



On February 19th, John Ferrara, CEO of Capstone Headwaters, and Daniel McBroom, Co-Head of Investment Banking Services, gave a presentation on the state of the middle-to-lower private equity markets and discussed why 90% of private companies that pursue a sale fail and what they can do to change that surprising outcome.

Below are Key Take-Aways from Capstone Headwaters Presentation:

There are many trends that can change quickly, but demographics isn't one of them. With 70% of Private Businesses owned by Baby boomers, just by "aging out" there is going to be a huge transition of private companies over the next 5-10-15 years. Most of these business owners don't manage their businesses with that inevitable transition in mind and it represents 76% of their net worth. That's four million privately held companies that will change hands; and 75% do not have an exit plan.

For private companies in the sub 250m revenue space the average transaction value is \$61.7MM. The highest multiples to EBITDA are being paid to companies in the \$100-250MM Enterprise value range at 10X. Overall average multiples are about 8.5X in the \$10-250MM universe with smaller companies getting less and financial buyers paying 7.4X.

Taking the average deal value of \$61.7MM and the average multiple for transactions over the last few years of about 8.5X, one derives an average EBITDA of \$7.25MM. Taking the steps necessary to increase EBITDA by \$2.75MM to \$10MM over a period of time has a huge impact on value due to the step up in multiple. Assuming the \$2.75MM increase gets the valuation close to the 10X range, it results in an additional \$38.3MM in value or **14X** the \$2.75MM EBITDA increase under this scenario. The point is clear for the business owner.

Very high ROI to invest the time, focus, and money to get the professional help needed to accelerate the value of their company by improving the operations and profitability of the business to maximize value prior to entertaining a transaction.

While the M&A markets, measured by nearly every metric could hardly be better, nearly 91% of companies reviewed (528 of 580) by Capstone in 2019 are not selected for corporate finance assignments due primarily to lack of preparation of the business, itself. There is a significant need to help private owners better prepare and enhance their value prior to entertaining a transaction. While many businesses are not ready the business owner(s) themselves are not ready either, in terms of financial/tax planning, and what life after a transaction will look like. These issues need to be addressed well before an owner begins to pursue a transaction process.

Business owners get the best outcomes when they educate themselves years before they consider a transaction. For the best outcomes, owners should engage with a collaborative, experienced team that bring diverse expertise to help a business owner accelerate the value of their company and manage their business with the inevitable transition in mind.