CLICK HERE to return to the website

Actions That Effect Market Value

Goals	Value Drivers	Strategies
Increase recast EBITDA	***Increase sales***	Enter niche markets, patent new products to create barriers to entry, launch innovative products, consolidate competitors.
	Lower cost of goods sold	Develop scale economies, acquire captive access to raw materials, increase efficiencies in processes (production, distribution, services, and labor utilization), implement cutting-edge cost control systems.
	Control operating expenses	Budget and monitor expenses, identify fixed versus variable expenses, manage expenses at lowest level possible, keep track of recast items.
Employ additional high yielding capital	***Increase economic value***	Invest in only positive NPV/IBV projects.
	Decrease capital base	Liquidate underperforming assets, implement product line profitability to determine winners and losers.
Reduce risk	***Reduce business risk***	Perform at a higher operating level compared to competitors, long-term contracts, etc., Institute financial transparency , including the retention of audited financial statements.
	Reduce cost of capital	Maximize use of debt to support equity, possibly use less costly equity substitutes, such as mezzanine debt, reduce surprises (volatility of earnings), consistently test the market cost of debt, walk down the private capital access line whenever possible.
	Reduce customer concentration	No single customer should account for more than 25 % of sales.
	Form management structure	Create a functional organization so the owner is not central to the business, and develop a strong back up manager.
Increase acquisition attractiveness	***Develop a place in the market***	Always be considered a tough competitor, or roadblock, by larger players, become a company of niches.
	Obtain critical mass	Achieve minimum sales of at least 10 – 15 million.
	Maintain high margins	Focus on maintaining higher gross and operating margins than the competitor.
	Management team and systems add value	Owner is redundant so management team is considered self-sufficient.
	Create effective planning	Build an effective business model that links owner motives to employee actions.

Excerpt taken with permission from: ***Private Capital Markets*** by Rob Slee

1011 Camino Del Rio South, Suite 400
San Diego, CA. 92108
619-543-1296 Phone
www.fitzandcompany.com

Goals of Actions That Effect Market Value

Increase Recast EBITDA - EBITDA is the metric that most directly affects market value. Owners who focus on maximizing their company's gross margins often unlock substantial value. This means minimizing cost of goods sold. The best investment most owners can make is upgrading the company's purchasing function. Materials management pays for itself and helps create market value. Companies can benefit greatly from installing cutting-edge inventory management and other throughput management systems.

Most medium-sized companies can create market value by better controlling operating expenses. Many of these companies do not maintain a flexible budget or tie their budgets to longer-term planning. Professional managers, however, are obsessive-compulsive about budgeting at the lowest possible level in the organization and then creating accountability for everyone involved. In most large companies, employee compensation is tied to success against the budget. This contrasts with many smaller private companies, which do not budget sales and expenses. Of course, always reacting to change is a management method that ensures that small companies remain small.

Reduce Risk - Market value increases as a company reduces its operating and financial risk. The starting point here is to manage risk/return by implementing a disciplined capital allocation system. The payback method works well for projects that return the investment within a year or so; however, complicated projects require a net present value or incremental business value approach. Owning a company gets progressively easier and more profitable when assets are deployed correctly.

The single most glaring weakness for most medium-sized companies is the lack of vision regarding product and service line profitability. Many companies do not know where they make money. Outsiders correctly view this lack of control as risky. Once again, companies that budget effectively typically do not have this problem.

Another risk-reducing attribute is the elimination of customer concentrations above 25% are viewed as all-or-nothing accounts by the market and are discounted appropriately. Buyers view management concentrations similarly

Some owners are so central to the success of the business that buyers must plan to hire several additional people to replace them. This situation not only has a negative recasting impact but also adds tremendous risk to an assessment. In either event, concentrations reduce market value.

Increase Attractiveness -There are several actions an owner can take to increase the attractiveness of the business to the market. It is desirable to be viewed as a market roadblock by larger companies. Larger companies fanatically plan their businesses, especially regarding market share changes. Smaller companies exploit niched that larger companies cannot service effectively. A good value-added strategy for a small company is to position itself in a number of these niches that larger companies cannot service effectively. A good value-added strategy for a small company is to position itself in a number of these niches. Larger companies may conclude that it is cheaper to acquire a small competitor than start a market war.

The synergy subworld requires critical mass from its participants. Most sellers cannot access this high-level value world unless they have annual sales of more than $10 million and preferably more than $20 million. Perhaps a perfect situation is a niche company with five to six niches, each selling $5 million to $7 million per year.

Finally, companies with effective business models are always in demand. A business model represents the way an entity is organized to meet a goal. Effective business models are almost always simply stated and understood. The linkage between owner motives and employee actions is taut, which leads to good communications and ability to quickly effect business changes in the market. In many cases, the acquirer adopts many of the business model attributes of the target.

How are effective business models developed? Such models start with an intuitive management approach and a keen sense of the market. Beyond this, it is not surprising that many of the strategies that form these business models are the same as the actions that create market value.