

Tidewater Group, Inc.

How the market prices a distributor *

A **distributor's** value in the market today is based on a variety of factors such as: The distributor's location and category, 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:

- ◆ **Sales:** In today's market---distributors sell for a percent of sales. However, large distributors (Sales of 50 million or more) or rapidly growing companies can get multiples of sales.
- ◆ **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 distributor's profitability is the single most important determinant of value. Acquirers in today's market are paying from 3 to 10 times EBITDA.
- ◆ **Net Assets/Net Worth:** Includes those assets and the liabilities (accounts payable, etc.) the acquirer expects to buy or assume. Multiples can run from 1 time to 4 times or more the value of net assets/net worth.
- ◆ **Present Value of Future Cash Flows:** This is the most sophisticated method of determining value. Future sales and earnings before interest and tax's, 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, which will vary company by company. We generally use 12%, 15, and 18% in today's market.
- ◆ **Industry knowledge & recent transactions:** The Tidewater Group specializes in the food industry. We maintain a large database of distributors among our 41 databases. Our transaction database contains published information plus what we obtain from personal contacts within the industry. 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.

* Multiples vary with general economic conditions. Call us for up-to-date multiple information.

If you believe a valuation of your company would be beneficial for tax, estate or planning or if you would like to sell or begin an acquisition search, give us a call

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