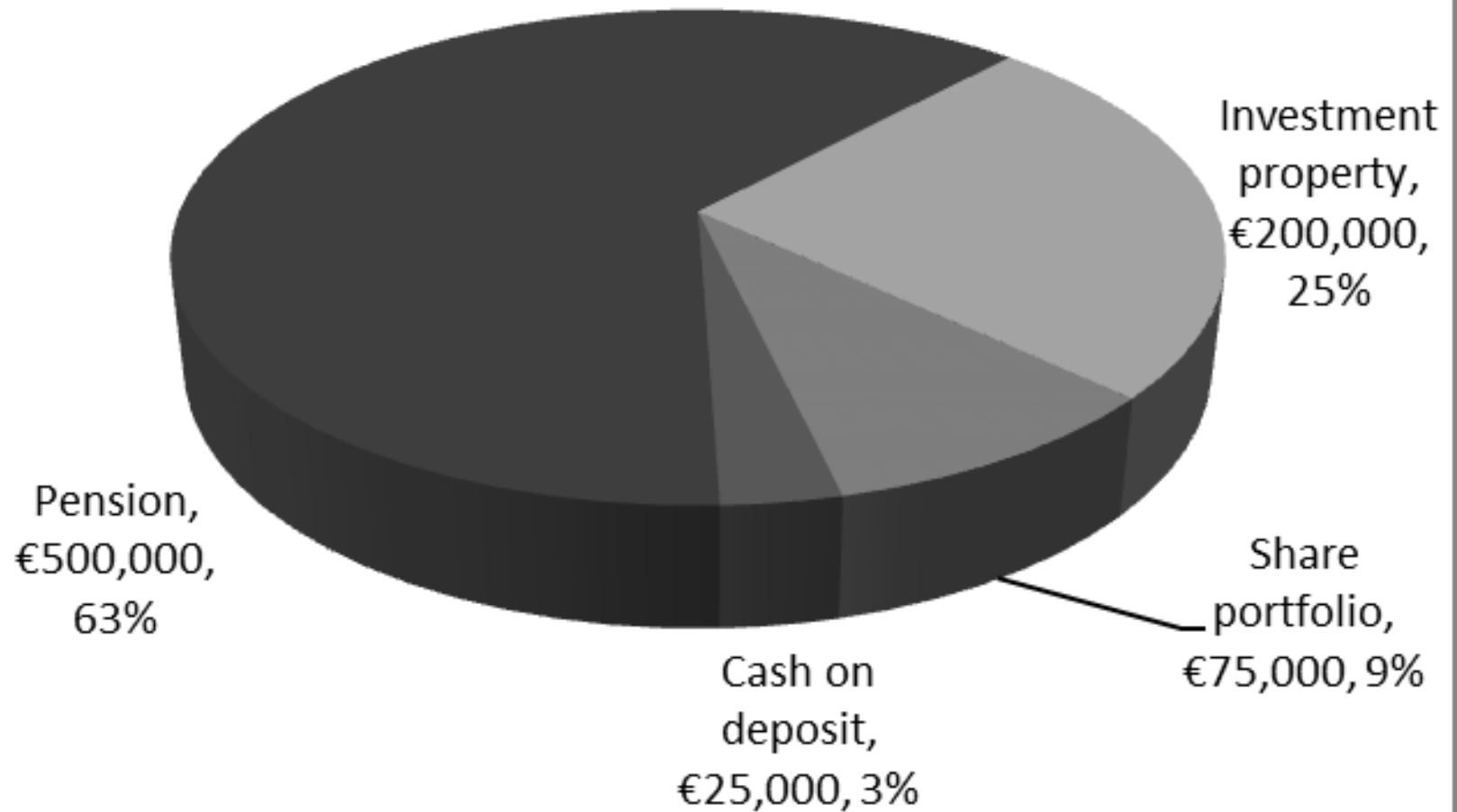
Enterprise value less debt plus excess cash.

# This presentation covers

- How the market values a business.
- What buyers are looking for.
- Valuation mistakes to be avoided.
- Actions to maximise exit value.
- Terms of sale – it's more than just price.
- The sale process – be prepared.
- Q&A.

