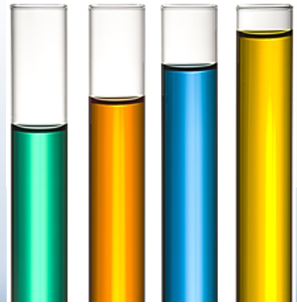
Increase Your Company's Value
With these 10 long-term strategies



When business owners communicate with potential investors, such as private equity firms, they often hear broad claims about how partnering can help them maximize the value of their businesses. Are these claims true? They can be if the partner is able to provide the expertise and capital to assist in implementing well-planned growth and exit strategies.

For many, the strategies listed below may seem elementary. They are meant more as a reminder to revisit your business plan. To discuss any of these concepts in further detail, we would be happy to set up a call.

1 Bigger is Better (and More Valuable)

It's important to know when to sell your company. Valuation multiples often increase with revenue because a larger business means more employees, a more mature distribution network, more sophisticated processes and systems, and a more finely-tuned product or service. All of these translate to bigger businesses that are more stable and less vulnerable during times of adversity. In order to gain scale, a company can choose to grow organically or through acquiring other businesses that offer synergies, economies of scale, and a strategic fit. Acquiring is often the quickest route to growth, but proper execution of this strategy is key. Sourcing, assessing, negotiating, and the ultimate integration of acquisition targets, requires a great deal of time and a specific skill set.

2 Get Your Financials In Order

Detailed and accurate financial records are often lacking in many small and mid-stage businesses, yet this one area can have more impact on a company's valuation than any other. Our experience has shown that business owners have a tendency to undervalue the power of the lead finance position. If your business is a size where you can afford to hire an experienced CFO, this one individual could add a significant amount of insight and value to your company. Without clear and accurate financial information, a buyer will have to make assumptions about your profitability and growth, (and purchasers are always conservative with their estimates). The evidence provided to support your growth assumptions will either strengthen or weaken your buyer's belief in them. It is very common for business values to be discounted by purchasers because the growth potential cannot be communicated well.

3 Systems and Procedures Should be Formalized and Well-Documented

This is another weak area for many privately-owned businesses. Too often, owners have focused all of their time on building the business, and not on "formalizing" the business through developing and diligently documenting standards and procedures. Documentation should include organization charts, job descriptions, business policies, procedures, training manuals, customer service standards, product standards, quality control, market/

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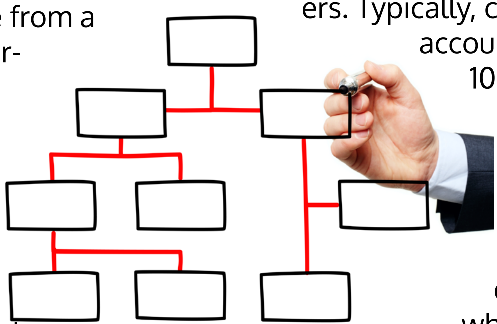
“A lack of standards and procedures can lead to employee confusion, inefficiencies and inconsistencies... all of which significantly affect the value of a business.”

customer/competitor analyses, etc. If these aspects of your business are defined and explained, buyers will be less skeptical about long-term consistency as it relates to continued success and growth.

4 Be a Leader, Be Unique, Be Branded

Do you offer market-leading, branded services or products in a space with little or no competition? Do you need to specialize to find your niche and claim leadership? Most market-leading services and products are unique, difficult to replicate, provide a diversified offering, and are highly visible and recognizable in their markets. Ensure all IP, patents, trademarks, and licenses are in place, as these will increase your business value from a purchaser’s perspective. Do you have Key Opinion Leader relationships in your industry? Consider publishing articles, reports or newsletters to position yourself as an expert and leader in your field. Can your customers find you easily through social/business networks? Market leadership translates to more sales. More sales lead to bigger companies...and bigger is better.



5 Involve Your Team

One of the most scrutinized areas within a private company is the dependence of the business on a single individual. If the owner of the company leaves, will the customers and key employees leave? Will the management team know how to run every aspect of the business? The sales contracts and relationships of a business need to be anchored by entire management and operating teams, not by just one or a few individuals.

