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Sellers should monitor management, business

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One of the most frequent questions posed by company owners over the last two years is, "When will be a good time to sell my company?" Each company is unique, and the answer will depend on the characteristics defining its situation.

Underneath the surface of the question, however, lies the fear of the unknown as it relates to the uncertainty of the economy, the industry, the credit markets and M&A cycles.

For most healthy, good-performing companies, those unknowns should not greatly impact the value of a business. As Ralph Waldo Emerson once said, "Can anybody remember when the times were not hard and money not scarce?"

When selling a business, value tends to be driven not by the vagaries of tertiary markets and economies but by three controllable attributes: quality of the **M**anagement team, historical **P**erformance of the business and the three-year **G**rowth plan for the business (collectively MPG).

Certainly, the industry in which the company operates will dictate some range of value; but by focusing on MPG, management can influence greatly the outcome of a business sale, regardless of external conditions.

The reality is that even in today's difficult economic environment, the Fortune 500 companies collectively have more than $1 trillion in cash on the balance sheets, and U.S. private equity funds have more than $450 billion in uninvested capital. These buyers are looking for good companies to acquire and are willing to pay for quality.

Indeed, the top five transactions for each of the past three years (down years for M&A and transaction values) have occurred in 10 industries (pharmaceutical, telecom, and oil and gas are the repeat industries), with a transaction value range of 5.5x EBITDA to 32.9x EBITDA, an average EBITDA multiple of 12.8x and a median multiple of 10.1x.

These numbers compare favorably to the overall transaction values for deals in the same

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size range for all of 2006 (9.9x) and 2007 (10.7x), the so-called high-water marks for recent M&A values. Further research shows that the acquired companies boasted a good MPG.

In addition to a good MPG, the one trait each of those transactions likely had in common was a good transaction team, including an accounting firm, legal counsel and an investment banking firm that believed in their story and could drive value no matter how difficult the times were or how scarce money was supposed to have been.

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