Mr. Smith

## €800,000 net assets



## Mr. Smith

- Aged 66 & wants to retire at 70.
- Owns a successful small business.
- EBITDA €100,000 per annum.
- No family succession.
- Wants to sell his business in 4 years time.
- Proceeds invested to fund retirement.
- How can he maximise selling price?

# Understand

- what buyers get
- what drives value
- the different types of buyer
- how to maximise selling price



**Buyers purchase  
future not past profits.**

(The value of any business can be defined as the risk adjusted present value of future cashflows.)

# What drives **market value**?

## ➤ **Quality of Profits**

- Historical - EBITDA over the past 3-5 years
- Future - Forecast EBITDA over the next 3-5 years

## ➤ **Risk Management**

- Internal – Management Quality, Scaleable Processes
- External – Competitors, Regulation/Legislation

## ➤ **Market Conditions**

- Timing – Are there buyers in the market?
- Finance – Will banks fund an acquisition?

# Three **types** of buyer

## 1. **An Individual Buyer**

- Limited financial resources – buying a job
- Doesn't bring any synergies or economies of scale

## 2. **Financial Investor**

- They bring financial resources but no synergies
- Driven primarily by return on investment

## 3. **Strategic / Trade Buyer**

- Will benefit from economies of scale & other synergies.
- Can pay a premium if there is competitive tension.

# Size matters

## Big is (almost) always better

	Micro	Small	Medium
Number of Staff	< 10	< 50	< 250
Annual Turnover	< €2m	> €2m < €10m	> €10m < €50m
Balance Sheet Value	< €2m	> €2m < €10m	> €10m < €43m

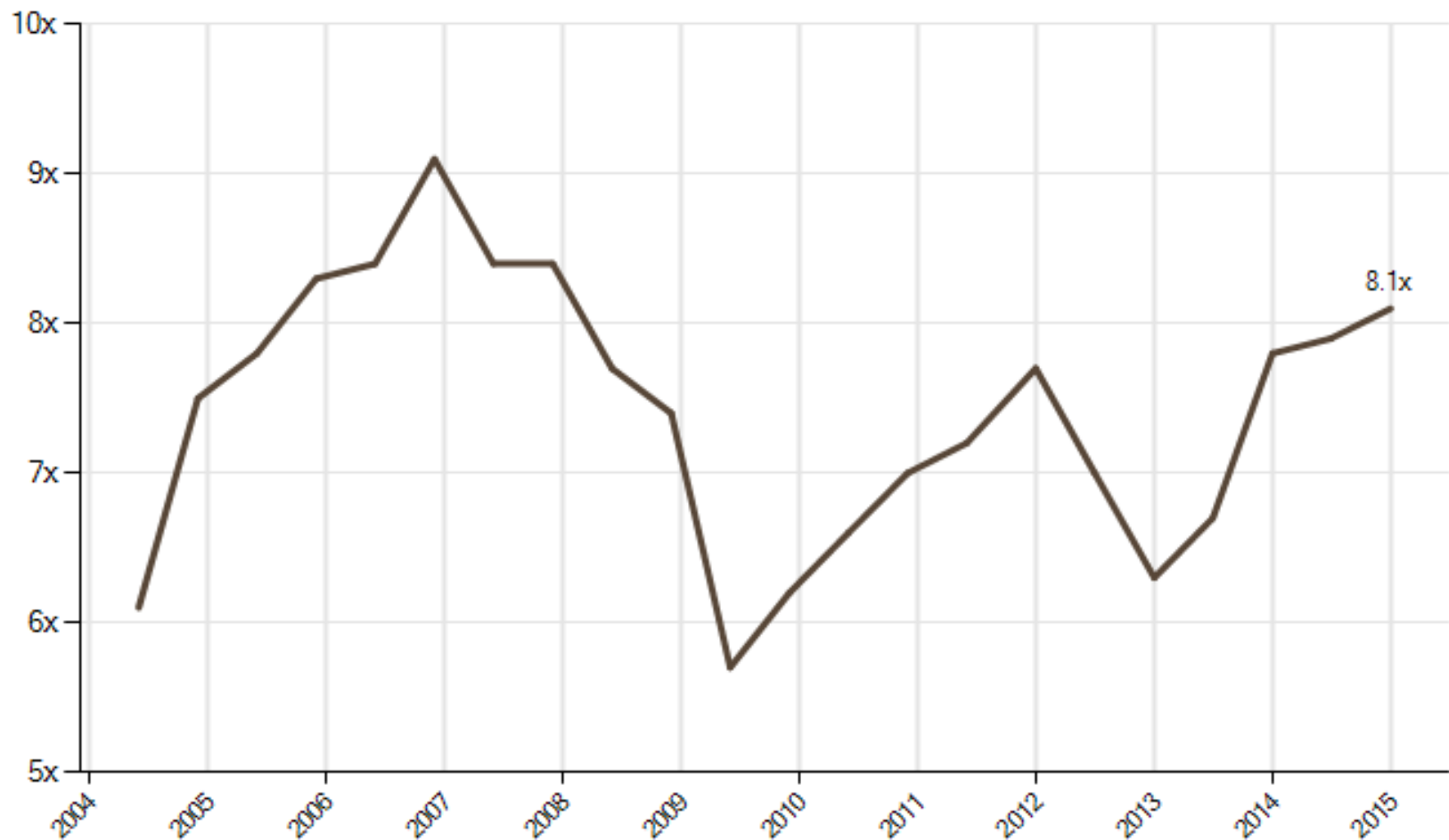
## Bigger businesses sell for higher EBITDA multiples

