BKD Corporate Finance, LLC

TEN WAYS TO INCREASE VALUE

Many owners neglect to adequately prepare for the sale of their company. Lack of preparation can cost company owners a great deal at the closing table. As with any important decision, preparation is vital to generating the desired result.

If you are considering selling your company in the next ten years, now is the time to begin preparations. The following will help you develop and implement a strategic plan to increase the value of your company. Please note these are not listed in order of importance and there are many additional ways to increase company value.

Mold a Strong Management Team

If buyers view your involvement as vital to the success of the business, either you will be forced to stay on after a sale or the value of your company may be reduced. Identify key employees and groom them to take over the business when you depart. In the eyes of the buyer, this will lessen the risk of the company being negatively affected by your departure. A buyer should feel your departure will not create a leadership vacuum, and you should be able to seamlessly exit the company.

Audited Financial Statements

With recent accounting scandals and increased scrutiny from Sarbanes-Oxley legislation, having audited financial statements is almost a necessity in any transaction. On the contrary, not having audited statements will increase the due diligence costs of a potential buyer, thus decreasing what the buyer may be willing to pay. Not having audited financial statement may also create delays in closing the transaction, which can be costly and perhaps fatal to a transaction.

Invest in the Future

With most transactions priced on a multiple of earnings, many company owners believe decreasing certain expenses will pay off in a higher purchase price. However, bypassing needed improvements, upgraded IT systems or new equipment purchases can negatively affect value. Also, appearances do matter in a transaction, and having dilapidated equipment or facilities in need of maintenance or replacement will only diminish the overall impression of your company.

Customer Concentration

Many companies rely on a few significant customers, which buyers may view as risky. Buyers are concerned how losing even one of these key customers might affect the company. If diversifying is too difficult or not possible, obtaining sales contracts or agreements with these key customers can help mitigate the risk a potential buyer might perceive. If contracts are not feasible, then demonstrating how the customer depends on your company is important.

The Balance Sheet

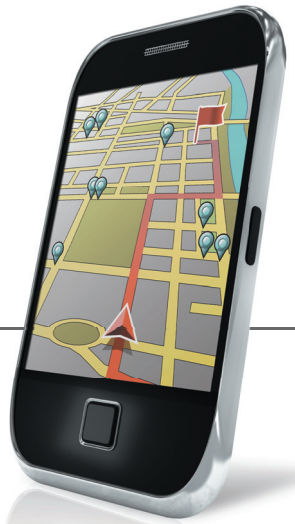
Clean up the balance by removing items such as:

- Excess working capital
- Investment properties, personal vehicles
- Obsolete inventory
- Excess property or equipment
- Loans to shareholders

Cleaning up the balance sheet will reduce confusion and disagreement about which assets and liabilities will be included in the transaction.

50 states

40 countries



Experience practical direction *from a top-tier firm that serves clients in all 50 states and possesses international experience spanning more than 40 countries.*

Controlled Ownership

Buyers prefer to purchase 100% of a company from a small number of like-minded owners. However, in many cases there may be minority owners who may not have the same objectives as the majority owners. Buying back the shares of minority owners well in advance of a sale may ensure a smoother transaction and may increase value. If buying out minority shareholders is not feasible, then having their agreement to sell along with the majority owners is important. Trying to sell a closely held company with unwieldy minority shareholders is not only difficult, in some instances, it may not be practical.

Pruning

While diversifying your customer base is important, consider "pruning" unprofitable customers or products. Most transactions are priced on a multiple of earnings, and eliminating anything that might decrease earnings can pay off multiple times.

Think Like a Buyer

Put yourself in the buyer's shoes. If you were buying your company what would concern you? Looking in the mirror can be an enlightening experience. Most company owners are focused on the day-to-day operations and may not think objectively about their company. Be realistic. Turning down a good offer may result in a lifetime of regret.

Timing

Timing has a significant impact on value. An under-performing company may sell for more in an up market than a well-performing company selling in a down market. Too many company owners decide to sell based on their age or an unexpected event, rather than the overall business climate. Having an experienced intermediary can keep you informed about industry and market conditions and when it is the right time to sell.

Form a Multidisciplinary Team of Advisors

Choosing the right investment banker is one of the most important decisions you will make in enhancing the value of your company. An investment banker with transactional experience can educate and prepare you and your company for ever aspect of the sale process. This advisor will manage the transaction from start to finish, thus ensuring the process runs smoothly and thereby allowing the owner to focus his/her efforts on managing the business. Selling a company is a team effort. In addition to the investment banker, a solid team of advisors includes a CPA, financial advisor, merger and acquisition attorney and estate planner. It is important each team member has the right training and experience, along with a high degree of integrity and professionalism.

***

For most owners, selling their company is a once-in-a-lifetime opportunity. You want to be fully prepared when the day comes to sell and receive top dollar for the company you have built.

Take Our Advice

These are just a few of the strategies you can use to increase your company's value. Call us when you are ready to start planning for the sale of your company. We're here to help.

Springfield, MO
Steve Blumreich
Patrick Hayes
800.644.1704

Denver
Tony Giordano
303.837.3562

Indianapolis
Tony Schneider
Patrick Huse
313.383.4000

www.bkdcorporatefinance.com