



BUSINESS  
TRANSITIONS  
FORUM

NOV 8, 2017  
WESTIN CALGARY

# HOW TO MAXIMIZE THE VALUE OF YOUR BUSINESS

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MONARCHBRIDGE  
FINANCIAL CORP.

# LOOK BOTH WAYS

Value is based on the future



History is viewed as a predictor



**Solid Past + Bright Future = Maximum Value**

## UNDERSTANDING VALUE

Basic premise of value: **Present worth of all future cash flows**



## VALUE EXAMPLE



**\$5M**

“Maintainable”  
Cash Flows

**6x**

Cash Flow  
Multiple

**\$20M**

Tangible Book  
Value

---

$$6 \times \$5M = \$30M \text{ Value}$$

## VALUE EXAMPLE



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“Maintainable”  
Cash Flows

**6x**

Cash Flow  
Multiple

**\$20M**

Tangible Book  
Value

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$$\frac{1}{6x} = 17\% \text{ Discount Rate}$$

## VALUE EXAMPLE



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“Maintainable”  
Cash Flows

**6x**

Cash Flow  
Multiple

**\$20M**

Tangible Book  
Value

---

$$\text{\$30M EV} - \text{\$20M TBV} = \text{\$10M Goodwill}$$

# CASH FLOWS



The “**Four C’s**” of cash flow:

**Clean**

**Clear**

**Consistent**

**Climbing**

- If you’re explaining, you’re losing!



# TAXES



## Invest in taxes

Cruise/"AGM" = \$1000

Tax Rate of 27%

"Savings" = \$270

Expense = \$1000

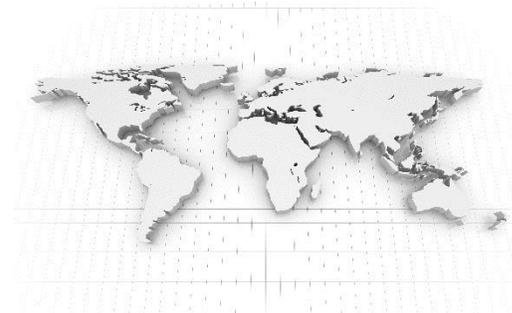
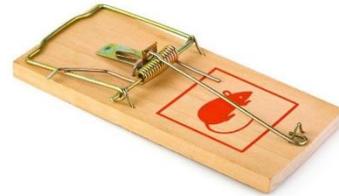
Multiple of 5x

Lost Value = \$5000

# BE CREATIVE



- Consider JV's and Strategic Alliances



The rest is history...