EBITDA	€100,000	€1,000,000	€10,000,000
Typical Multiple	1-4	3-8	5-12

# Timing really matters.

## Indice Argos Mid-Market

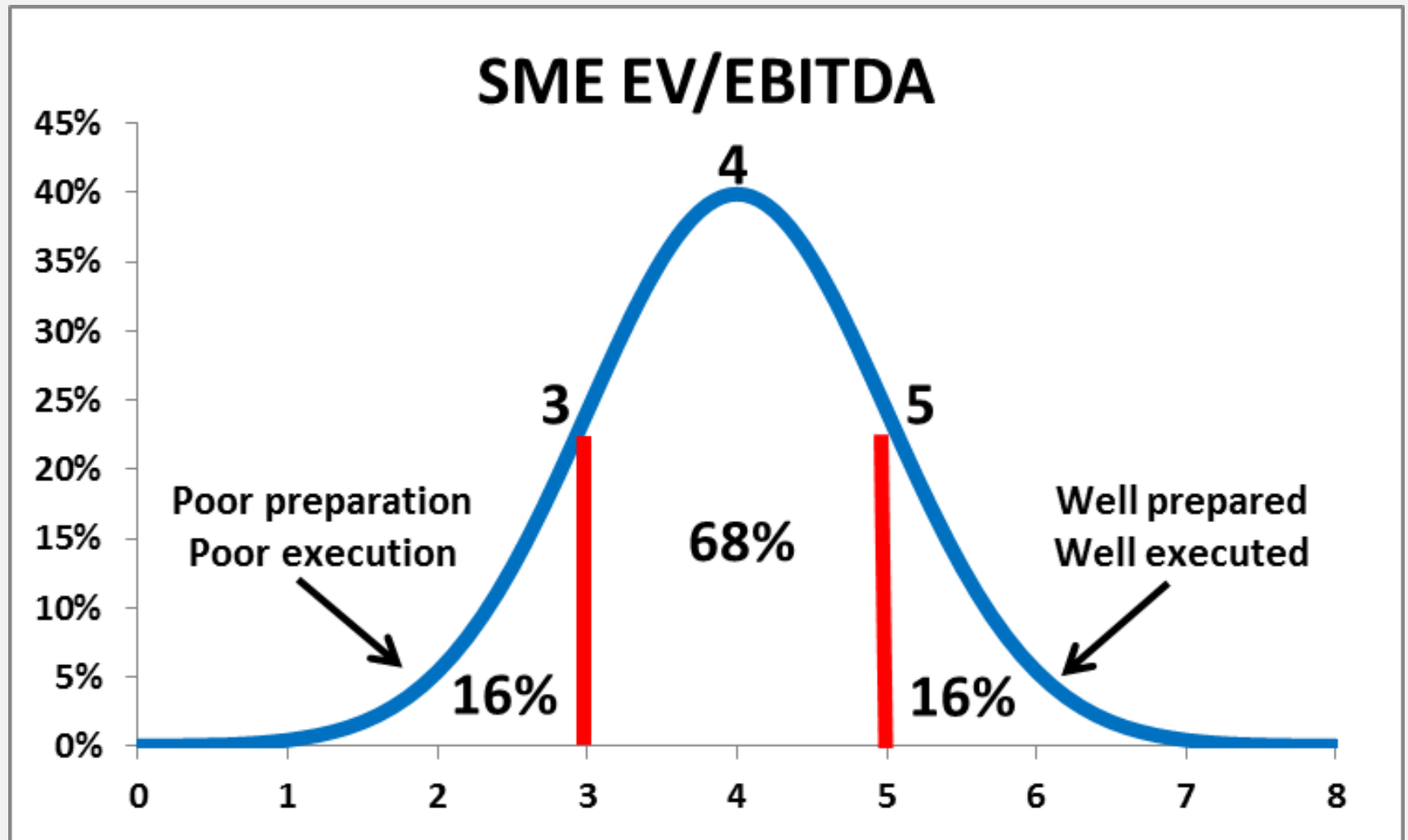
Evolution of the EV/EBITDA historic, 6 months rolling basis



