Is Your Company Saleable?

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From time to time I am asked to speak on the topic of 'Exit Planning' – how to prepare to sell one's company. One of the critical areas I address in my talks is: ***'What makes a company Saleable'***? Sadly, not every company is saleable. However, if you know what the key elements of 'saleability' are, there are steps you can take to make your company a viable sale candidate!

Here are, in our view, some of the key saleability factors:

What makes a company Saleable?

- **Programmable / teachable products or services** – that you can impart to others who will buy and run your company post-sale. A reasonable transition period is usually required to transfer this knowledge, but it must be transferrable.
- **Valuable IP or brands** – desirable in the marketplace. Well-established brands and / or patented IP can significantly boost valuation, sometimes beyond what normal 'market multiples' of revenues and profits might indicate.
- **Specialty / uniqueness** - in a sought-after area. This is a more subjective version of IP or brands, described above, but nonetheless important. We are seeing this especially in 'hot' sectors in the current market.
- **Recurring, diversified revenue stream** – if your business is highly dependent on one or two key customers now is the time to diversify to make it more attractive to buyers!
- **Founder / owner should be 'dispensable'** – in other words the company cannot be wholly dependent on you. Otherwise you will end up negotiating a long 'earn-out' (topic for another article).
- **Accretive** – especially for public buyers. Positive earnings and cash flow will help attract public company buyers, which will typically not pay a higher price-earnings multiple than their company is afforded by the stock market.
- **Team** – the importance of having assembled a highly-capable team cannot be underemphasized. Many of Yahoo's acquisitions have been 'acqui-hires', the primary purpose of which was to acquire talent!

- **'Mini-conglomerate'** – logical fit critical. If you have assembled a company with different business units, you need to be able to make a compelling case as to why they belong together. Otherwise, you may attain higher overall value by selling them off separately to different buyers.

A final note about the current market for selling companies… I have been practicing M&A for 30 years and have rarely seen a market that is a favorable as the one we saw in 2013 and hopefully will continue to enjoy well into 2014. Why is this? In a nutshell: Robust stock market; Low interest rates; Cash on corporate balance sheets (U.S. $3T, Global $8T); Pent-up demand from 'strategic' buyers; Private Equity aggressively competing for deals (U.S PE funds $2T to invest). Although 2014 has started off with a somewhat choppy stock market, we see signs that this is stabilizing and are optimistic for a positive M&A climate this year.

For further information, or to be invited to our next seminar on M&A exits please email me at: jrobertson@sivaladvisors.com or call: 650-678-3222.

Happy 2014!

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