



# Exit Planning Institute

## Value Factors

As discussed previously, business buyers consider a number of factors in their evaluation of a company. From our years of experience in working with buyers, we have developed a general assessment overview of fifty-four important factors that most buyers consider in determining the areas of strength and the areas needing improvement for a particular company. The section below provides our evaluation of \_\_\_\_\_ Inc. and rates the Company against each of these important value factors. The factors are divided into **Personal Factors, Business Operations, Industry & Market, Legal & Regulatory, Financial and Economic Factors.**

### VALUE FACTOR RATING

<u>Factor</u>	<u>Company Rating</u>
<b>I. PERSONAL FACTORS</b>	
1. Age/Motivation of Owner	Positive Needs Improvement Neutral

**Explanation:** If age over 55, a specific plan in place as to what the owner will do after selling. The lack of a plan gives the buyer concerns over seller changing his/her mind and not “pulling the trigger” at closing. If under 55 and healthy, owner willing to stay with the business for over a several year period. Without this commitment, buyer’s concern is “Why is the business for sale?”

2. Attitude of Owner	Positive Needs Improvement Neutral
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**Explanation:** Positive, friendly and cooperative attitude. Owner is enthusiastic and committed to the business’ future. In no hurry to sell, answers all questions

honestly and openly and willing to assist the buyer during a transition period for reasonable compensation.

3. Family/Partner Consensus	Positive Needs Improvement Neutral
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**Explanation:** Spouse, family members and/or other shareholders in full agreement to sell. No hidden agendas by one or more stockholders.

4. Reasonable Expectations of Value	Positive Needs Improvement Neutral
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**Explanation:** Owner's expectations are in line with recent sales of comparable businesses. Ideally, owner has received a business evaluation from an independent third party and considers the enterprise value to be acceptable.

5. Open to Deal Structure	Positive Needs Improvement Neutral
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**Explanation:** Owner is not insisting on an all cash transaction and will consider various forms of deal structure including seller notes, non-compete payments, consulting agreements and/or earn outs. The owner understands that normal indemnifications and warranties will be required by the buyer.

## II. BUSINESS OPERATIONS FACTORS

6. Products/Services	Positive Needs Improvement Neutral
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**Explanation:** If a manufacturer, Company manufactures proprietary products, not a job shop. If a distributor, provides value-added services. If a service company, offers a differentiated service.

7. Management Team	Positive Needs Improvement Neutral
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**Explanation:** A strong and experienced management team is in place and has demonstrated success. The less dependent the business is upon the owner, the better.

8. Sales Team	Positive Needs Improvement Neutral
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**Explanation:** Strong sales team with a record of new account growth. If the Company utilizes sales reps, Company's business is a significant and profitable part of the rep's business.

9. Sales and Marketing Literature	Positive Needs Improvement Neutral
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**Explanation:** The Company's sales and marketing literature is up-to-date, attractive and informative. The literature is an integral part of the Company's marketing program.

10. Customer Base	Positive Needs Improvement Neutral
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**Explanation:** Limited customer concentration. Company has a long history with its major customers but new customers are being added on a continuing basis. Blue chip customer list.

11. Customer Relationships	Positive Needs Improvement Neutral
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**Explanation:** The Company has positive and long-standing relationships with its customers. The relationships are not dependent upon the owner(s) remaining with the Company.

12. Vendor Concentration	Positive Needs Improvement Neutral
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**Explanation:** Limited concentration of vendors. Materials and services readily available from multiple sources.

13. Product Quality	Positive Needs Improvement Neutral
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**Explanation:** Products or service are high quality compared to competitive products/services. Company has achieved a quality certification such as ISO 9000.

14. Employees	Positive Needs Improvement Neutral
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**Explanation:** No existing labor shortage. Employees are well trained and motivated. Salaries and hourly pay in line with comparable jobs in the geographic area.

15. Employee Benefits	Positive Needs Improvement Neutral
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**Explanation:** Company's benefit program is comparable to other industry competitors but at the same time is not excessive.