# MULTIPLE AKA DISCOUNT RATE



**Risk**



**Multiple**



**Growth  
Potential**



**Multiple**

# PERSONAL GOODWILL



*Could the business operate without you?*



**In Advance of Sale:** Build-out management team

**At Time of Sale:** Non-competes, longer management contracts, some non-cash consideration

# CONCENTRATION



*Could you afford to lose your biggest customer or supplier?*



**In Advance of Sale: Diversify**

**At Time of Sale: Some non-cash consideration**

# REVENUE RECURRENCE



*Do you know where your future revenue will come from?*



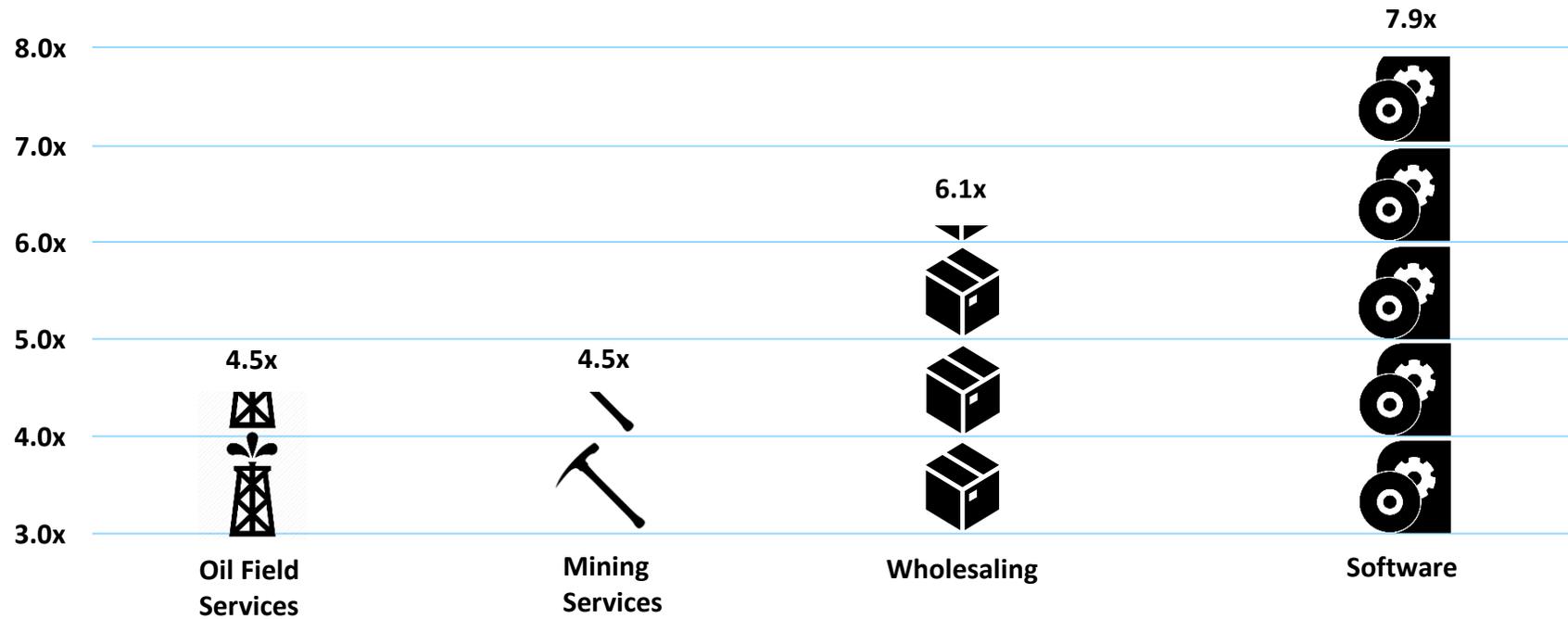
**In Advance of Sale:** Pursue recurring revenue