Source: Epsilon Research / Argos Mid-Market Index

— Argos Mid-Market Index

# Who wants to be **average**?



# How to maximise **selling price**?

## ➤ **Preparation**

- SWOT the business to identify actions
- Commit to implementing

## ➤ **Synergies**

- Specific to each potential buyer
- Understand and measure the value

## ➤ **Competitive tension**

- Several motivated buyers
- Invite offers and negotiate to “best and final”

WHAT ARE  
BUYERS  
LOOKING  
FOR?



# What are buyers looking for?



## Predictable income and Consistent financial performance

- Growing revenue and profits
- Predictable income <<< This is key

# What are buyers looking for?



Management  
**independent** of  
ownership — scalable  
process driven businesses  
are more valuable.

# What are buyers looking for?



## Skilled/experienced employees



# What are buyers looking for?



## Well diversified customer base



# What are buyers looking for?

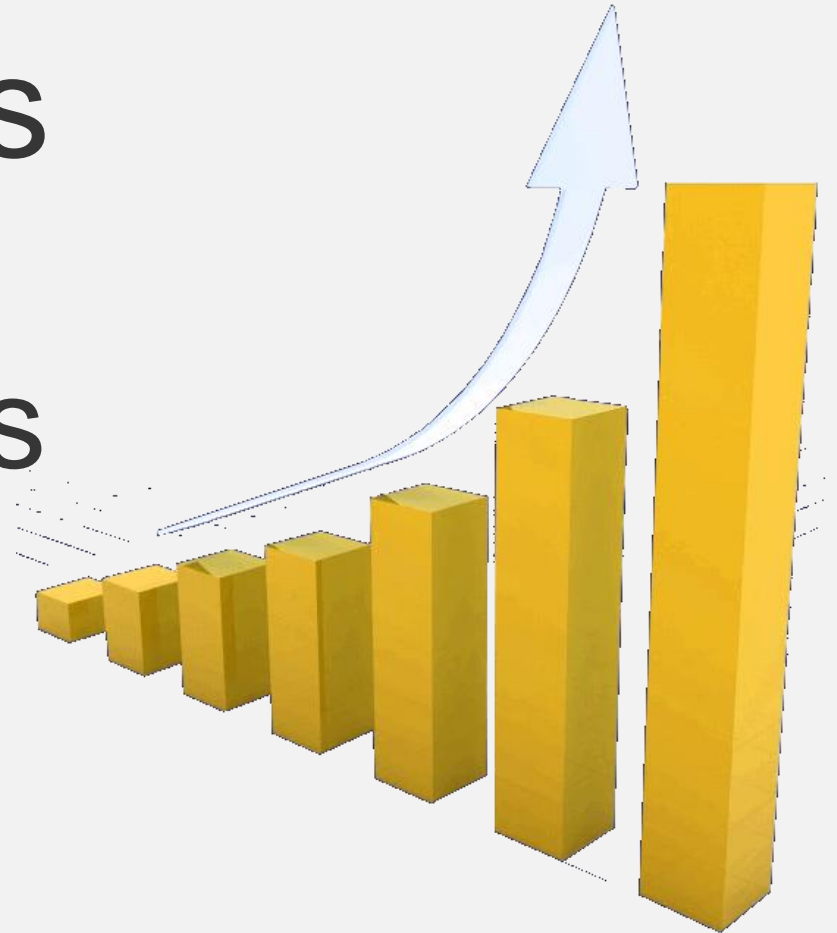


Multiple  
products/services

# What are buyers looking for?



Businesses  
with **growth**  
opportunities



A person wearing a grey suit and a patterned tie is holding a white document. The document has some faint, mirrored text from the reverse side visible. Overlaid on the document is the text 'COMMON VALUATION MISTAKES' in large, bold letters. The person's hands are visible, with the right hand gesturing towards the document.

