

“Multiples Schmultiples” Interesting for Conversation – Dangerous for Setting Expectations

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When you are considering the value of your business, you can avoid the trap we call, “Multiples Schmultiples.” Ever heard comments like these before?

“His business sold for 9 times EBITDA”

“They bought it for 1.5 times Sales”

“They valued his company at 2 times Book Value...”

Then the fun begins as you quietly ask yourself...

- 1) I wonder what my business could sell for?
- 2) My sales were X, so at that multiple I must be worth \$\$\$\$
- 3) My business is better than that one, so I should get a lot more if I sell.



our Firm who was considering selling their company. They were aware of two companies in a similar market that recently sold and asked if we had more details, and surely we did. Through the use of several transaction databases, we found lots of financial details and boiled them down into the core items. Since it looks like these companies are very similar in all the key areas, one would expect that they would have sold for similar multiples, yielding similar transaction values. (Fig. 1)

As you might have guessed, Company A sold for \$100 million and Company B sold for only \$20 million. Those multiples range from nearly 10 times EBITDA down to 2 times EBITDA! How could that be since they appear to be so similar?

It only gets more challenging from here. We then searched the same databases for other companies that might also appear to be similar to our clients business that have sold recently. Using our clients’ SIC code (typically used as the standard for comparability), we located several companies and charted the results of their EBITDA multiples in Figure 2.

With no real correlation of financial history to the resulting multiple, there MUST be other factors driving these values...and there are! Based on more in depth research into our two companies, we turned over a few more key pieces of information outlined in Figure 3.

As you can see there were several Non-Financial factors driving the value of company A much higher than Company B, even though they appeared to have similar financial data. So where would your company be? We know, at the top of course.

Other Options to Better Understand Your Company’s Value

Whether for strategic planning, succession planning or having thoughts of selling someday, there is real value in digging much deeper into features of your company that drive, or detract from its value. Many local compa-

Figure 1

	Company A	Company B
Sales \$	\$52 Million	\$50 Million
SIC Code	3499 (fabricated metal products)	3499 (fabricated metal products)
Recent Annual Growth Rate	10%	11%
EBITDA	\$9.7 Million	\$10.5 Million
Book Value	\$20 Million	\$18 Million

Figure 2

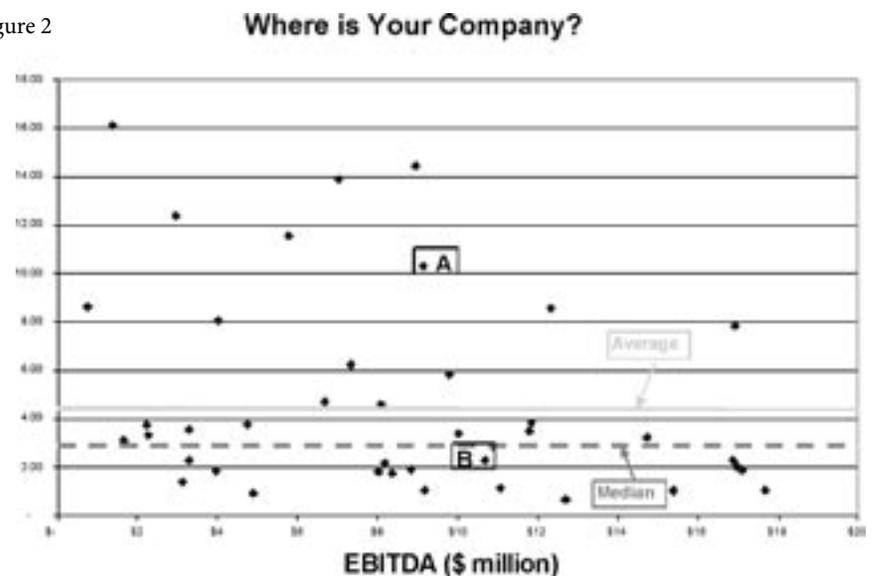


Figure 3

	Company A	Company B
Sales Makeup	Diverse, loyal, consistent customer base	80% customer concentration within 2 recent customers
Management	Several replicable business processes empowering managers	Few business processes, daily decisions rely on owner
Buyers Expectations	Planning on huge synergies across other product lines	Limited synergies Buyer known for bottom fishing
Source of Growth	New products in diverse channels expected to continue	Stale product line Major customer in financial trouble

nies look to Professional Business Valuations for invaluable insights into key areas that directly impact the value of their company. A professional Business Valuation should analyze myriads of data, well beyond your historical financial information and “comparable” multiples to help you better understand the value of your business. At the end of the day, their work should thoughtfully use the data to support opinions on two key questions: about your business:

- A) How repeatable are the factors that drove your past performance?
- B) How reliable are the factors that drive your predictions for future

performance?

Successful acquirers know these questions lie at the very core of your company’s value. However focusing on them now, increases the opportunity to achieve values at the high end of any range.

Mark Signorelli is the Managing Partner for Cincinnati Growth Partners, LLC, a regional Private Business Advisory Company in the areas of Succession & Exit Planning Strategies, Capital Sourcing and Certified Business Valuations. For further information, please visit www.cincygrowth.com or call 513-563-2877 for more information.

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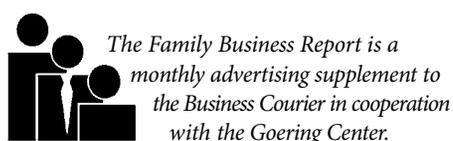
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