



What Factors Result in a Buyer Paying More for a Company?

Once a buyer has determined to enter the marketplace in search of a company that meets their specific criteria, they evaluate potential transactions based on the presence of value drivers. Value drivers are characteristics that influence the amount a buyer will pay for a company or business, whether they are real or perceived by the buyer. It is essential to recognize that a particular value driver may have vastly different levels of importance among interested buyers. Understanding and enhancing value drivers in a business prior to initiating the business sale process will maximize the ultimate sale price. Value drivers are not merely numbers; they also include intangibles and human capital. Value drivers distinguish successful companies from their competitors and are crucial to receiving the highest sale price possible.

Primary value drivers include:

1. Stable and predictable cash flow
2. The nature of products and services
3. Clearly identifiable strategy with growth opportunities
4. Diverse customer base
5. Strong management team and transitional training
6. Reliable financial information and controls

Secondary value drivers include:

1. Effective operating systems
2. Well-maintained business facilities and equipment
3. Owner's motivation for selling
4. Seller family dynamics
5. Business and personal goodwill

Primary Value Drivers

All value drivers contribute to a **stable and predictable cash flow**. Cash flow is the single most important value driver for a business and many of the other value drivers described below directly affect cash flow. Predictable and reliable cash flows reduce the buyer's perception of risk, thereby increasing the purchase price. If recurring revenues comprise a material portion of a company's overall revenues, the recurring revenue stream can be valued separately and at a higher level than the nonrecurring revenues. Buyers are also willing to pay the highest amount when they can expect an increase in cash flow after their purchase and well into the future. The Buyer's ability to grasp and understand the business will add to their perception that cash flows will be predictable and sustainable after closing.

The nature and make-up of the Company's **products and services** are an important value-driver. What are the Company's competitive advantages? Are there high barriers to entry for would-be competitors? Is there high and ongoing demand for the Company's products and services? How will technological and other advances or shifts in the