16. Union	Positive Needs Improvement Neutral
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**Explanation:** No union is best. If the Company is organized, there is a history of good relations with union and no strikes. Union contract expiration date two or more years away. Company is not a party to a multi-employer pension plan.

17. Employee Relations	Positive Needs Improvement Neutral
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**Explanation:** Dedicated employees with positive attitude. Low employee turnover.

18. Facilities	Positive Needs Improvement Neutral
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**Explanation:** Land and buildings clean, well maintained and in compliance with all building codes and regulations. Efficient plant layout. Available room for expansion. If owned, seller is open to either selling or leasing the facility to the buyer. Also a recent appraisal is available. If leased, the term is five years or less but has renewal options.

19. Computer Systems	Positive Needs Improvement Neutral
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**Explanation:** Systems are up-to-date and fully integrated. System's capacity is sufficient to meet the Company's needs over the next several years and will not require a major upgrade or replacement in the near term. Standard software packages are preferable to programs developed in-house.

20. Company Website	Positive Needs Improvement Neutral
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**Explanation:** Company has an operating website. The website is attractive, easy to navigate and up-to-date and is part of a fully developed Internet strategy. It allows interaction with customers, at a minimum, via e-mail.

21. Fixed Assets	Positive Needs Improvement Neutral
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**Explanation:** Up-to-date and well-maintained equipment. Ideally equipment appraisals are available.

22. Leases	Positive Needs Improvement Neutral
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**Explanation:** Leases and other contracts should be assignable and not place restrictions on new owners. Building rent at local market rates.

23. Location	Positive Needs Improvement Neutral
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**Explanation:** Location is not in a remote area but is convenient to vendors and customers. Excellent transportation services are available. Cost of living in the local area is not excessive. Skilled labor readily available.

### III. INDUSTRY/MARKET FACTORS

24. Consolidation Stage	Positive Needs Improvement Neutral
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**Explanation:** The consolidation of an industry in which smaller competitors are purchased and consolidated into larger companies to achieve benefits of scale and the elimination of duplicative costs. Depending on the stage, this factor could be positive or negative.

25. Industry Outlook	Positive Needs Improvement Neutral
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**Explanation:** Favorable in terms of future growth projections, profit margins, competition, legislation etc. Also since financial buyers often plan to go public in the future, industries that are in favor with the public market.

26. Opportunities for Growth	Positive Needs Improvement Neutral
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**Explanation:** Significant and feasible opportunities for growth have been identified. Ideally, plans are in place and at least preliminary actions to implement have begun.

27. Availability of Industry Data	Positive Needs Improvement Neutral
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**Explanation:** Substantial information on the industry is readily available from industry associations or business press including growth projections, industry trends, competitors etc.

28. Barriers to Entry	Positive Needs Improvement Neutral
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**Explanation:** Significant barriers to entry exist for new competitors including barriers such as high invested capital, patents, brand names, reputation, significant expertise etc.

29. Market Position	Positive Needs Improvement Neutral
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**Explanation:** Strong market share or a protected niche in the industry. Well-known brand name and excellent reputation.

30. Product/Service Obsolescence	Positive Needs Improvement Neutral
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**Explanation:** Favorable long term outlook for products or services not threatened by technological obsolescence or global competition.

#### IV. LEGAL/REGULATORY FACTORS

31. Corporate Structure	Positive Needs Improvement Neutral
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**Explanation:** Company originally incorporated as an “S” corporation or switched to “S” classification before 1990.

32. Board of Directors/Advisors	Positive Needs Improvement Neutral
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**Explanation:** Credible and accomplished outside directors are in place and are regularly consulted regarding major decisions of the Company.

33. Lawsuits	Positive Needs Improvement Neutral
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**Explanation:** No current lawsuits or a long history of lawsuits.

34. Taxes	Positive Needs Improvement Neutral
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**Explanation:** All tax filings and tax payments current. Company has been audited recently by IRS with clean report.

