

## WHAT ARE BUYERS LOOKING FOR IN A COMPANY

It has often been said that valuing companies is an art, not a science. When a buyer considers the purchase of a company, three main things are almost always considered when arriving at an offering price.

### Quality of the Earnings

Some accountants and intermediaries are very aggressive when adding back, for example, what might be considered one-time or non-recurring expenses. A non-recurring expense could be meeting some new governmental guidelines, paying for a major lawsuit, or even adding a new roof on the factory. The argument is made that a non-recurring expense is a one-time drain on the “real” earnings of the company. Unfortunately, a non-recurring expense is almost an oxymoron. Almost every business has a non-recurring expense every year. By adding back these one-time expenses, the accountant or business appraiser is not allowing for the extraordinary expense (or expenses) that come up almost every year. These add-backs can inflate the earnings, resulting in a failure to reflect the real earning power of the business.



### Sustainability of Earnings

The new owner is concerned that the business will sustain the earnings after the acquisition. In other words, the acquirer doesn't want to buy the business if it is at the height of its earning power; or if the last few years of earnings have reflected a one-time contract, etc. Will the business continue to grow at the same rate it has in the past?

### Verification of Information

Is the information provided by the selling company accurate, timely, and is all of it being made available? A buyer wants to make sure that there are no skeletons in the closet. How about potential litigation, environmental issues, product returns or uncollectible receivables?

The above areas, if handled professionally and communicated accurately, can greatly assist in creating a favorable impression. In addition, they may also lead to a higher price and a quicker closing.

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*Alamo Corporate Group and its advisors have specialized in ownership transfers of closely held companies since the late 1980's. We offer a range of intermediary services including mergers, acquisitions, divestitures, buyer identification, management buyouts, debt restructuring and in very limited instances, acquisition searches for high net worth individuals and private equity groups.*

*Alamo's primary purpose is to provide an extremely confidential national service that brings buyers and sellers together through our extensive contacts in the financial and intermediary communities.*

*Our process is very structured, as experience has shown us that while each buyer and seller is somewhat unique, there are enough similarities that specific steps must be followed in order for transactions to close. Confidentiality is guarded throughout each step of the process.*

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