Ellen Rohr About 1300 words

First Serial Rights

© Ellen Rohr

**What is Your Business Worth?**

Every now and then I get an email with the Subject line: Quick question

Then, the body of the email contains a short question that may require a long answer. Here’s one:

*Ellen, I want to sell my business. What is it worth?*

Good question, right? You could spend a lifetime discovering the answer. In this column, I’ll share a few basics about how to create a company worth buying, and some valuation approaches. Hopefully, it will inspire you to learn more.

I get excited when I hear of contractors selling their companies for millions of dollars.

Now and then, windows of opportunity open up for selling your company. Right now the window is wide open. (Google *consolidation opportunities in the plumbing heating industry 2018*) There are individual companies buying other companies. Investment companies are consolidating service businesses, and franchisors buying franchisees. You deserve to make a lot of money doing the amazing, essential, highly skilled, sometimes dangerous and dirty work that you do. One way to create wealth is to build a business you can sell.

What makes your company salable…

Generally speaking, buyers are looking for a turn-key way to add profits and cash to their business empire. So, consider how you can make your company fit that simple criteria.

* Get your financial house in order. As the owner, it is your money and you should know what you have (Assets) and owe (Liabilities) and own (Equity). Clean up the Balance Sheet and the Profit and Loss and get rid of the weird items that inevitably crop up. Dig into every account to make sure it’s right.
* Put the systems in place. Write the manuals. Train on them, and hold team members accountable. Create a culture of getting projects assigned and done. Build a company that can run without you.
* Generate profits and cash. Put a budget together and plan for a generous profit. Raise your prices as needed. Focus on customers who pay COD, or commercial customers who pay within 30 days. Upgrade your marketing messages and sales systems.

As I write this, I know it sounds simplistic. It is possible to create a turn-key, profitable, cash-flowing company. However, few contractors do it…and very few create a company worth buying. I encourage you to be one of the few. Build it, and perhaps sell it, for a lot of money.

How much? Let’s jump into a Traditional Valuation approach…

EBITA stands for

Earnings

Before

Interest

Taxes

Depreciation

Amortization

One way to value a company is to review the earnings (another word for profits) of a company over a few years. Start with the earnings, and add the amounts expensed for interest, taxes, depreciation and amortization.

The more profits you consistently, predictably generate, the more your company is worth. The multiplier is a bigger number if…

* You collect those profits in cash. A long, and aging list of Accounts Receivable will reduce the multiplier.
* The financials are right and tidy. The balance sheet is healthy. The assets are A debt to equity ratio of 2:1 or better.
* You are trending up. Your sales and profits are getting bigger.
* Your market area is compelling. For instance, a buyer is taking a competitor off the chess board. Or, a franchisor wants to move into your market.
* Your team is awesome and it looks like they may to stay on with the new owner. NOTE: You don’t buy or sell people. Watch your words.

So, by way of very simple example…

You have a company with all criteria described above. You have demonstrated an average of $5 million in sales and $1 million in EBITDA over the last few years. Using a multiplier of 5, you may sell your company for $5 million. The buyer may offer a combination of cash and stock in the merged company.

For years, I heard the term EBITDA but was afraid to reveal my ignorance by asking what it meant. It’s helpful to learn the language of business and acquisition. A solid starter book is *Rich Dad Advisors: Buying and Selling a Business* – by Garrett Sutton

The reality is that your company is worth what someone will pay for it. As a rule of thumb, investors and consolidators are looking for bigger companies and will use some version of an earnings-based valuation formula.

Other companies, or competitors, will make an offer based on what they want that you have. Or, what they can afford. Or, what you ask for.

Alternative Valuations include calculating a selling price based on a…

* Percentage of future sales.
* Percentage of current sales.
* Lump sum for fixed assets – buy your trucks
* Pay down of your debt
* Lump sum for your phone number and website

So, to summarize so far…

* Build a company worth buying: Turnkey. Cash. Profits.
* Study up: Learn the lingo and the different approaches for placing a value, a price, on your company.

Therefore, you are best served to seek out a few experts to help you along the way…

* A savvy accountant with expertise in Mergers and Acquisitions (M&A)
  + Work together to clean up your financials. Use standard accounting practices and address any questionable transactions. “Off the books” sales don’t count.
  + Play out the EBITDA numbers for your business.
  + A common approach to tax strategy is to reduce your taxable profits. If you are positioning your company to sell, you may choose to increase profitability so that you have demonstrable earnings. Yikes. You may not like paying more in taxes, however, you and your CPA can strategize the long game.
  + As you negotiate with a buyer, discuss the tax consequences of the offer. Big dollars can dissolve in a hurry with poor tax planning.
* A no-nonsense lawyer with expertise in M&A
  + Put the basics of the deal together before you call in the legal experts. Remember, lawyers charge by the hour. Some are far too eager to explore *lots* of possible deal arrangements. It’s your job to provide the focus.
  + Work with your lawyer to explore the risky bits of the proposed buyout agreement, and craft language to mitigate your risks.
* Contractors who have sold their companies
  + Seek out contractors who have sold, take them to lunch, and ask about their experiences. Get some real world advice.
  + They may introduce you to a great accountant or lawyer.

A few more tips…

* Consider the other-than-monetary aspects of the deal. How are team members going to be treated? How easily can you transition ownership? What is expected of you during and after the sale? Money is important, but so are other things.
* That said, know your number. What is your no-wiggle sell price? What are the deal points that are essential to you? The person at the negotiating table who is absolutely clear about what he wants, usually gets what he wants.
* What are YOU going to do after you sell? Almost every contractor I know who has sold his business has started another contracting business. Consider the non-compete clause and other impediments to doing it all over again.
* Don’t spend the money until the deal is done. Watch for the “11th hour” negotiation. Experienced buyers may wait until the last minute to make one more demand, knowing that you are eager for the payday.
* Remember…the person holding the pen is more important that the document under the pen. If you feel weird about the deal or the buyer, walk away.

Final thought: What you learn about selling companies, sets you up to *buy* companies. You could grow fast and profitably by making strategic acquisitions. (At ZOOM DRAIN, it’s our favorite marketing driver.) Grow your company so that you *could* sell it. Then, you could keep it, and become the consolidator in your market area.

Stories to share? Short questions (with long answers) to ask? Reach me on twitter @ellenrohr or on my blog at [www.ellenrohr.com](http://www.ellenrohr.com)