6 Diversify Your Customers

Your customer base will be closely assessed by prospective purchasers. Typically, customers that account for more than 10% of your revenue will be a concern. If you lose your two biggest customers, or if a specific sub-sector of the economy weakens, what type of impact will it have on your business? How can you broaden your customer base so that you are not vulnerable to a handful of similar customers? Do you have the capital to expand your distribution network? Another fact that many owners do not realize is that a diverse, accurate, and well-organized customer database can be deemed just as valuable as your IP.

7 Develop a Reliable and Recurring Revenue Stream

Do you follow a sales model that continues to bring in revenue on a predictable basis? Reliable and recurring revenue is much more valuable to investors than larger, one-time, sporadic revenue. Models that produce this type of recurring revenue may include disposable/consumable products, subscriptions (and even better... auto-renewal subscriptions), memberships, service contracts, and licensing.

8 Reduce Your Costs

This is a simple and basic business concept, but one of the most difficult to undertake. When was the last time you took a fresh and objective look at the cost side of your business? Can you rework any leases or insurance policies, refinance at lower rates, or source lower-cost materials/services? Can you implement more efficient inventory management systems, automate any aspects of your business or bring manufacturing in-house? Sometimes significant changes require a great deal of capital, but in the long run, increased margins can pay off with larger valuations. This is one reason why many business owners consider private equity partners; additional capital and expertise can directly correlate to exponential cost reduction and revenue

“Sometimes significant changes require a great deal of capital, but in the long run, increased margins will pay off with higher cash flows and larger valuation multiples.”

growth which filter down to higher annual EBITDA.

9 Know the Potential Buyers For Your Business

Not only is it important to know the optimal time to sell your business, it is also important to know your potential purchasers. There may be an obvious strategic fit with another company in your sector, but there could also be a match with a business in a related sector that shares the same or complementary distribution channel or manufacturing process. Sometimes, strategic purchasers are willing to offer more than the market multiple for your company because they can benefit more from economies of scale. What many owners don’t realize, however, is that financial sponsors sometimes make the top bids, depending on the synergies that may be realized, in combination with their other portfolio companies. A deep understanding of, and relationships with both of these buyer networks, is key to locking in the highest valuation for your business.

10 Have a Long-Term View of Your Exit Plan

An exit plan should be considered long before you are looking to exit. Taking on an equity partner (partial exit), who has experience in accelerating growth and formally poising companies for future sale, should be considered long before your desired full-exit stage. Discussions with potential partners should take place as far out as 10 years prior to when you want to make a full, maximum-value exit with this partner. A familiar relationship that has been developed over a number of years, will undoubtedly allow you to make a more informed decision when choosing your partner.

The guidelines listed above are just a subset of strategies used to increase the value of businesses. For some companies, the expertise to implement these strategies is present within their existing management team. If that’s not the case for you, a private equity partner that shares your business philosophies and goals, and has specialized sector experience and growth-related expertise, could be the best option to realize your long-term value-maximization and exit strategies.

Learn More

Please feel free to contact us, even if just for a general chat about business growth and valuations.

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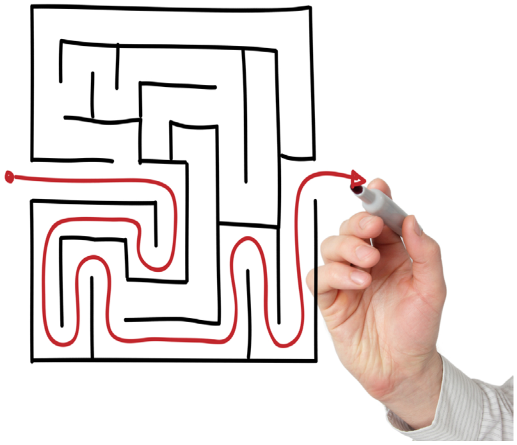

About DW Healthcare Partners

Formed in 2002, DW Healthcare Partners is a healthcare-focused private equity firm with over $500 million under management. We are experts in the areas of healthcare investments, strategic growth planning and business value maximization. We invest in healthcare companies generating over $4 million in EBITDA, at the smaller end of the middle market.
We follow a true partnership model. Our relationships with our portfolio business owners are based on respect and a common goal to accelerate growth to build shareholder value. Our extensive knowledge of the healthcare market allows us to quickly evaluate and complete a deal. Having owned and operated our own healthcare businesses, we understand the operational and strategic issues confronting business owners, and can act as a valuable strategic resource.

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