

One strategy to combat business-value declines: Reinvest

Economists say businesses are being bought, sold in '09

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Marty Cullen isn't bothered by the drop in business prices since he purchased A-1 Plumbing and Emergency Rooter a year ago.

"We are holding that value. We did in the most recent fiscal year," he said. "We believe we could sell the business today for what we paid for it."

The Garden City-based A-1 employs 26 – including previous owner Dan Long, who remains with the company in a business-development post.

Though A-1's revenues fell by nearly 10 percent from 2007 – as Cullen expected – and two jobs were cut last year, he continues to build the company's value, he said.

Although the number of businesses sold in the state has dropped, demand among buyers with cash or financing in-hand remains high. Fending off devaluation comes from developing fresh ideas and building new markets.

Cullen, a former Simplot Grower Solutions sales director, said part of his strategy to keep his business's value up is reinvesting and finding opportunities to cut waste.

"The best money you can spend is on education," he said.

Cullen retained and expanded an employee-education program and emphasizes customer service in training sessions and at the customer's doorstep.

"We're well-positioned for this year and are going to focus on the details of providing better customer service and better value so that when things get better, we are well-positioned," Cullen said. Falling revenues can be bad news for the business owner who plans to sell a business, because the sale price will be based in part on the enterprise's ability to bring in revenues and profits predictably over the long term. But owners can limit how much their business falls in value by, in essence, stepping into the prospective buyer's shoes, said Hooper Cornell business valuation specialists Peter Butler, Keith Pinkerton and Dennis Reinstein. Hooper Cornell is a full-service Certified Public Accounting firm in Boise. It has a business-valuation department.

Business owners often get too focused on tax deductions, said Reinstein, a Certified Public Accountant. One way to value a business is to apply a "multiple" to profits, and deductions reduce the amount of profit that is multiplied, he said.

He said a dollar taken as a write-off could save 40 cents in tax, but if the owner foregoes taking the expense – leaving the dollar in profit – applying that dollar to the multiplier will produce \$5 in value, assuming a multiplier of 5. Multipliers may differ by the type of business and the risk profile.

Business owners who plan to sell should start preparing early – five to 10 years early, if possible, Reinstein said. Ideally, they will put resources into the business, positioning it to produce the profit and predictability that attract buyers.

Business valuations in E. Idaho avoid freefall

Eastern Idaho's continued growth has kept business valuations from free-falling, an Idaho Falls-based business broker says.

"It's not across-the-board that everybody's down," said Bill Spofford of Arthur Berry & Co. brokerage.

Values are dropping among some businesses that rely on consumer discretionary spending and the housing sector, he said. At the same time, a number of service businesses continue to perform well, he said.

Spofford said the number of businesses sold in eastern Idaho in 2008 was below the "banner year" of 2007, but was strong. "We're continuing to see growth in Idaho Falls," he said. It is not as strong as '07 or '06, but is stable."

Some commercial real estate projects are stalled, others are continuing, and the region is benefiting from growth at Idaho National Laboratory and others in the energy sector, he said.

"Get the books in order," Pinkerton said. This can mean taking some expenses off the books. "If the business owns the Lamborghini, get that out."

Valuation multiples and tax benefits notwithstanding, business owners that can increase revenues and profits will attract more buyers and higher sale prices, Butler said. "In this credit environment, companies that can grow revenues and profits would be in demand later."

Lower business values aren't entirely bad news, he said. They present some tax-saving opportunities for owners who transfer business assets out of their estates, Butler said.

"If before the economic meltdown you could have transferred 20 percent of your company out of your estate without incurring taxes, now potentially you might be able to transfer 35 percent of your company out of your estate without incurring gift taxes," he said. Taxes are paid based on the amount of wealth transferred.

The recession has driven multiples down and has made pricing more subjective in the past year or so, following five or six years of rising values, said Butler, a Chartered Financial Analyst. Hooper Cornell also considers income, market position, balance-sheet analysis and other factors in determining value.

Multiples of earnings before interest, taxes, depreciation and amortization have dropped 10 percent to 15 percent from a year ago, he said. Sellers also are impacted by reduced revenues and total profitability, and a reduced field of potential buyers with cash or financing in hand.

Although the number of business sales has dropped, businesses remain in demand among buyers with cash or financing in hand, Butler and Pinkerton said.

Some private equity groups seek to "bolt on" businesses to their holdings to diversify, and laid-off employees with severance packages may look to buy businesses, Butler said.

Some investors view buying a business as an attractive alternative to investing in other assets, Pinkerton said.

Owners who must sell might be able to receive some of the proceeds now and some later; sell part of the business, such as a product line; or sell and lease back the real estate if possible.

A-1's average sale has increased in recent months, noteworthy in that the company steers clear of new-construction work in favor of plumbing repairs and replacements.

"We're the guys who like to hit a lot of singles," Cullen said.