# COMMON VALUATION MISTAKES

# Valuation Guidelines

**Rules of Thumb should NOT be relied on.** They can be helpful but are backward looking and ignore the terms of sale.

“A Rule of Thumb is an easy to remember guide that falls somewhere between a mathematical formula and a shot in the dark”

From Tom Parkers book – Rules of Thumb

# Common Valuation Mistakes

## Overvaluing Goodwill

“Goodwill is nothing more than the probability that the old customers will resort to the old place even though the old owner has gone”

Cruttwell-v-Lye 1810



# Common Valuation Mistakes

## Overvaluing Potential

- Hypothetical and unproven
- Why was it not exploited before this?
- Buyers rarely pay for something they have to make happen themselves.



# Common Valuation Mistakes

- Micro businesses won't have **strategic value**.
- **Don't fall into the trap** of thinking hard work and/or years in business = high value of goodwill.
- Don't **over value** your business. If you want more for your business than the market is prepared to pay **you will NOT sell your business.**
- SME's typically sell for between 3 and 5 times **EBITDA\***.

\* Frequently involve some form of earn out.

ACTIONS TO  
**MAXIMISE**  
SELLING  
PRICE



# Actions to Maximise Selling Price

## **UNDERSTAND and maximise**

➤ **Recurring Income**

➤ **EBITDA**

# Actions to Maximise Selling Price

- Groom competent staff.  
Businesses which ARE the owner are extremely difficult to sell.
- Implement scalable processes
- Address key man issues
- Maintain good financial records  
Minimum of three years.

## Actions to Maximise Selling Price

- **Talk to your advisors early in the process.** Legal, tax and financial planning can **maximise your after tax proceeds.** Share Vs asset sale etc.
- Understand the **synergies** a buyer may accrue.
- Commit to a **competitive sale process.**

# Actions to Maximise Selling Price

- **Be flexible in relation to earn outs or deferred payments.** 90% of all SME business sales involve some element of deferred payment. **Don't expect all cash on completion of the sale** and do expect to compromise – rarely does a sale meet all of the seller's and buyer's objectives.

A PROVEN  
PROCESS WILL  
**MAXIMISE**  
**SELLING**  
**PRICE**



# The sale process

The buyer **willing to pay the highest price** for a **business** can only be identified through a combination of **comprehensive marketing** and **competitive bidding**.