**At Time of Sale:** Some non-cash consideration

# INDUSTRY MATTERS



## Premiums by Industry:

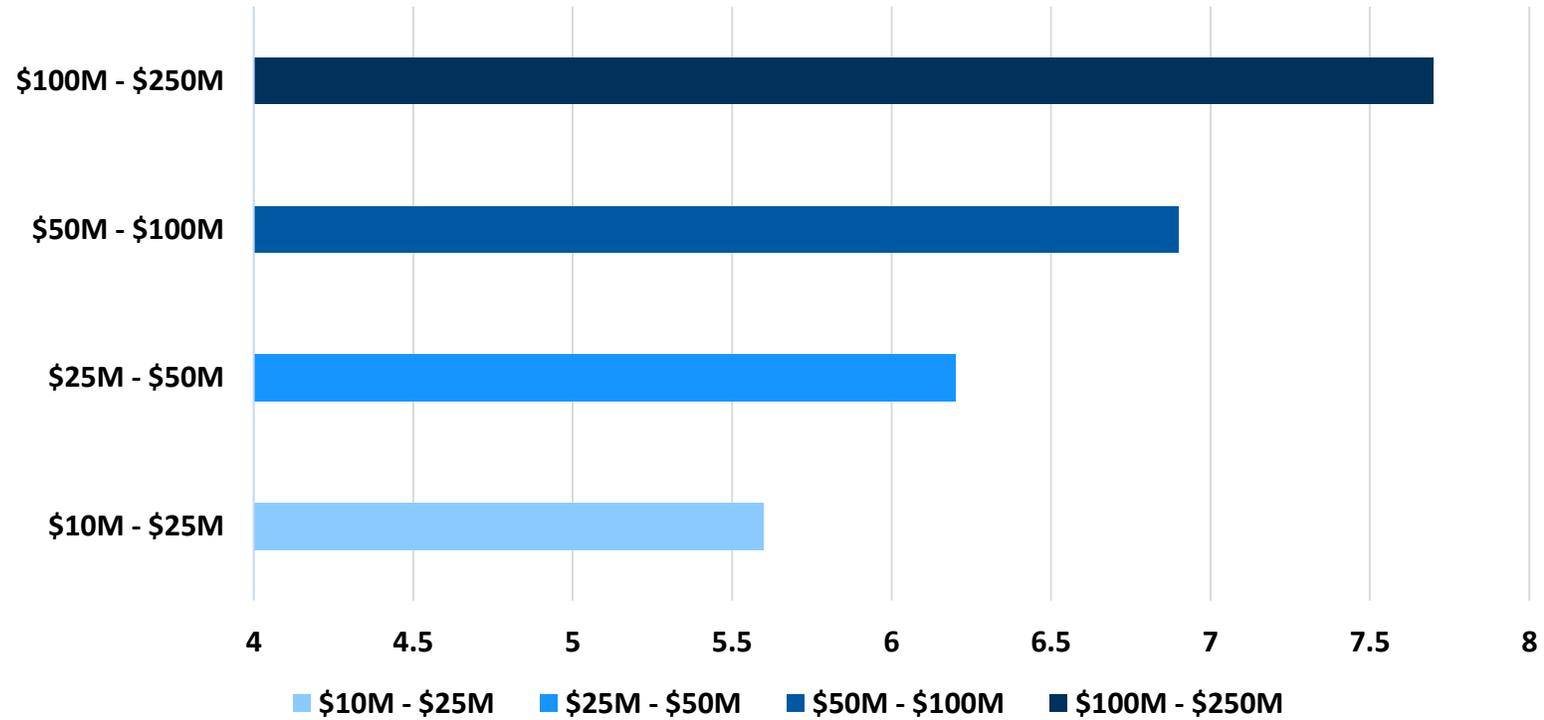


Source: GF Data

# SIZE PREMIUM



## Premiums by Enterprise Value:



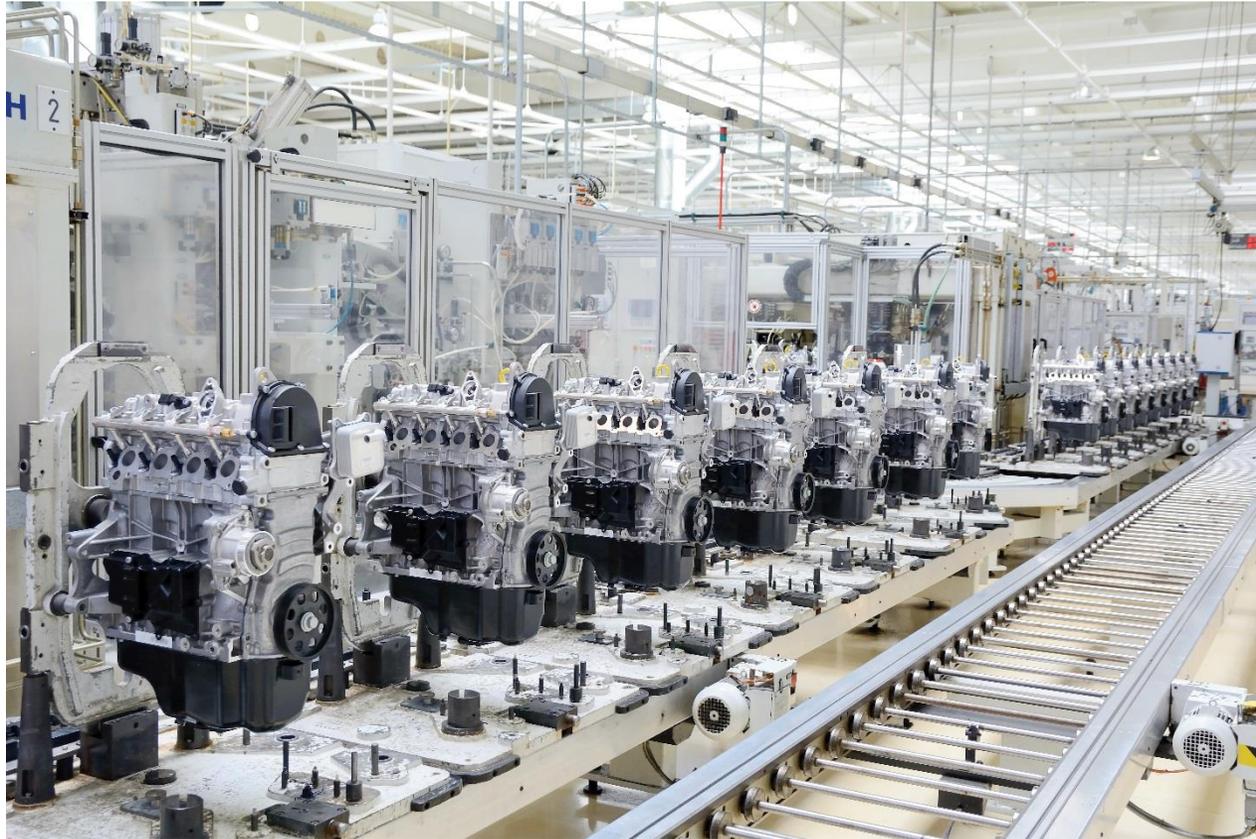
Source: GF Data

# SCALE MATTERS

Cash Flow

Multiple

Balance Sheet



# GROWTH MATTERS



LTM Revenue: \$147B  
LTM EBITDA: \$14B  
Market Cap: \$48.1B  
EV/EBITDA Multiple:  
10.9x



TESLA

LTM Revenue: \$10B  
LTM EBITDA: \$733M  
Market Cap: \$57.5B  
EV/EBITDA Multiple:  
89.4x

Source: Capital IQ

# ENHANCING GROWTH POTENTIAL



## In Advance of Sale:

- Sound strategy
- Sound business processes
- Well aligned management
- Right capital structure

## At the Time of Sale:

- Strong, supportable forecasts
- Identify buyers that “get it”
- Business as usual



# BALANCE SHEET

## WORKING CAPITAL



Assume the following:

$$A/R = \$10M$$

$$\text{Average Days to Collect} = 70$$

$$A/P = \$4M$$

$$\text{Average Days to Pay} = 30$$

By reducing days to collect by **10 days**, and increasing days to pay by **10 days**, approximately how much value is created for the business owner?

