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8 The Saleability Test - How to Maximize Exit Values

In 2001, I published a book, [Growing a Private Company](#) and in it I described a quick & simple test to assess the likelihood of a company's saleability and grooming tips to attract premium valuations. I've modified the test for 2009 and read in conjunction with my advice below, should help owners build remarkable businesses over the next 5 years. At least the M&A market might be alive by then!

VENDOR SALEABILITY TEST	
What are potential buyers looking for in a business? Take this 15 question simple test. Answers are given on a scale of 0 to 5, 5 being strongly agree.	
1	Company has strong market position in sector, story is compelling
2	Second-tier management world class
3	Products/services are continually seen to be innovative
4	Business is NOT dependant on owner
5	No one customer accounts for a significant % of sales, >30%, scores 0
6	Individual sales orders < 10% of annual sales
7	Company has grown at 15% pa over the last 3 years
8	Margins above sector average
9	Current year trading and full year forecast > previous years
10	Strong order book (at good margins) 12 months = 5
11	Significant annual profits, \$5m scores 5
12	Business is free from non-core activities
13	Simple share structure
14	GAAPs are followed
15	Statutory filings are up to date and audits are clean.

A score today of above 60 probably implies that you are building a remarkable business.
A score below 60 but above 45 implies important grooming issues which need addressing.
A score below 45 but above 30 implies a good business but serious work is essential.
A score below 30 implies a repositioning if an exit is to be achieved in the medium term.

Advice - The following comments should be considered when reviewing your score.

1	Buyers like scale, normally bigger companies attract higher PEs
2	Buyers need quality management, attract and retain the best & brightest
3	Innovation is often the special ingredient that buyers find so attractive
4	A one man band is not an attractive attribute - owners make yourself dispensible
5	Need to dilute down through growth, ideally biggest customers < 5% of sales
6	Lumpy sales make acquirers nervous
7	Difficult in the current climate but a medium term focus on growth is essential
8	Stand out from the crowd!
9	Timing is everything, don't hold on too long!
10	Visibility of earnings key to high comfort levels of buyers
11	Build scale to ensure you are attractive to a range of buyers
12	Buyers like cleanliness with no mystery
13	A long tail of shareholders can cause nightmares for buyers at completion
14	Get in line to ensure due diligence goes smoothly
15	Unfiled regulatory forms can ruin deals