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# Transferrable Value

By: Alun Elias

## Past Issues

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*The role of an M&A advisor is to research and create an accurate, compelling story about a business for sale and then share this story to the largest possible relevent audience. In our experience of creating business stories we have identified 10 recurring primary value drivers. Understanding and utilizing these drivers for maximal effect is paramount to creating a successful sale.*

Over time we have identified what makes a company saleable and what drives the value of the company. Taking an industry agnostic approach, we have listed 10 primary value drivers. Continuous communication with buyers and their criteria has created this list in order of importance in today's market.

While preparing a company for market we often use the Pareto Principle (80-20 rule). We focus on building revenue and implementing strategies to achieve this growth.

**10 PRIMARY VALUE DRIVERS**

1. Next-Level Management
2. Operating Systems Governing Sustainability of Profit
3. Limited Customer Concentration
4. High Barrier to Entry
5. Recurring Sustainable Revenue
6. Good and Improving Cash Flow
7. Niche Market with Scalability
8. Competitive Advantage
9. Solid Formal Signed Contracts and Agreements
10. Limited Supplier Concentration

We have recurrently observed a twenty percent increase in revenue can double EBITDA. This doubled EBITDA is then treated to a new, more favorable multiple as perceived risk is reduced. Both the increase in EBITDA and increase in multiple lead to a dynamic increase in company value.

Therefore, many businesses advisors' number one value driver involves a focus on increasing revenue. What if there was an altogether different, more important to buyer's, value driver? Time and time again we have potential buyers' breeze over financials and EBITDA summaries to ask what we believe to be the number one value driver of the business in today's market.

1. How strong is next level management and will they be retained post transition?
2. If the owner leaves a business how will that effect the future bottom line?

This illustrates the concept of Transferrable Value. Having a strong tier of non-ownership management mitigates the perceived risk of removing the owner (often also the founder) from the company. Having incentives in place to insure this management team remains in place post sale is an integral component, safeguarding the transferable value.

A good time line to strategize moving the owner from working in the business to working on the business is two years before going to market. This can be achieved by hiring a CEO, training up lower tier staff, creating an alliance, a bonus program for key employee(s), or simply documenting everything the company depends on the existing owner for. This is a good time to evaluate next generation contributions to the business and what their future roles will be. This line of conversation leads to Robbinex' recognized 14 alternatives to selling a business. This also gives plenty of time for estate planning and tax strategies to crystalize within the Canada Revenue Agency's two-year time requirement.

A buyer must take steps to ensure Transferrable Value is indeed transferred. A competent advisor can help achieve this through contractual provisions in the purchase agreement. A thorough non-compete clause ensures the seller does not transfer value to a third party, or use the transfer value for their own gains. It is paramount that this clause be defined for a reasonable territory and a reasonable amount of time.

An earnout is a contractual provision that states the seller will obtain compensation once the business achieves identified financial goals. An earnout is often used to bridge the differing future earning valuations of a business between a seller and a buyer. The earnout also ensures that it is in the best interest of the seller to facilitate transfer value.

A thorough post sale employment contract also plays a vital role in ensuring value transfer. How long a seller stays active in a business post sale should depend on how much pertinent knowledge needs to be shared. The best employment contract is one that benefits both parties. A flexible final period can help maximize value transfer but minimize time and money required to facilitate this transfer.

Clients can be devastated learning that their business is worthless because of the existing dependence on the current ownership. The right professional M&A advisory team will identify and address this impediment to sale. Delegating and distributing responsibility to a second tier of non-ownership management maximizes Transferrable Value and optimizes the number one value driver.

## Bottom Line

We have often heard Doug Robbins state "the true value of a business lies in its ability to make a profit in the future."

## About the Author

**Alun Elias, Managing Director – Robbinex Inc.**
Alun has been travelling internationally with the Robbinex team since 2016. He has been an entrepreneur since childhood, has created and transitioned 8 of his own companies and assisted in the creation of numerous more. Alun's passion for travel and meeting new people led him to hike the over one thousand kilometer Camino de Santiago or Saint James way. He speaks conversational French, German, and Spanish.

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To assist clients who are considering transition to make

…the right decision at
…the right time for
…the right reasons™

by providing experience-based knowledge

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