

Tidewater Group, Inc.

How the market prices a food company

A company's value in the market today is based on a variety of factors such as: The product category (hot segment or a commodity), the size of the company (larger companies sell for higher multiples than smaller ones), the company's profitability, growth rate of sales and profits, and other factors. In many cases the acquirer will use an average of two to four factors and generate a high-low range of values. The generally used factors are:

- ◆ **Operating Profit/EBITDA:** (Earnings before interest, taxes, depreciation & amortization). If the owner's compensation and "perks" are more than a manager then---the extra compensation is added back into profits before a multiple is applied. A company's profitability is the single most important determinant of value. Acquirers in today's market are paying from 3 to 10 times EBITDA (sometimes more) for companies with sales up to \$20M.
- ◆ **Net Assets/Net Worth:** Includes those assets and the liabilities (accounts payable, etc.) the acquirer expects to buy or assume. Multiples can run from .5 to 2 times or more the value of net assets/net worth.
- ◆ **Present Value of Future Cash Flows:** In this, the most sophisticated method of determining value. Future sales and earnings before interest and taxes, are projected for three to five years and their present value is determined by the use of a discount rate. This rate is the acquiring company's weighted average cost of capital, and it varies from company to company.
- ◆ **Sales:** In today's market---profitable food companies sell for a percent of sales. Only larger or rapidly growing companies get higher multiples. Sales can also be a "cap" for very profitable organizations, in that it can limit what acquirers are willing to pay.
- ◆ **Industry knowledge & recent transactions:** The Tidewater Group specializes in the food industry, and maintains over 41 databases on various segments of the industry. Our transaction database contains published information plus what we obtain from personal contacts within the industry. Included is the amount paid, methods of payment, sales, assets, products and other data. This additional information reinforces the valuation obtained from an in-depth analysis of each of the value indicators listed above. This is one way we assist our clients in pricing their company, or in knowing what to offer for a target company.

If you believe a valuation of your company would be beneficial for tax, estate or planning purposes, we can help. Or if you are interested in acquisitions or a divestiture we would like to tell you more about the Tidewater Group.

Point of View-2

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