

# You Can't Measure A Company's Value Until You First Build It

By John M. Collard



Valuing a company is the easy part; creating that value in the first place so that you can measure it is a more formidable task. Creating a value equation can build worth into an underperforming company.

Buyers and sellers look at the component makeup of a company differently, and therefore, place different values on these ingredients and on the whole. To enhance real company value, analyze components as they relate to worth in the mind of potential buyers. Value to one buyer does not necessarily hold the same value for another. Establish multiple buyer profiles depending upon the circumstances and prepare to build value each would be willing to pay for.

Buyers of distressed companies look for core value upon which they can base a turnaround. They want to install management, implement new strategies, rid the company of excess and legacy costs and build revenue. This purchase is strategic, yet opportunistic in nature. They want to

rebuild, then sell at increased value.

Free cash flow and the continued ability to produce it with reliable probability creates the greatest value. This is not as easy as it sounds. In fact, it can be complicated, is often misunderstood and frequently is bungled.

## BUILD ENTERPRISES THAT BUYERS WANT TO INVEST IN.

## CREATE A VALUE EQUATION TO BUILD WORTH.

Going concern value, or GCV, is where the fun begins in all transactions. The going concern value and goodwill, or soft assets, will always draw the most controversy and discussion in terms of their valuation.

So build enterprises that buyers want to invest in. Future Buyers look for:

- **Businesses that create value.** Consistency is the key. You must demonstrate growth in revenue, profit and cash flow.
- **High probability of future cash flows.**
- **A marketing-oriented, motivated management team and human capital.**
- **The ability to sell, compete, distribute, produce and develop products and thrive.**

The directors' and management's role must be to build going concern value. The GCV can be best maximized with stable leadership, setting and following sound strategies to consistently bring products and services to market, all the while nurturing resources and implementing processes to manage the company.

## MERGERS & ACQUISITIONS

Create reasons for buyers to want to buy. Buyers want fair entry valuation so they can expect realistic return potential. There must be exit options to realize high ROI at the time they resell. Once that underperforming entity has been turned and is operating profitably, buyers will resume their interest in the company.

The better the company is at creating stakeholder value and shareholder return, the more interest there will be in buying some or all of

the stock. While investors often buy on hope and promise, the dot-com market sector collapse demonstrates a need to ultimately produce returns to substantiate investment. Had many of the dot-com managers built GCV to support their promising technologies, they might still be around today.

Those that did have strong balance sheets weathered the storm, and found opportunities to gobble up assets from those who didn't. Just like in "Field of Dreams," if you build it, they will buy it.

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