
The New Hire You Really Can Afford

Increase the Value of a Business when it's Time to Sell

We live in an on-demand world where you can get almost anything you want, whenever you want it. But one thing you can't get immediately is increased value in your business. That takes time, effort and sometimes the expertise of a professional who specializes in this field. Most business owners think they can't afford one. That's totally wrong. And if you'll crunch some numbers with me, I'll show you why.

Businesses are typically sold on a multiple of cash flow. So \$1 million in cash flow, at a 5.0x multiple, means the business is worth \$5 million. It follows that any improvements to cash flow will get returned to you fivefold in a sale. If an advisor finds you \$100,000 in savings, that's equivalent to \$500,000 in value. Additionally, with a 5.0x multiple, the advisor's fees really only cost you one fifth. With cost of \$100,000, you are effectively paying only 20% [$\$100,000 \text{ Cost} / (5.0x * \$100,000 \text{ in savings}) = 20\%$]. That's \$400,000 more in your pocket on an investment of \$100,000. And a good advisor should be able to save you even more than they cost.

But it gets better. If done properly, sometimes you increase the multiple itself. Instead of 5.0x, maybe you get 5.5x or more. That amounts to \$950,000 more in your pocket (higher value on the original \$1 million cash flow = \$500,000, plus higher valuation on the cash flow improvements = \$550,000, less the advisor's fees of \$100,000). In short, you gained \$950,000 on an investment of \$100,000. That math works for me.

It's not just academic, here are two examples real life examples:

- A recent engagement with a manufacturer generated \$1,225,000 in value for a cost of only \$120,000. We created cash flow improvements of \$350,000 and had a 3.5x multiple.
 - Engagement cost as a percent of value: 9.8%.
 - Effective cost of nine-month engagement: \$34,000.
 - The owner gained \$1,100,000 on an investment of \$120,000.
- Another engagement generated \$8,250,000 in value for only \$400,000 for a distributor. We created cash flow improvements of \$1,650,000 and were offered 5.0x for the business.
 - Engagement cost as a percent of value: 4.8%.
 - Effective cost of three-year engagement: \$80,000.
 - The owners gained \$7,850,000 on an investment of \$400,000.

Business owners tend to spend the majority of their time running things for the short term, because it's natural to take care of what's right in front of you. The problem arises when it's time to sell, and suddenly you want the premium valuation you heard about on the golf course. Your business may not be worth that premium because of an unwillingness to invest the time and resources. Investment has been viewed as expense, and the corporate accountant in all of us doesn't want to spend the money. But with the perspective I lay out here, you may ask yourself why you haven't done it sooner.

One more thought: When hiring the right advisor for the job, pick one that's willing to tie some of the fee to success. That provides a little insurance for you, as well as evidence the advisor has confidence in his/her own expertise.

Patrick Stewart is a Partner at Momentum Advisors, where he specializes in process improvement, streamlining business operations, operational turnarounds and financial restructurings. He has advised companies ranging in size from several million to several billion dollars in value and held numerous executive management positions serving as CEO, COO, CFO and CRO. Patrick has significant transaction experience including M&A transactions, recapitalizations and alternative financing transactions.

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