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DAY 10

VALUING A BUSINESS, PART ONE & NEGOTIATION, PART TWO

Add-backs

Add-backs can either increase or reduce the profit figure.

Types of add-backs

Non-recurring add-backs are one-off events, including:

- legal fees
- redundancy costs
- relocation expenses
- technology upgrades

Accounting adjustments –
operations not included in the sale: e.g. property

Discretionary add-backs include:

- normalising the manager's salary
- removing personal expenditure and pension contribution
- ensuring a commercial level of rent
- correcting for mates' rates
- adjusting for salaries to family members
- removing charitable contributions
- removing memberships and perks
- adjusting for increased PAYE for inflated salaries/family members

Focus on one sector

Focus on one sector and much of the business valuation process will be based on your experience and intuition.

Remember:
It's all about what it's worth to you.

What should the multiple of EBITDA be?

The multiple is a negotiation:

- The seller will always argue that it's a higher number.
- You will always argue that it's a lower number.
- You need to negotiate the lowest number possible to maximise your profit.

Your negotiation skill will be backed up by facts – all the things that influence EBITDA – combined with a motivated seller.

Negotiation

Know what the business is worth to you. If you can't get it at that price, move on to the next deal.
Always find out what they want first. There are no exceptions; don't break the rule.

If they don't want to go first:

- Shrug: it puts the ball back in their court.
- Keep asking: phrase it differently, but be persistent.
- Use examples: tell them how other deals are going/have gone.
- End the meeting: just walk away.

The first person to mention price loses.

To get you to go first, they might say:

- You're the expert: don't fall for flattery.
- Tell me what you'd pay: don't bow to pressure.
- I was told not to go first: fine, but you can't read their mind.

If it gets uncomfortable, tolerate it: they are uncomfortable too.
If it's not uncomfortable, the negotiation was too easy and you probably overpaid.

They go first on price. Never break this rule.

Whoever goes first has to make concessions.
Whatever they tell you, even if it's a good price, flinch; it will drive the price down.
Your price goal is to pay less than it's worth to you.

Ways to lower price expectations – let the seller know you:

- Have other options.
- Are interested, but only at the right price.
- Can offer speed and certainty.
- Understand the business.
- Are prepared to walk away.

You are more likely to get the deal that you want if:

- They like you.
- You are a credible buyer.
- They trust you to deliver.

Deal structure is key – anything you concede on price you can get back on terms.

Important points to remember:

- You can only buy a business you can finance.
- You will usually borrow against assets, then pay from profit.
- The business should finance its own acquisition.
- If you have cash to put in, you can expand your options.
- You should get the first deal done without risking anything.