A: \$350K

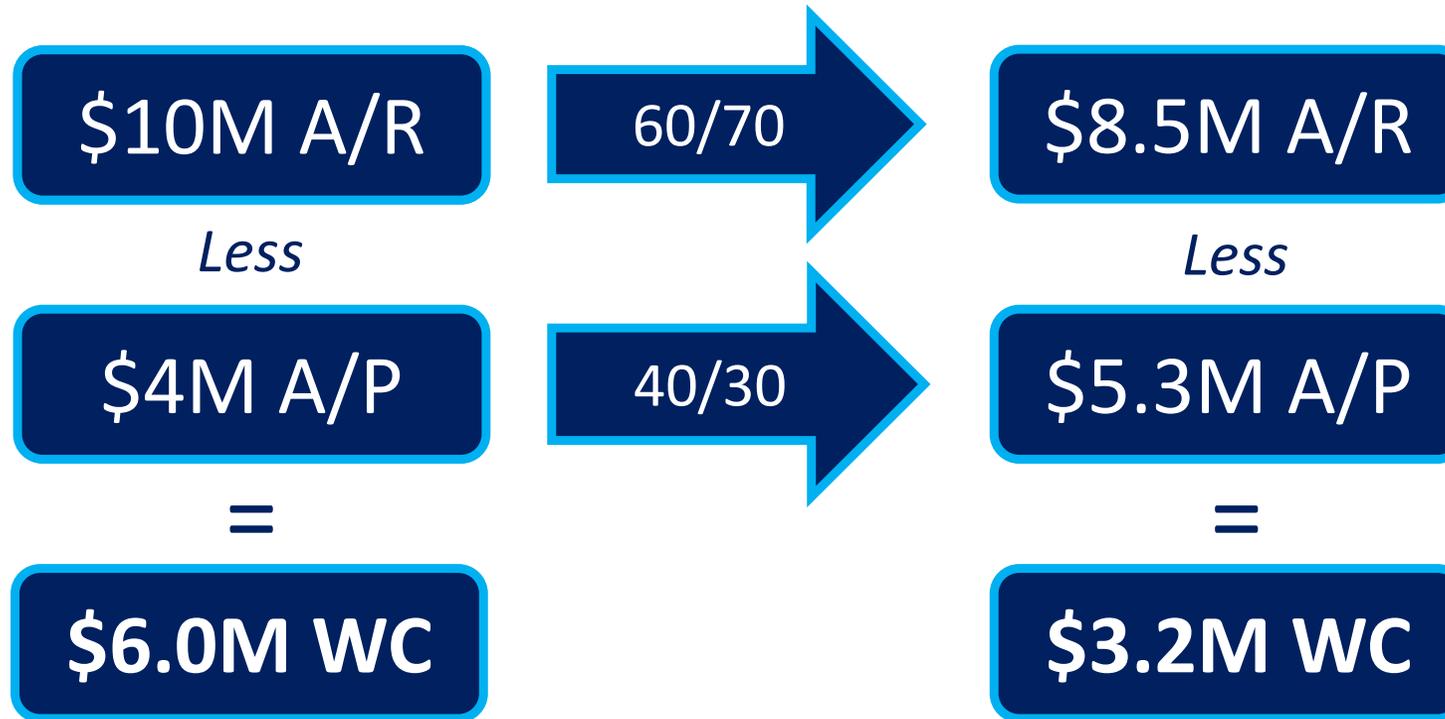
B: \$650K

C: \$1.3M

D: \$2.8M

# BALANCE SHEET

WORKING CAPITAL



**Total Value Created:**

**D: \$2.8M**

# BALANCE SHEET

REAL ESTATE

*Example:*



EBITDA without rent = \$5M

Multiple = 5x

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**Total Value = \$25M**

# BALANCE SHEET

REAL ESTATE

*Example:*



EBITDA with rent = \$4.7M  
Multiple = 5x

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Value = \$23.5M

**Total Value = \$27M**



Market Rent = \$300K  
Real Estate Multiple = 12x

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Value = \$3.5M

**Extra Value = \$2M**

# BALANCE SHEET

*TANGIBLE ASSETS – FRIEND OR FOE?*

If you were buying a \$20mm business with the same cash flow, which would you prefer?

A: \$15mm in assets and working capital, \$5mm in Goodwill

**OR**

B: \$5mm in assets and working capital, \$15mm in Goodwill



“Goodwill is the gift that keeps on giving”



# “LEGALS”

## LETTER OF INTENT



## PURCHASE AND SALE AGREEMENT



# VALUE DERIVED FROM THE SALE PROCESS

## ONE-OFF



## Auction Process



## SURVEY SAYS...



ALLIANCE OF INTERNATIONAL  
CORPORATE ADVISORS

40

Advisors from

27

countries around the world

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*We Asked: What is your #1 one piece of advice to maximize value in advance of and at the time of sale?*

## SURVEY SAYS...



ALLIANCE OF INTERNATIONAL  
CORPORATE ADVISORS

*In advance of sale:*

“Develop a strong management team and incentivize them”

