

WHAT IS A REASONABLE PRICE FOR PRIVATE COMPANIES?

Valuing a privately-held company is more complicated than placing a value or price on a publicly-held one. One big issue is the majority of privately-held businesses do not have audited financial statements. Public companies also have to reveal a lot more about their financial issues and other information than the privately-held ones. This makes digging out information for a privately-held company difficult for a prospective purchaser. Alamo Corporate Group helps our sellers gather as much information as possible, and have their accountant put the numbers in a usable format if they are not already.



When the seller of a privately- held company decides to sell, there are four estimates of price or value:

1. A value placed on the company by an outside appraiser or expert. This can be either formal or informal.
2. The seller's "wish price." This is the price the seller would really like to receive – best case scenario.
3. The "go-to-market price" or the actual asking price.
4. And, last but not least, the "won't accept less than this price" set by the seller.

The selling price is usually somewhere between the asking price and the bottom-dollar price set by the seller. However, sometimes it is lower or higher than all four estimates mentioned above. The ultimate selling price is set by the marketplace, which is usually governed by how badly the seller wants to sell and how badly the buyer wants to buy. Of course, all is dependent on the deal being financeable. Fortunately, the same due diligence questions about the business will also answer many bankers' questions.

What can a buyer review in assessing the price he or she is willing to pay? The seller should have answers available for all of the pertinent items on the following checklist. The more favorable each item is, the higher the price.

- Stability of Market
- Stability of Historical Earnings
- Cost Savings Post-Purchase
- Minimal Capital Expenditures Required
- Minimal Competitive Threats
- Minimal Alternative Technologies
- Reasonable Market
- Large Market Potential
- Reasonable Existing Market Position



Independent Services for Business Buyers & Sellers

- Solid Distribution Network
- Buyer/Seller Synergy
- Owner or Top Management Willing to Remain
- Product Diversity
- Broad Customer Base
- Non-dependency on Few Suppliers

There may be some additional factors to consider, but this is the type of analysis a buyer should perform. The better the answers to the above benchmarks, the more likely it is that a seller will receive a price between the market value and the “wish” price.

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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