



## Speaking of Business Management

## Valuing Your EMS Business

**E**ven if you are not planning on selling your business, you need to know where you stand and what you can do to increase its perceived value. Some people wait until they are ready to sell their business before creating an exit strategy and doing a valuation. That's too late. Having an "Exit Strategy" is like having a Will; you can't always predict when you will need it. Things happen and situations change. Be prepared.

In a public company the value is set by the marketplace and is exercised on a daily basis. There can be lots of structure and oversight by officers and shareholders. In a private company, the value is determined when the owner dies, decides to sell, or is looking for an equity investment. Many private company owners have inflated notions about what their companies are worth. Our egos can get us in trouble when it comes to putting a value on something we have created. If we are placed in a position where we must sell our business, we may be in for a surprise. On the other hand, some owners may not recognize the value of their business or they do not know how to market it properly, and they leave money on the table because they are not prepared.

**Definitions - Investment value-** the value to a specific buyer based on strategic alignment, as apposed to a buyer in general.

**Liquidation value-** the value if the business were closed and the assets liquidated.

**Book value-** accounting term for the difference between the total assets and the total liabilities.

**Going Concern value-** the value placed on

the intellectual property, customer lists, reputations, employees, systems, name-brand, etc.

**Fair Market value-** This is the most common method used by appraisers, the IRS, and the courts. It is defined as the value for which it would sell, assuming the buyer is under no compulsion to buy and the seller is under no compulsion to sell.

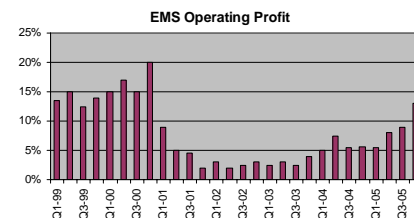
**EBITDA** – Earning Before, Interest, Taxes, Depreciation, and Amortization.

**SDE-** Seller's Discretionary Earnings is EBITDA plus the owner's salary.

**Raising the value -** To avoid taxes, owners structure their business to minimize the valuation or appraised value. Then when they want need to sell, their tax structure and depreciation schedule works against them.

It may take 6 months to 2 years to make adjustments in tax structure and processes to maximize the sale value and put an exit plan in place.

Small business owners can have a disproportionate direct relationship with customers and can have control over the non-written processes that makes the business excel. Retiring this kind of owner can reduce the value of the business to the new owner who must re-develop the relationships and processes. Having a company they can successfully run without you is a key in making the transition to the new owner easier and more attractive. Document the successful processes you use and insure they are being used by management.



Source: Southwest Securities Inc. March 2006



**Improving Market -** Private equity firms are coming off a big year of fund raising and as such are feeling enormous pressure to invest. Strategic buyers, both public and private, are active as well. As such, competition is great for the acquisition candidate. "The EMS industry's improving return profile has been a function of improving operating performance on the income statement side and more efficient management of capital on the balance sheet side."

**“Having an Exit Strategy is like having a Will; you can't always predict when you will need it.”**

**Summary -** Each valuation is unique and there are no absolutes when doing this calculation. There is no irrefutable "right" answer, but generally accepted methods and third party valuation resources are available. You need to be aware of methods of valuing your company so that you know when you are making progress. Always be ready. You never know when it might be time to "cash-out".

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