



TIPS FOR VALUING & SELLING YOUR MANUFACTURING & DISTRIBUTION BUSINESS

1) UNDERSTAND HOW YOUR BUSINESS WILL BE VALUED

- The *Asset Approach* determines the value of your business by assessing its tangible and intangible assets, adjusted to reflect their fair market value. This method is particularly relevant if your business has valuable equipment.
- The *Income Approach* determines your business's worth by converting anticipated economic benefits into a present value. It considers factors such as expected growth, risk, and the time value of money.
- The *Market Approach* compares your business to similar companies based on industry multiples and transaction data, providing a benchmark from private and public company transactions.

2) SELLING YOUR BUSINESS? FOCUS ON EBITDA OR SDE

- When selling a manufacturing and distribution (M&D) business, business brokers often base valuations on a multiple of Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) or Seller's Discretionary Earnings (SDE).
- For niche businesses, it is advisable to also consider the *Income Approach* since there may not be many comparable companies available for a straightforward comparison.





3) TOP TIPS FOR OWNERS PREPARING TO SELL

- Continuously researching and adopting new technological advancements helps maintain a competitive edge and adds value to your business.
- It's crucial to have a strong and experienced management team in place to ensure the business isn't overly dependent on the owner.
- Make sure that your plant has sufficient capacity to scale, as buyers will be interested in the potential for growth. If your business is already operating at full capacity, its upside may be limited.
- Understanding your business's working capital requirements is essential when preparing for a sale.

4) KEY FACTORS THAT IMPACT YOUR BUSINESS VALUATION

- The business's reliance on a key person, such as the owner, can affect its valuation, so it's important to reduce key person risk and have a deep bench of experienced managers.
- A high concentration of customers can pose a risk, so diversifying your customer base can help increase value.
- The stability and longevity of customer relationships, along with the age and availability of skilled labor, will also impact how a buyer views the business.
- Buyers are often influenced by the geographic and aesthetic appeal of your business location.
- If your business owns patents or unique technologies, these can enhance its value.
- Well-documented Standard Operating Procedures (SOPs) make the business more transferable, adding value in the eyes of potential buyers.

