



Barriers to Success

Why Business Sale Transactions Fail

Episode 2: Monetizing Your Business Podcast

June 2021

Barriers to Success

Top 3 Reasons Why Deals Fail to Close

- **Unrealistic Seller Expectations**
- **Poor Financial Records**
 - Financials Tie to Tax Returns
 - Past 3 Years
 - Current Year Trends
- **Emotional Ties to the Business**



Other Reasons:

- Too Much Time - Time Kills All Deals
- Poor Process
- Chance – LNTC (Leave Nothing to Chance)

Unrealistic Seller Expectations

Joe and Brad Story

- Joe and Brad own business together 50/50.
- Based on an analysis of their cashflow and the industry, the business is realistically worth between \$2.5 – \$3MM.
- When asked what they thought their business was worth Brad replied they could not sell it for less than \$6MM.
- How did you arrive at that number, we asked.
- Joe Answered, “Brad’s Accountant told him he needed \$3MM to retire, I am his partner, so I need \$3MM as well. Therefore, we need to sell it for \$6MM.

What do YOU think are the chances of a deal here?

Your Business is only worth What someone will Pay

Historic Valuation Multiples and Attributes

2X – 3X	3X – 4X	4X – 5X	5X +	6X +++
<ul style="list-style-type: none"> Minimal Accounting Systems Un-auditable Books & Records Accounting not to GAAP stds. One or two man operation The Owner is the Business 	<ul style="list-style-type: none"> Limited Information systems Non reviewed or audited financials Accounting generally consistent with GAAP One-to-three-person senior staff 	<ul style="list-style-type: none"> Adequate Information Systems Reviewed Statements Bookkeeper or Controller on staff Some Management team depth Growing consistent with Industry 	<ul style="list-style-type: none"> State of the art Information Systems Timely accounting reports Generally Reviewed or Audited Financials Competent & Complete Management Team Growing faster than Industry 15+% EBITDA Margins 	<ul style="list-style-type: none"> All of Column 5X +, plus: Defensible Margins Transferable Contracts Re-Occurring Revenue model High Growth industries: Information, Tech, Healthcare Barriers to entry Low Capital Expenditures State of the Art systems throughout the company Transition Management Team in place

These attributes are not absolute but are generally consistent with transaction values we see in the lower middle market. There can be some crossover, for example we represented a company in the healthcare sector that brought an 8+ multiple and did not have audited or reviewed financial statements.

What are Buyers Buying

- An “Economic Engine” that Generates Cash Flow
- The Lower the Perceived Risk, the Higher the Multiple
- Explains WHY “Good Fit Buyers” will Pay More

What Every Buyer Needs from a Transaction

- Cover Debt Service
- Adequate Management and Staffing
- Return on Investment
- And eventually, Return of Their Investment

Who are the Buyers

Buyer Types	\$2-\$5M	\$5MM +
1st Time Buyer	26.3%	6.4%
Existing Company	35.6%	36.7%
Individual Previous Business Owner	22.9%	8.4%
Private Equity Add on	5.9%	21.2%
Private Equity Platform	7.0%	23.4%
Other	2.2%	3.9%
# Transactions	673	510

Source: MarketPulse Report through 4Q 2020; represents 31 Quarters of Data

Note: 80% of the Buyers for businesses valued greater than \$5MM are Existing Companies and Private Equity

Reasons Buyers are Buying

Reason Buyers Buy a Business	\$2-\$5M	\$5MM +
Buying a job	22.5%	5.3%
Vertical add-on	14.0%	22.1%
Horizontal add-on	32.8%	42.6%
Better ROI than other investment	19.9%	13.6%
Other	10.8%	16.4%
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Source: MarketPulse Report through 4Q 2020; represents 31 Quarters of Data

**Note: 78% of the Buyers are Buying for:
Growth or Better ROI**

In Summary

- Not all Buyers are created equal, learn about Buyers and what they NEED out of an Acquisition.
- Get Comfortable with the Value of your business today and learn and implement the “drivers” that will increase value over time.
- Invest in good technology to help you run your business efficiently.
- Preparation is KEY BEFORE you take your Company to Market.
- Type of Buyer can help overcome Emotional Ties in some cases.

Doing nothing is a decision. "So, if you fail to plan...Ask yourself: "Are you planning to fail?"

We hope you enjoyed this presentation and learned some valuable information

- If you have questions or would like to set up a complementary confidential call to discuss your opportunity, or
- If you have comments or suggestions on how we can improve these type presentations, or
- Have topics that would be of interest to you. (Note: we will only pontificate if we have the experience and knowledge to do so. If we do not, we will interview folks who we know are a strong and trusted resource on the topic.)

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Thank you