



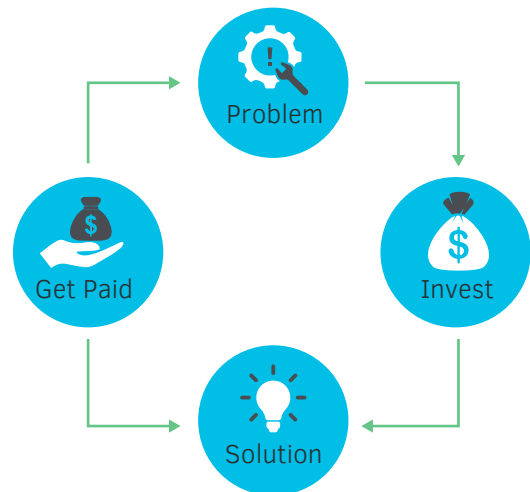
SELLING MY BUSINESS, FROM GROWTH TO LIQUIDITY

— BY JARED CHRISTIAN —



Problem solving and liquidity are the nature of a business and are really what drives many entrepreneurs. If successful, the extremely oversimplified entrepreneurial process is as follows: Find a problem that exists in the marketplace. Invest thousands of hours and millions of dollars to create a solution that continues to solve that problem. Have an exit. Get paid. Repeat.

There are many players involved in this entrepreneurial process: the individuals who experience the pain, the founders who are audacious enough to believe they can create a solution to solve this pain, all the hardworking risk-taking employees who jump on this pain-solving train, the investors, accountants, attorneys, mentors, advisors, and of course the valuation experts.



ARE WE READY TO EXIT?

Since our inception more than 10 years ago, we have worked with thousands of business owners/entrepreneurs. We have learned through these many interactions that at some point in a business's journey, either the founders themselves and/or other equity shareholders would like liquidity. When a founding team and board of directors arrive at the point that they're ready to discuss a liquidity event, the company's development is typically at one of the two following stages of development:



High Growth

The company has high year-over-year sales growth of 30% or more (usually more) with no profitability, as the company is focused on continual investment into innovation and capturing market share.



Profitability

It has stabilized sales growth, usually no more than 10%, and at least a few years of relatively stable profitability measured as earnings before interest, taxes, depreciation, and amortization (EBITDA).

There can, of course, be other scenarios; however, we're going to focus on these two in our examples below, as a business is usually most attractive to a potential acquirer or to the public markets if it falls into one of the above two buckets.



WHERE DO I GO NEXT?

Now that the company is developmentally at a point where it's attractive enough and the board has approved an exit, it needs to begin the process of a sale, or an IPO. It needs to go to market. To go to market, depending on the stage and size of the company and exit strategy, the company will typically either hire an investment bank or a business broker, or they will have already been in contact with a potential acquirer. At the beginning of this process, one of the most important questions that comes up is what is the company worth?



