

FINANCE MONTHLY

WILL AN AMAZON TAX SAVE THE DYING HIGH STREET?

ALSO INSIDE:

THE ROBOTS ARE COMING:

5 REASONS NOT TO PANIC

THE GREATEST TRADES IN WALL STREET HISTORY

CLOSED

CLOSING DOWN

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MIDDLE MARKET M&A:

THE IMPORTANCE OF VALUATIONS



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To hear about valuations and middle market M&A, *Finance Monthly* reached out to the experts at IBG Business.

IBG Business exists to bring merger and acquisitions skills, resources and knowledge to middle market business owners selling (or buying) businesses. "The firm is defined by its expertise, character and commitment to delivering exceptional results", says IBG Oklahoma Managing Partner and Principal John Johnson. "Our team brings extensive background, robust training and deep resources to each deal. Time and again, the precise execution of our refined professional process has yielded maximum value under optimal terms and timing for our clients."

Owners should seek professional help prior to selling a business or planning an eventual exit. IBG Denver Managing Partner and Principal, John Zayac, explains the complexities sellers face: "Price is often a starting point in the discussion, a common marker for value. However, it is only the tip of the iceberg. Price is predicated on a complex foundation of components including shifting responsibilities for risk, tax treatment and intangible values, all of which may move dramatically as a sale is negotiated". Regarding the question "What is my business really worth?" Gary Papay, IBG Pennsylvania Managing Partner, also asks "And why? Knowing the reasons underlying the value of a business can reveal value-enhancing improvements or set up better initial positioning of deal terms."

Casual opinions of what a business is worth are as abundant as sparrows. Those opining rarely have knowledge of the particulars of the business, the deal terms, an understanding of the sector or any transaction expertise. All are imperative to formulating a competent view on value. Sellers often reach out to valuation specialists for a fair market value opinion, but these regimented, theoretical valuations - while an improvement on sparrows - are better suited to litigation, divorce, or estate planning.

The most useful guidance for prospective

sellers will combine sophisticated appraisal techniques with recent 'boots on the ground' experience on actual transactions. A market-informed opinion of the value of a business will gauge how potential buyers might respond to its sale. The opinion should provide a range of values, articulate what factors underlie the opinion, and comment on possible impacts of different deal structures. Strategies to minimise obstacles and enhance value may be offered.

Seasoned mergers & acquisitions advisers can also expertly evaluate and manage the nuances and practicalities that arise in the 'real world'. In any transaction, the buyer and seller have opposing goals: each seeks to best serve their own interests but must ultimately acquiesce in some part to the other while retaining sufficient benefit for themselves. The odds of success in this process dramatically improve when it is proactively managed by a seasoned professional who can keep polarising realities within a cooperative framework. The parties will also be more likely to work well together post-close.

Pre-sale valuation work and pro-active management of transactions are key, but subtle dynamics and market factors unique to a deal can also be vital determinants of value. IBG Arizona's Principal and Managing Partner Jim Afinowich and Managing Director Bruce Black recently worked on a deal that perfectly illustrates such market dynamics. The client's firm, a niche food manufacturer, initially might have had a competent fair market value of around \$20M. IBG perceived

growing demand in the industry vertical, and thought an opportunity existed with the evolving market dynamics. They advised the client to decline early offers and to continue to build value in the business. Improve it did, but IBG's "read" on the market and recommendation on timing made a tremendous impact for the client: a buyer seeking market control and expansion in the vertical ultimately out-bid several competitors to buy the company for the cash price of \$120M. While such extreme opportunities are uncommon, the "savvy" of a seasoned dealmaker can radically impact what is already one of the biggest financial events in the lifetime of a business owner.

Business owners must understand optimal timing and valuation complexities prior to any sale. Today, demand remains robust for quality middle market businesses and valuations are still excellent, but a cooling in the market is anticipated. Active mergers and acquisition broker and advisory firms prepared to assess opportunities with a 'real-time' read on transaction market remain the most vital resource for owners seeking to sell for top value.

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