T.V. METZ & CO., LLC
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TECHNOLOGY ACQUISITION UPDATE

5 Tips to Improve Company Value

If you are contemplating selling your company in the next two or three years, there are steps that you can take to increase the value prior to the sale. These measures will help you to maximize the price and avoid leaving dollars on the table.

These tips are not big secrets or great revelations; they are straightforward and logical. You would be surprised however, at the number of companies that fail to implement these recommendations. If the selling company embraces each of these suggestions, they will see an increase in the value of the company.

How can you boost revenues and profits? Where are the risks in your business? How can you improve areas of weakness that might raise red flags? Let's explore five ideas to improve the value of your company.

1. Boost Revenues and Profitability

The first two questions that I am asked when selling a company are—what are the revenues and what percent of the revenues are recurring? Increasing the amount and percentage of recurring revenue is a great way to boost value. High recurring revenues means less risk for the buyer because it has a greater assurance that the revenues will be there next year. Making sales to new customers is more difficult than keeping and serving existing customers.

Encourage customers to sign up for longer contracts by reducing prices and offering special incentives. Give them an inducement to put longer-term agreements in place for service or support. Increasing the length of customer contracts improves the certainty that your customers will continue to be customers in the future. If customers have verbal agreements for services, put these agreements in writing. A buyer will examine your customer contracts during due diligence.

Keep your renewal rates high. Many technology companies have recurring revenues. Software as a service is a good example. A buyer will be very interested in your renewal rates. The higher the renewal rate, the more valuable your company.

Track profitability by product and customer. Make sure that each of your products contributes to your profitability and know how profitable each customer is. If your accounting system does not capture this information, make the necessary changes so that it does. You would be surprised by how many companies do not track this important information. It follows that you should eliminate any products or services that lose money; and customers too. That's right, some of your customers may actually be costing you money.

2. Minimize the Risks

Reducing risks has a positive influence on value. Risky companies are not worth as much as low risk companies, even with the same level of profits. The more you can minimize risks, the more you can increase the value of your company. Companies face a range of risks—market risk, customer risk, technology risk, product risk, management risk and financial risk. Let's review each one briefly.

• Market risk—Questions include: Is the company's primary market growing, steady or declining? What is the risk of revenue declining? What is the competitive situation?

• Customer risk—Buyers have concerns about several customer issues. Are customers happy with the company's products and services? Will the company lose any customers? How difficult it will it be to bring in new customers? A company that is thinking about selling must keep its customers on board at all costs.

• Customer concentration can be a problem for some companies. If a few customers account for a large portion of your revenues, this will negatively impact value. Such a company is riskier than one with a broad customer base. Make an effort to diversify your customer base.

• Financial risk can be critical. Are the company's cash flows adequate to meet its needs? Is it paying bills on time? Will additional capital expenditures be necessary? Will additional funds be required to improve working capital?

• Product risk—Does the company have a complete set of products and services? Are any products becoming obsolete? Are new products being developed? Differentiate your products and services to increase your competitive advantage and value.

• Management risk—Consider the depth and stability of your management team. Is the team complete? Should some management be replaced? Will the full team stay on board? Have a succession plan and stay-put incentives in place before the sale process begins.

3. Get Disciplined…Now!

Discipline is rewarded in a number of areas—capital structure, shareholder records, intellectual property and financial statements.

Occasionally, capital structure can be a problem when selling a company. Multiple financing rounds with multiple shareholder groups can produce capital structure problems. Do you have any issues with shareholders? Are your shareholder records correct? Are the goals of shareholders and management aligned properly?

Poorly documented intellectual property can be a deal killer. Pay particular attention to ownership issues, licensing as well as the transferability of licenses.

Financial records are a reflection of the quality and health of a business. Sound and accurate financial statements give the buyer confidence about your company. Put procedures in place so that financial statements can be prepared on a timely basis. Make sure that your all of your corporate records and contracts are well organized. If your house is in order it will build confidence for the buyer throughout the sale process and this increases value.

4. **Dealing with Problem Areas**

Every company has some areas of weakness. The key to increasing value is to minimize these concerns. How should you handle negatives? How should you manage questionable items? What weaknesses need to be addressed? Where are you exposed?

Potential liabilities can be a serious problem. In particular, off-balance-sheet liabilities can be problematic. Do everything in your power to identify and minimize potential liabilities. Even if they do not kill the transaction, they can reduce the price, sometimes significantly.

Try to view a problem area through the eyes of a potential buyer. How will they see the issue? What can you do to mitigate the problem? Not all problem areas can be resolved. Sometimes it just goes with your market territory and the type of customers that you serve.

Sometimes a weakness of the selling company may be an opportunity for the acquiring company. For example, weak sales and marketing is often the very reason that the company is seeking to be acquired—it can't get enough market traction. For a buyer with strong sales capabilities, this is an opportunity

5. **View Your Markets Strategically**

Since value is determined by the market, it is a smart idea to view the market strategically. Viewing a market strategically means perceiving where the movement is occurring and the effects of that movement. Markets expand, markets contract and markets go away. The markets are always moving.
Look for the movement of the full range of players—buyers, competitors, future competitors and adjacent market companies. Are potential buyers moving toward your sector? Does your market sector complement those of potential buyers? A buyer that has decided to enter a sector will likely pay the highest price—in order to get into that sector quickly and forcefully.

Do not make the assumption that you know who the best buyers are. Sometimes the best buyers are not in a company's core market, but in adjacent markets off to the side. These nonobvious buyers can be excellent buyers who will pay the highest price.

This article includes excerpts from Tom Metz's book, *Perfect Your Exit Strategy—7 Steps to Maximum Value.* (Bettencourt Publishing, Ltd. 2016)