Follow a Proven Process to **MAXIMISE** selling price



The sale process

**Strategic buyers**  
often pay  
**significant**  
**premiums. Cast**  
**the net wide.**

# CONFIDENTIALITY IS ESSENTIAL

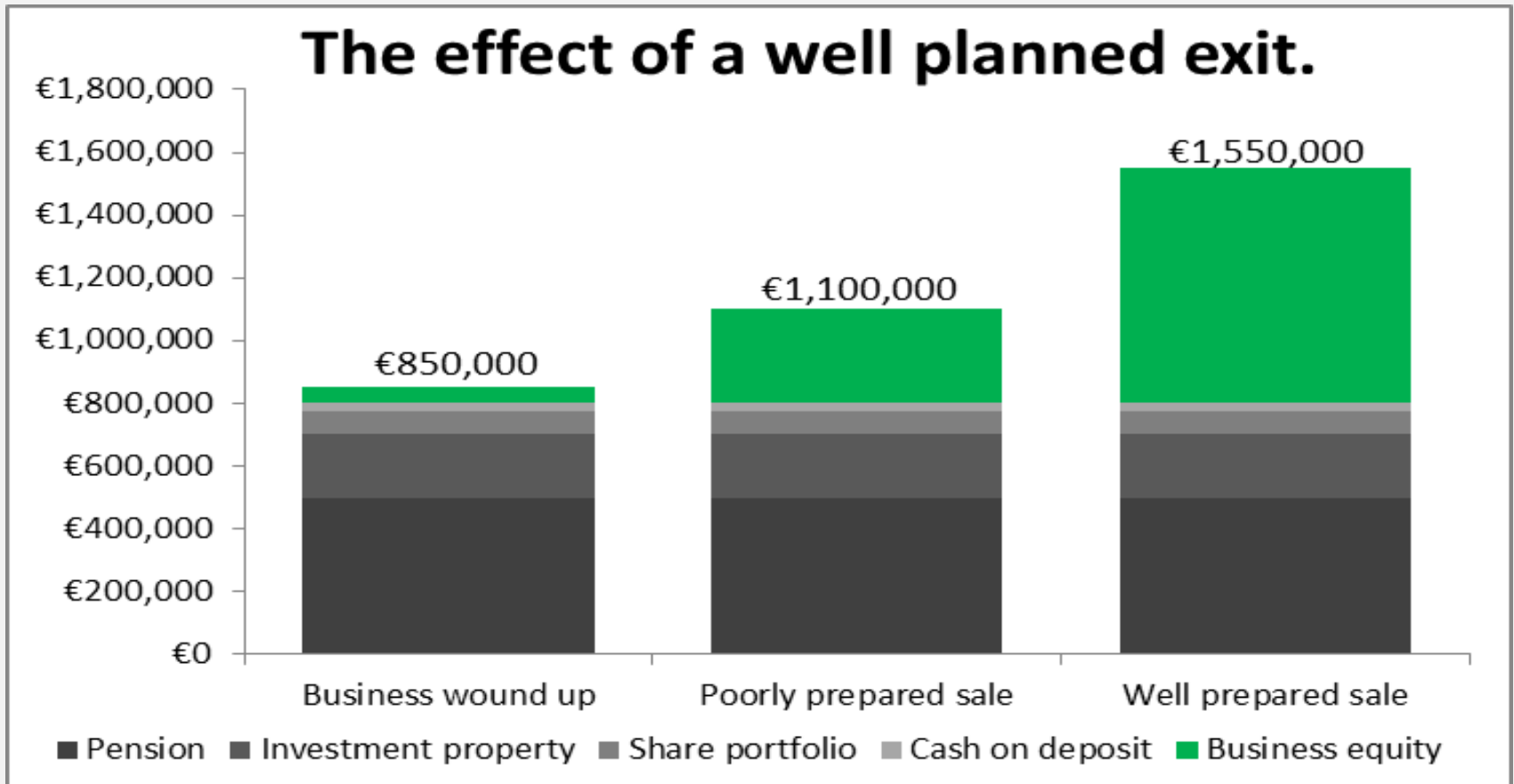
- **Staff** become unsettled.
- Competition spread **rumours**.
- **Customers** leave.



**Selling is a **marathon**  
**not a sprint.****

Business sales typically take  
between **six and nine months**  
from starting the process  
through to contract completion.

# Remember Mr. Smith?



- A large percentage of businesses fail to sell.
- Poorly prepared = 3 X €100,000 EBITDA
- Well prepared = 5 X €150,000 EBITDA

# What do IFA businesses sell for?

- Anecdotal evidence suggests **Client Books** typically sell for between 1.5 and 2.5 times **recurring income**\*

\* Frequently involve earn out.

## Sale of the XXX IFA book of business to YYY Ltd for €500,000

Recurring income = €250,000

Persistency rate = 89%

Buyout Multiple = 2

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Revenue from transferred clients	€222,500	€198,025	€176,242	€156,856	€139,601	€124,245
Less: Cost of servicing (25%?)	€55,625	€49,506	€44,061	€39,214	€34,900	€31,061
Profit after tax (12.5% Corp Tax)	€146,016	€129,954	€115,659	€102,936	€91,613	€81,536

**Payback is in year 6 - excluding the time value of money.**

## Key messages to take away

- Micro businesses are very difficult to sell
- Bigger businesses sell for higher multiples
- Consider growth through acquisition
- Maximise predictable/ recurring income
- Maximise EBITDA
- Understand the buyers decision process
- Be pragmatic about value & terms
- A well planned and executed exit can significantly enhance retirement funding

# Thank You

## Questions?

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