

What are the main factors that drive Price when you Sell?

There are several issues work together to determine what price you will get when you sell your business. Let me list what I think are the most important:

1. **Size of your business-** The facts are size counts. 5,000 alarm accounts will most likely fetch a larger multiple of RMR or higher price than 1,000 accounts. A \$10 million dollar fire or integration company will attract higher multiples of earnings than a \$2-3 million dollar company. The same is true to some degree I with publicly traded companies. Size matters
2. **Cash Flow-** When the rubber hits the road, when sizing up what to pay for a company a buyer is going to want to determine the cash that the company will throw off. The cash flow from a company is not always obvious to even the seller. Larger cash flow is part of the reason why larger businesses sell for more. It is also why buyers of alarm accounts pay more generally for higher priced accounts and why they pay attention to attrition on an account base. Account bases with higher attrition produce less cash flow in the end. As a seller try to calculate what the annual cash flow is from your business. business gives off.
3. **How much recurring monthly revenue (RMR) you have-** RMR as revenue in any market is generally worth more than onetime installation or service revenue. RMR reduces risk for the buyer because by definition it recurs month in and month out. This is why monitored accounts are worth so much and why integrators are always encouraged to try to get maintenance contracts (another form of RMR) on everything they sell.
4. **Do you have something proprietary-** Warren Buffett always talked about whether a business has a “moat” around it- something that other businesses have difficulty duplicating. This is part of the reason why he bought Burlington Northern Railroad. If you don’t have one, try to create one. Become the go to company is some part of the security industry. Proprietary businesses will most of the time be more valuable.
5. **Little or no concentration of revenue-** This is again all about risk to the buyer. That is why buyers will ask an alarm company whether they have multisite accounts or ask an integration business whether any one customer accounts for more than 10% of total revenue. They want to know about risk.

6. **Good management team in place-** Businesses that depend on their owners for too much are almost always riskier businesses to buy and therefore less valuable than those that do not, unless the owners are going to stay in place. Having a good management team in place that can run the business without too much input from owners is always a good thing.
7. **Is there a solid pattern of growth in revenue?** Companies showing significant growth in their revenue over the previous 3 years will almost always sell for more. If you can't get growth in your alarm account base, then try to get it in either the installation or service part of your business.
8. **Making sure you canvass the market extensively when you sell** This is more important than many owners realize. I have seen brokers or investment bankers on certain deals contact 100 potential buyers. Tough to do that in Canada where the market is smaller but the principle stills stands. If you or your broker don't solicit buyers widely, it is very unlikely you will get the best possible price. It has happened to me where in contacting someone that I did not think would be that interested in a business, I find that they are interested and make a very good offer.
9. **General economic conditions when you sell-** This can be a factor in deals although I maintain good companies can sell almost anytime. This is not such an important factor with the security industry because companies here have recurring monthly revenue. All else being equal it pays to sell in better economic times. Valuations generally higher. Banks are lending more easily.
10. **The Industry that you are in** – The facts are some industries are more attractive than others at a certain point in time. Also, whole Industries come and go. I used to be in the carpet manufacturing industry. It literally does not exist in Canada any more. The good news for all of us is the security industry is generally considered a good industry to be in and one that recently has shown good growth. Outsider like Private Equity like the security industry to invest in.

When I think back over the deals that I have been a part of most of these 10 factors have figured in some way in every deal, obviously some more than others. If you are thinking of selling this is a good checklist to go through to see how many of the boxes your business ticks off.

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