“Build on the strengths of the business”

“Design the business to be attractive to buyers”

“Focus on how your business solves problems”

“Be prepared, clean up financials and facilities”

## SURVEY SAYS...



ALLIANCE OF INTERNATIONAL  
CORPORATE ADVISORS

*At the time of sale:*

“Identify buyers with  
strong strategic fit”

“Focus on  
normalizing earnings,  
as the multiple is  
often fixed”

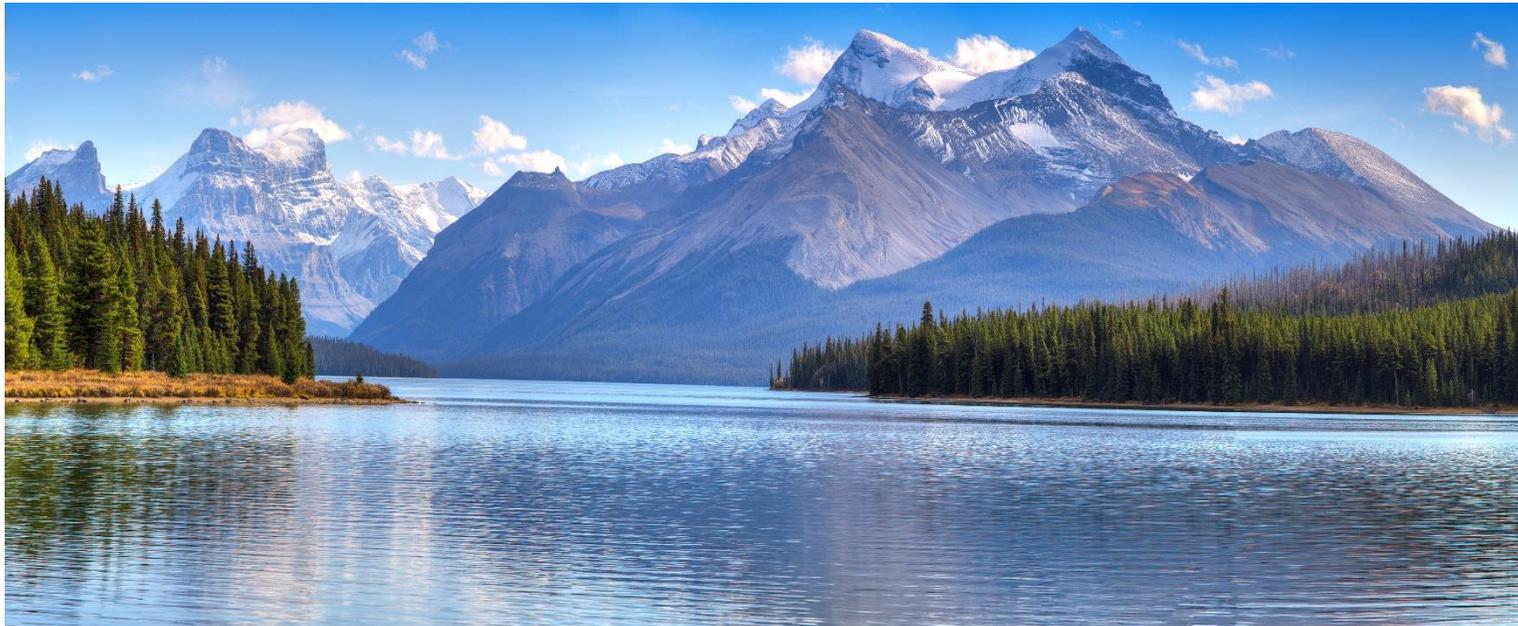
“Preparation,  
preparation,  
preparation”

“Create orchestrated  
competition”

“Hire a strong team  
of advisors”

## CONCLUDING THOUGHTS

- Opportunities exist well in advance of **OR** at the time of sale
- Remember the components of value
- Surround yourself with the right people



# THE REWARD FOR GETTING IT RIGHT





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