



Speaking of
**Business
Management**

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Monetizing The Investment In Your Company

Many of us have been in the electronics manufacturing business for many years and at some time we begin to think about how we are going to monetize the investment we have placed in our business. To do this, you reach an agreement of value for your company with a buying company that wants to expand. I sold my business in 2004 and will share with you some of the lessons I learned both from that deal and from several others since then. For the private business owner, selling the business represents that single most significant wealth accumulation transaction of their life. Take the time to do it right. One of the critical elements in assessing value is comprehending the direction of the industry. The other element is in understanding the significance of the unique characteristics of your business.

Market Characteristics

IBISWorld Inc. forecasts domestic electronic manufacturing trends. They find that, "Year ending 2008 will generate revenue of \$39.3 billion, down 2.2% from 2007. Softening of U.S. and global economic growth affects domestic and export sales. Exports valued at \$14.9 billion compete with imports valued at \$38 billion. Employment, at 176,000 employees in the sector, is down 3.6% from 2007. Finally, 3,611 employer establishments exist, down 2% from the prior year."

On a weekly basis people ask me for indications of the going rate for selling EMS companies. It is unlike valuing a home. It depends on what the specific buyer thinks is important. In commercial and residential real estate, setting an asking price is plain and simple, cost per square foot for

comparable property in the local area of the seller. Even if you have a swimming pool or extensive remodeling, the effect is usually a faster sale and exposure to a larger base of targeted buyers. Location and the market drive the pricing.

In manufacturing services businesses, there are far more variables: customer base, customer diversity, industry alignment, profitability, turnover, and vertical integration of related services. If you don't have a clear expectation of value going into the process, you will do a poor job negotiating and waste a lot of people's time. You may even leave money on the table in a rush to sell the business. If the owners of a selling business have developed relationships with the customers, the value of the company goes down when the owners/operators exit. If at all possible, compensate the owner for an extended transition time so that the acquisition is transparent to the customers and employees.

If you ask around, you hear people talking about industry multiples as a "rule of thumb" to assess value. The question is: a multiple of what? You can use multiples of cash flow or seller's discretionary earnings (SDE), earnings before interest, tax, depreciation, and amortization (EBITDA), revenue, earnings before interest and tax (EBIT), or net income. How you calculate the adjustments — recasting the financials — makes a significant difference. Using SDE is more popular and representative of the value the business owner realizes regarding life style.

Size matters. You will see published industry data of the Tier I & II companies trading over 7x multiple of cash

flow. These multiples do not hold up for the Tier III and IV companies because the same depth of infrastructure is not in place.

Focusing on the top line cash at closing doesn't necessarily put the most money in your pocket down the road. Royalties, commissions, consulting, earn-outs, hold-backs, and interest-bearing notes all offer differed income streams. Setting the structure as a stock deal rather than an asset deal can save you 20% in the taxes you pay on the gains, but you may need to leave the working capital in the company and the company's liabilities transfer to the new owner.

The monetization process has many complex steps with which a typical business owner frequently has little experience. A successful transaction is dependent on a well-proven process, timely management, and experienced professionals present at critical times throughout the event.

Announcing Gary's List for EMS

In cooperation with brokers and investment bankers across the country, I've compiled a consolidated list of EMS sellers and buyers. You can select it from my EMS pages. View [Gary's List here](#).

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