

Maximizing Investment Value



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In our last newsletter, [Determining and Increasing Business Value](#), we discussed the three primary approaches to valuing a business. We described how value hinges on projected cash flows and risks associated with achieving them. And, we explained that a business owner can increase value by increasing cash flows and lowering risks. In this article we focus on the various levels of value associated with a business (or business interest), and we discuss strategies for maximizing value.

Though we often think that value means one specific amount, various levels of value are associated with business interests. These levels of value reflect varying degrees of control, marketability, and synergies with other enterprises. The levels of value, from highest to lowest, are illustrated in the following example:

\$12 per share	Synergistic (or Strategic) Value	(reflects a 20% strategic premium)
\$10 per share	Control Value	(reflects control and liquidity)
\$7 per share	Noncontrol, Marketable Value	(reflects a 30% discount for lack of control)
\$5 per share	Noncontrol, Nonmarketable Value	(reflects combined discounts for both lack of control and liquidity of 50%)

In arms-length business acquisitions lacking strategic or synergistic features, buyers and sellers tend to negotiate a purchase price that approximates the control value of the business. A buyer seeks to maximize value by identifying a target with strategic or synergistic potential. If the buyer is able to purchase the business at control value, but operate it at a level consistent with strategic value, the buyer has effectively purchased the business at a “bargain.” By capitalizing on synergies or other strategic advantages, the buyer’s return on investment will be enhanced. A buyer tries to negotiate a purchase price without paying for synergies or other strategic value that the buyer brings to the deal, while recognizing that if multiple potential buyers who recognize synergistic or strategic potential are involved, the purchase price may get “bid-up” to an amount approaching strategic value.

One of the ways to realize strategic value is by buying a competing company. By eliminating a competitor, the buyer is able to capture a greater share of the market, providing opportunities for increasing revenues and reducing costs. Similarly, a buyer can purchase a supplier or distributor to create vertical integration. This will enable the buyer to save the “mark-up” in supply or distribution costs, resulting in greater profits. Other strategic acquisition value can result from purchasing one or more companies, enabling the buyer to generate economies of scale, leverage existing expertise and know-how, provide for “one-stop” shopping, or create a level of “critical mass” that provides an advantage in the marketplace.

We have approached the idea of maximizing value from a buyer's perspective, but a seller can also maximize price by marketing and selling to a strategic buyer that can create synergies between its existing business and the targeted business. The seller, though, often needs multiple potential buyers in order to realize a price that reflects strategic value.

If you have any questions or would like to discuss your business, please contact one of the members of our forensic accounting and [business valuation](#) group.

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