Investment
Bank



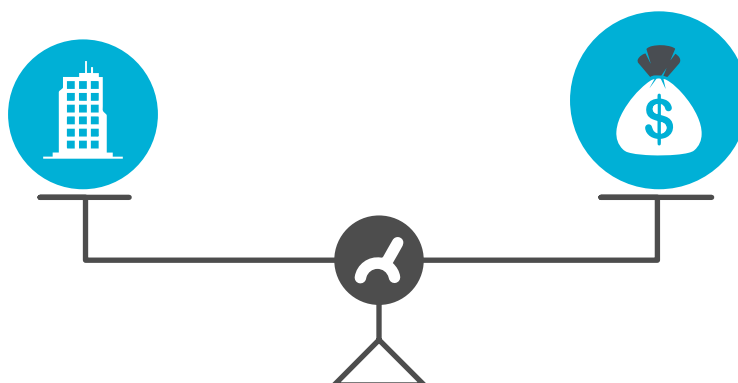
Business
Broker



Valuation
Firm

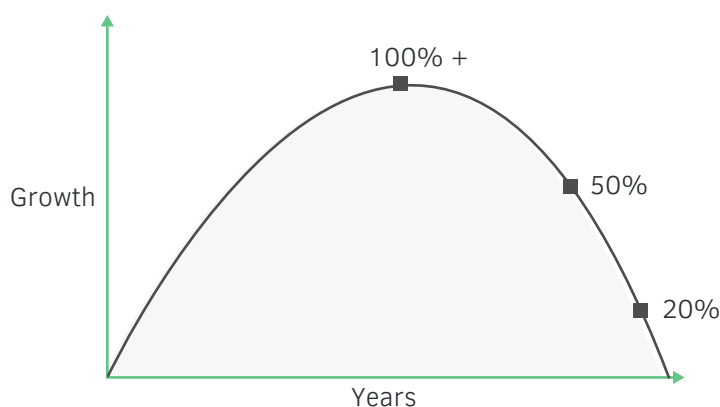
WHAT AM I WORTH?

To provide high-level insight here, we'll divide this answer according to the two stages of development identified above: high growth and profitability. Furthermore, in our example for high growth, we'll focus on an enterprise software as a service (SaaS) company; the example for profitability will focus on a manufacturing company.



HIGH GROWTH

The company begins to scale once product-market fit and sales-customer acquisition fit has been established. Once this occurs, the typical trajectory of a high-growth SaaS company is rocket-ship revenue growth, typically triple digits in the beginning, which can be maintained for a number of years. Then, as revenue and market share become larger, there is a slowing down that occurs, usually no less than 50% year-over-year growth for another 3 to 5 years and often more. Then it dips even lower to no less than 20% for another couple of years. It's worth noting that it's quite possible for the company to begin to turn profitable as the growth slows.



There are certainly many nuances that are beyond the scope of this article, such as the fact that if a company is growing faster than a representative sampling of publicly traded enterprise SaaS companies, then the company will likely command a higher revenue multiple. That said, to determine the value of this example company preparing itself for an exit, we've made the assumption that it is growing at anywhere between 40% and 60% and is not forecasting profitability within the next five years. As such, we are using one of the valuation methodologies that captures the revenue growth and calculates the value based on the near-term performance of the company (i.e., the Guideline Public Company Method [GPCM]).

To do this, we have taken a sample size of six publicly traded enterprise SaaS companies that are not profitable and whose trailing twelve months (TTM) revenue growth is 55% on average. The average TTM revenue multiple calculates to be 17x, and the next twelve months (NTM) revenue multiple calculates to be 13x.

Using this data, if the example company's TTM revenue is \$100M, and its NTM revenue is \$155M, and we apply the 17x and 13x multiples, respectively, and then apply an equal weighting to the value derived from both; the value of the company comes in at about \$1.857Bn (see table below).

Summary In US \$000s	TTM Revenue	NTM Revenue
Company	\$100,000	\$155,000
x Mean Multiple	17.0x	13.0x
Implied Enterprise Value	\$1,700,000	\$2,015,000
<i>weighting</i>	<i>50%</i>	<i>50%</i>
Average Enterprise Value	\$1,857,500	

PROFITABILITY

The company has already scaled and captured a nice chunk of market share, revenue growth has slowed substantially (usually no more than 10%), and the company is now reaping the rewards (i.e., cash flow) of its many years of hard work.



Using this data, if the example company's TTM EBITDA is \$25M, and its NTM EBITDA is \$28.235M, and we apply the 7.8x and 7.5x multiples, respectively, and then apply an equal weighting to the value derived from both, the value of the company comes in at about \$203.7M (see table below).

Summary In US \$000s	TTM EBTIDA	NTM EBTIDA
Company	\$25,000	\$28,235
x Mean Multiple	7.8x	7.5x
Implied Enterprise Value	\$195,000	\$212,436
<i>weighting</i>	<i>50%</i>	<i>50%</i>
Average Enterprise Value		\$203,700

Although we often see a company begin to seek liquidity once it falls under one of the two stages of development detailed above (high growth and profitability), we recognize that there are certainly other scenarios and valuation methodologies to consider. That said, if you are looking for liquidity and want to know where to start and get a rough idea of how valuable your company is, we hope the examples above serve as a starting point for you in this exciting next step on your journey as a business owner.

