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Cultivating Value

A bi-monthly newsletter brought to you by The Vineyard Group, LLC

Thoughts From Tom

Many complex issues are involved in buying or merging a business. What may seem on the surface to be a great deal could reveal serious problems upon closer examination by a trained and experienced valuator. On the other hand, businesses that may seem unattractive on the surface often contain interesting and valuable opportunities upon further investigation. Each situation is different and in order to assess true value the buyer should evaluate the strengths and weaknesses of the acquisition candidate in light of its intended future ownership and operation.

In this Issue:

Responsibility Includes Exerting Choice and Taking Control

When you hear the word "responsibility," what do you think of first? Many people think of the word BLAME, as in, *"Whose responsibility is this?"* Just think of responsibility as seizing what's in front of you, exerting choice, and taking control. The real meaning of responsibility is the ability to respond. It's going out and creating what you want through personal choices.

The fundamental responsibility that each of us has is that we are completely, 100 percent responsible for how our lives turn out. This is tough! When we like how things are turning out, it's quite easy to say that we are responsible for our success. But when things aren't so good, we're so quick to point fingers at other people and place the blame on them. Have you ever known someone who will accept no responsibility? Some people are perpetual victims of what other people do!

It's really easy to do. But remember this—when you point your finger outside, you lose all your power. You have just now accepted the victim status. You have ultimate control over your life. You have control over your friends, your love relationships, and your career. You decide for yourself what's right and what's wrong, whether you should stay in this weekend or go out, whether to vote Democrat or Republican.

However, you have very little control over the government, international affairs, economic policy, the rise and fall of the stock market, or Mother Nature. But changes like these can often disrupt your life and force you to change your plans.

Often there is very little you can do about it, and yet you are overwhelmingly affected by it.

Taking personal responsibility means realizing you can't control certain things and to stop trying. These things will happen. They just will. You will get no warning and nobody will prepare you. And that's frustrating. People will tell you to "reach for the stars—you can achieve whatever you want!" But they don't mention that in the process, a comet might smack you upside the head. And few people talk about the possibility of outside circumstances adversely affecting your ambitions. And yet, how many of you can say that your ambitions and dreams have been left intact *despite* the events of the last couple of years?

So don't try to change the uncontrollable, attempt to figure out what's going to happen, or try to control circumstances.

It is *never* circumstance*s* that make you happy. If it were, then people with great circumstances would never be unhappy, and that's hardly the situation. If circumstances were to make you happy, people with horrible circumstances would never feel happy, and that isn't true either. Look at individuals with disabilities—some compete in Special Olympics and are happy. Two people with the same circumstances are in two totally different states of mind. We have the ability to choose our attitudes given a certain set of circumstances, but we don't always practice or acknowledge this. Why? It's scary.

Serious change takes serious courage. It's so scary that most of us don't even know how to approach it realistically. When people think of changing their lives, they often think in terms of huge, dramatic gestures.

You only have to accept what is and take personal responsibility for what you can change.

Our Managing Director

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is a Member and the Managing Director of the Vineyard Group, LLC. An experienced executive and advisor, business valuation specialist and litigation support expert, he has twenty years of consulting and public accounting experience along with ten years in senior management positions with manufacturing companies. As a result, Tom has the unique blend of experience, skill, vision and understanding required for handling the complex challenges that today's professionals and businesses are constantly faced with.

In addition to being a Certified Public Accountant and a Certified Valuation Analyst, Tom holds the exclusive designation of Certified Forensic Financial Analyst. He is a member of the New York State Society of Certified Public Accountants, the American Institute of Certified Public Accountants and the National Association of Certified Valuation Analysts.

VINEYARD
GROUP, LLC

Cultivating Value…Seedling to Harvest

What to Look for When Buying a Business

Many issues are involved in buying or merging with a business. What may seem on the surface to be a great deal could reveal itself on closer examination as a situation fraught with problems. Let's look at a few of the important steps in the acquisition process.

Screening Candidates

You are likely to increase your chances of quickly finding a good acquisition candidate if you are willing to work with your advisor to develop a screening process. While screening potential acquisition candidates can be complex, a good advisor tailors the process to the buyer's needs. Here are some of the criteria you can individualize to reflect your preferences:

Below-average performance because of poor management. A company may perform below par and therefore sell for a significantly lower price because it is poorly managed. You may want to seek companies with weak performance that new management can revitalize.

Poor performance because of cyclical economic factors. Either the company or the entire industry may have been hit by unfavorable economic conditions. When these conditions are cyclical, your screening process should be able to identify those firms at the trough of the wave. You can then buy at a lower price and ride the wave up to higher value.

Hidden cash balances. Undervalued companies may have excess cash reserves or marketable securities, or too much invested in inventory. By managing working capital properly, you, representing the acquiring company, can boost income significantly for greater profits.

Market niche or other market advantages. You may want to acquire a company that occupies a special market niche, holds substantive patents or trademarks, or is protected from competition in other ways.

Synergy. If you are looking for a merger candidate, firms that complement your company can have greater value to you than in the general marketplace. For example, if your firm is strong in developing new products, you may want to find a company in your field that has a large sales force. If your firm manufactures a seasonal product, such as skis, you may want to acquire a complementary company, such as a manufacturer of lawn mowers, to balance your cash flow and seasonal selling cycle.

Reinforcement. A merger candidate that reinforces your company's strengths can also be advantageous. For example, consider a company that has compatible services, product lines, sales force or management.

Make sure you don't end up buying a company that's more trouble than it's worth.

Price comparisons. Consider anticipated price adjustments in comparing acquisition candidates. If you anticipate opposition either from shareholders or in the form of competition from other buyers, you can expect to pay a premium. If taxes on the transaction are high, you will also be paying a hidden premium to the IRS.

Due Diligence: Start From the Beginning

A valuator can play a major role on the due diligence team that advises buyers in an acquisition. Why? If you are buying a company, you need insight into the target's financial picture as well as access to knowledge of tax laws and accounting rules for business combinations. A valuator can also help you discover little-known land mines that can kill a deal, such as significant pension plan liabilities, hidden workers' compensation costs and past tax problems.

Review the target. After you have identified an attractive target and the target's owners have indicated a willingness to discuss a sale, the valuator can preliminarily review the company. Using new research or information you already have about the company, the valuator can determine whether synergy exists with your company.

The potential seller's goals, style of management and ways of doing business must be similar enough to make a productive combination. At the same time, the targeted company's price must fit the buyer's financial situation and plans for the new organization.

Look beyond financial statements. Historical financial statements disclose a target's financial position, results of operations and cash flows in accordance with GAAP. But GAAP offers preparers several accounting alternatives that can affect the company's earnings picture. Depreciation, inventory valuation methods, the choice of revenue and expense recognition, and other variables can affect the bottom line. For example, how aggressively is the company recognizing obsolete and slow-moving inventory? You may want to have your valuation consultant look at a company's sales figures by customer to track selling patterns. This may reveal whether the company keeps its good customers or merely has good salespeople. Also, a valuator can track sales by product to reveal where products are in their life cycles.

Review projections. Usually, the seller will prepare projections of operating results and cash flows. A valuator on the due diligence team can review the appropriateness of the assumptions used in the projections and help assist with their accuracy. You may want your valuator to review the target's annual projections and compare them with the company's multiyear strategic plan, if available, to determine any differences in assumptions or business strategy. If possible, the due diligence team should review old business plans to see if past objectives were accomplished.