What makes a company valuable?

5 factors may lead to a bigger payoff when it's time to sell.

BY **LANCE R. TULLIUS** | Contributor

In the midst of one of the strongest-running merger and acquisition markets the industry has ever seen, pest management professionals (PMPs) want to know what makes a company valuable. Keeping in mind that a company's valuation is subjective, and that no universally regarded foolproof means for valuing a business exist, the question is not easy to answer. But there are characteristics and traits that drive a company's value. And while most may seem obvious, many business owners don't understand or appreciate the context within which the market — or a particular buyer, for that matter — views and prioritizes these factors.

1 HAVE WHAT SOMEONE WANTS

The most basic value driver is having a business that someone else wants to own. In today's market for pest management companies, where valuations have reached great heights, that means one of two things:

- You must have a well performing business that is similar in nature to your potential buyer's (inspiring that buyer's motivation to add more of an already good thing); or
- You must have a well performing business that may not be completely similar to a buyer's business, but is complimentary (thus providing a strategic motive for the acquisition).

MORE ONLINE
Need more clarification about EBITDA? Visit **PMPPestTalk.net**.

This may be a generic and vague characteristic, but no other measure of value matters without it.

2 EBITDA DRIVES THE DAY

Assuming you have a desirable business, arguably the single greatest characteristic or metric that translates value is profitability, or earnings before interest, taxes, depreciation and amortization (EBITDA).

When applying rumored valuation multiples to their own revenue streams, sometimes business owners fall victim to significant misconceptions of value. While revenues do hold relevance, they generally do so second to profitability.

3 GROW, GROW, GROW

Now that you have the impression that revenues take a back seat to EBITDA (which they do), let's stress the importance of revenue trends. Simply put, buyers almost never pay premium valuations for businesses that show flat or declining revenue trends. Investors make investments with the intent for those investments to get bigger. While returns do come from profits, those profits come from revenues. And if revenues aren't growing, your profits are essentially capped. You must look for ways to sustain revenue growth, and balance that growth with consistent — if not growing — profit margins.

4 THE HUMAN FACTOR

The pest management business is a human one. To date, and for the foreseeable future, it has not been automated. Therefore the ability to grow for businesses of all sizes and capitalization levels depends on their ability to access and retain quality people. Sophisticated and experienced buyers are highly motivated to acquire businesses largely for the sake of securing additional talent. Developing a culture that focuses on training and advancement, and providing a quality work environment, will better position you to maximize the value of your business.

5 OPERATE BIG

To secure a big payday for your business, you must be able to objectively validate the performance of your business in-depth and on various levels. You have to install and use systems, procedures and protocols that track various aspects of your business' performance. Operate bigger than you are. Run your business as if you have to adequately report its performance to outside investors, rather than to yourself or your immediate family. Financial and accounting systems generally come to mind first, but tracking customer, labor, productivity and supply metrics also are high on the list. PMP

TULLIUS is president of LR Tullius, which provides merger and acquisition and financial/strategic advisory services to companies operating in select industries. You can reach him at Lance@LRTullius.com.