VALUING YOUR COMPANY

If you are thinking about selling your landscape or lawn care company, how do you determine how much to ask? Or to expect from the potential buyer? These formulas should help get you in the ballpark, anyway.

by Rudd McGary and Ed Wandtke

MANAGEMENT IN BUSINESS

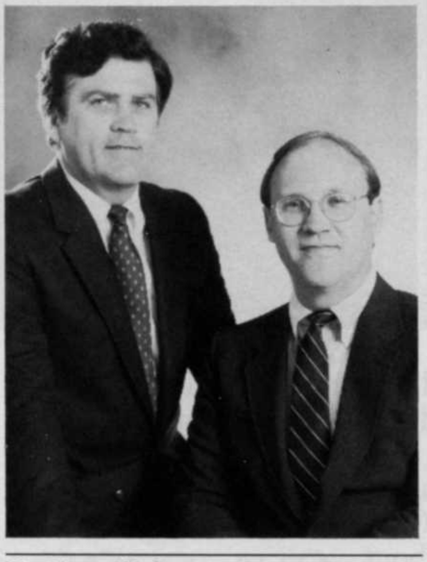
With the acquisition and merger mania prevalent across the country today, many green industry firms are being approached about selling their companies. A question that we have been hearing discussed at various industry meetings is, 'What is a fair value to receive for your company?' Although the question appears simple, many variables determine the final price a seller pays for a company. The following are the various factors that will be weighed differently in determining what price to ask for a green industry company:

1. Repetitive Customer Base, no contract.

The value of repeat customers in chemical lawn care, mowing or maintenance is determined by calculating the average length of time a company has been retaining its customers. Generally a formula weighs the retention factor over a five-year period as follows:

five years or longer 100%
four years but less than five 75%
three years but less than four ... 50%
two years but less than three ... 25%.

In using this weighting system, some purchasers look at individual account profitability or—in other instances—average revenue per account.



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2. Repetitive Customer Base, contract.

The value of the customer base that is under contract, the number of contract renewals and the contract's length will determine these customers' purchase value to a potential buyer. Generally, the formula considers the account's profitability, unbid contract add-ons and the length of the contract.

One such formula that has been used recently is determined as follows:

A. Length of the contract (years remaining).

B. Profitability of the contract (percentage).

C. Value of the basic contract per year.

D. Value of the add-on contract extras.

E. Average extras based on the years the contract has been serviced.

Take (A x B x C) plus (A x B x E) to determine the total value of these contract repetitive customers.

3. One-Time Serviced Customers.

The value of customers who are serviced only once (e.g. design/build customers who return periodically for additional services) is based on the annual value of business from these repeat customers compared to the new one-time service work performed during the current year.

A buyer will determine the profitability of this repeat service business and will set a value which considers the future income potential based on the quality of repeat business sold each year. For many companies, this data is not readily available; consequently no significant value is assigned to it in valuing a company.

4. Partial or One-Time Service Customers.

These customers are generally not considered in valuing a company. Rather the amount of the dollars, in total, is looked at. Then, a value is determined based on the following factors:

A. Average one-time revenue the past five years.

B. Trend in revenue over the past five years.

C. Business service mix of one-time services.

D. Profitability of the service based on the types of services being sold.

While there has not been one standard formula employed by many service company buyers, many firms value this business at 10 percent of the average annual revenue (a rule of thumb).

5. Asset Value.

Many firms look at all of the assets

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together when purchasing a business. A buyer, however, often will discount assets when purchasing a company for excessive usage or poor-to-no preventive maintenance practices. In addition, buyers often will discount assets in which they take no interest in owning. In this case, they are merely accommodating the seller by providing one source to dispose of the company.

In addition, a potential service company buyer who will not need your facility or assets will often propose a purchase price for the business that is considerably below the market.

In using a weighing system, some purchasers look at individual account profitability or—in other instances—average revenue per account.

Individual assets such as inventory and accounts receivable are generally purchased at their current replacement or collection value. If you can sell the inventory above the price offered or feel that you can collect more of the accounts receivable than is being offered by the buyer in the deal, do not sell the assets.

Summary

The valuation of many service companies in the green industry requires more than just an accounting review of the numbers. An in-depth knowledge of the industry, the potential in the market place, the image and reputation of the company, the skill and quality of the employees, the valuation of the assets being offered for sale, all come together in determining the complete valuation of the company.

Determining the value for your company is a multifaceted project that should be done by a professional. The fee for these services usually ranges between $1,000 and $5,000 and will include a range of value for the company. This valuation is often referred to in the merger and acquisition industry as the floor or ceiling price for a company and should serve as a guide in the selling or buying of a company or in the setting of a value to transfer the ownership of a company for estate planning purposes. **LM**