

# Tidewater Group, Inc.

## A Better M & A Market (Point of View-37)

For the first time in over three years we are receiving calls from companies inquiring what companies we have for sale. The comments generally are "We have weathered the financial crisis, cut our costs and profits are increasing. We are now ready to expand and are looking at acquisitions to help us reach our growth objectives." Other calls inquire "If now is a better time to sell my company?" The M & A market is better today than the past several years and it continues to improve. No one can tell if the US economy will continue to gradually improve, or whether the European economy will stall and affect the U.S. market. China is also experiencing a significant economic slowdown. I believe the overall economic outlook for the U S market is good. Growth will continue, but slowly. This will positively effect the M & A market

As to whether this is a good time to sell your company, only you can make that decision. There are generally "two bridges to cross:"

**-First, is the business decision:** Will I get offers close to what I need for my company?

**-Second, is the emotional decision:** What will I do? Do I have hobbies or plans to travel? Would I like to remain with the company --- with an employment contract, etc?

-When the answer to both of the above questions is positive, you are ready to sell.

The Methods used to determine a company's value are usually one of the below methods, or more commonly, the average of several of the below methods. Larger corporations will rely heavily on the Present Value of Future Cash Flows, while keeping an eye on the EBITDA multiple. If a company is losing money (or breaking-even), an acquirer will usually focus on the value of the financial assets and add something additional for the equity in the brand name. The methods 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. The same is true of one time expenses. A company's profitability is the single most important determinant of value. Today we are looking at EBITDA multiples in the 5X to 9X range depending on the product category, company size, profitability, etc.
- ◆ **Net Assets/Net Worth:** Includes those assets and the liabilities (accounts payable, etc.) the acquirer expects to buy or assume. This criterion is used for many companies, but most frequently for companies with low or no profits or companies with significant assets (such as some distributors or importers.). Today we see multiples of 1.5X to 3.5X.

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4019 Bishop Court  
Wilmington, N. C. 28412  
Web site: [Thetidewatergroup.com](http://Thetidewatergroup.com)

Phone: 910-793-9224  
Fax: 910-793-9366  
EM: [bill@thetidewatergroup.com](mailto:bill@thetidewatergroup.com)

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- ◆ **Present Value of Future Cash Flows:** In this, the most sophisticated method of determining value. Future sales and earnings before interest, depreciation / amortization 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:** It is generally true with some exceptions that in today's market---profitable companies (with sales below \$20M) 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. Today we are generally looking at offers in the range of 50% to 75% of sales for small to mid-size companies.
- ◆ **Industry knowledge & recent transactions:** The Tidewater Group specializes in the middle market, 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.
- ◆ **Up-to-date Multiples:** Multiples paid by buyers change with the economy. If you would like to know the most recent multiples, please give us a call

**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.**

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EM: [bill@thetidewatergroup.com](mailto:bill@thetidewatergroup.com)**