35. Environmental	Positive Needs Improvement Neutral
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**Explanation:** Company has never used hazardous materials in its manufacturing. Facilities have had a recent Phase I or Phase II audit and results were clean. No underground storage tanks. If past problems, cleanup has been completed and local, state and federal environmental agencies have formally provided signoff documentation. No history of fines. A specific individual in the Company is formally responsible for compliance.

36. OSHA	Positive Needs Improvement Neutral
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**Explanation:** Company has had an OSHA review in the last two years with no significant findings. If review did identify needed improvements, all have been completed. No history of fines.

37. Product/Service Liability Insurance	Positive Needs Improvement Neutral
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**Explanation:** A sufficient amount of insurance is in place to cover potential liability. Insurance coverage is on an “occurrence” rather than a “claims made” basis. Preferably the utilization of the coverage has been minimal in the past.

38. Patents, Trademarks etc. Registered	Positive Needs Improvement Neutral
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**Explanation:** Intangible assets such as patents, trademarks and copyrights have been properly registered and are fully protected. In the case of patents, the patent has over half of its original life remaining.

## V. FINANCIAL FACTORS

39. Track Record	Positive Needs Improvement Neutral
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**Explanation:** Company has a consistent record of growth in both sales and profits over the last several years. Sales growth and profit margins are equal to or better than overall industry.

40. Business Plan	Positive Needs Improvement Neutral
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**Explanation:** A documented business plan for the next 3-5 years is in place. Plan is comprehensive, believable and includes specific and measurable objectives. All the necessary action steps along with costs and investments to implement the plan are also included.

41. Cyclicalilty	Positive Needs Improvement Neutral
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**Explanation:** Company revenues are relatively unaffected by the economic cycle.

42. Seasonality	Positive Needs Improvement Neutral
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**Explanation:** Monthly sales, expenses and working capital requirements do not vary significantly throughout the year.

43. Revenue Size	Positive Needs Improvement Neutral
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**Explanation:** The higher the revenues the better. Company's revenues are in the upper half of all competitors in the industry or are of sufficient size that the Company could serve as a "platform" for consolidating a number of companies in the industry.

44. Gross Margins	Positive Needs Improvement Neutral
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**Explanation:** Higher gross margins are preferred but in any case the Company's gross margins are equal or better than industry norms. Margins have been stable or improving over last several years.

45. Overhead	Positive Needs Improvement Neutral
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**Explanation:** Overhead costs are consistent with industry norms. Only small increases in overhead costs are required to support future growth.

46. Assets less Liabilities (Equity)	Positive Needs Improvement Neutral
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**Explanation:** Substantial base of leveragable assets with a relatively low level of liabilities to be assumed by a buyer. The higher the equity relative to the Company's value, the better. Little or no debt.

47. Receivables	Positive Needs Improvement Neutral
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**Explanation:** Limited overdue amounts. Minimal history of bad debt write-offs. Average receivable days consistent or better than the industry norm.

48. Inventory	Positive Needs Improvement Neutral
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**Explanation:** Inventory turnover consistent or better than industry norms. Little or no obsolete stock. Written off inventory has been physically discarded.

49. Current Liabilities	Positive Needs Improvement Neutral
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**Explanation:** Accounts payable are current and consistent with industry norms. Other current liabilities are consistent with industry norms.

50. Annual Capital	Positive Needs Improvement Neutral
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**Explanation:** Annual capital expenditure requirements have been relatively low in the past and no major capital expenditures are required to support future growth.

51. Financial Statements	Positive Needs Improvement Neutral
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**Explanation:** Audited statements are best followed by reviewed statements. Compiled statements are least preferable.

52. Company Records	Positive Needs Improvement Neutral
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**Explanation:** Company records are in good order and are accessible.

## VI. ECONOMIC/M&A MARKET FACTORS

53. Economy	Positive Needs Improvement Neutral
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**Explanation:** The general economy is expanding and indicators such as interest rates and the stock market are positive.

54. M & A Marketplace	Positive Needs Improvement Neutral
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**Explanation:** Conditions are positive for mergers and acquisitions including ready availability of financing, low interest rates and favorable tax laws. Both financial and strategic buyers are acquiring companies in large numbers.