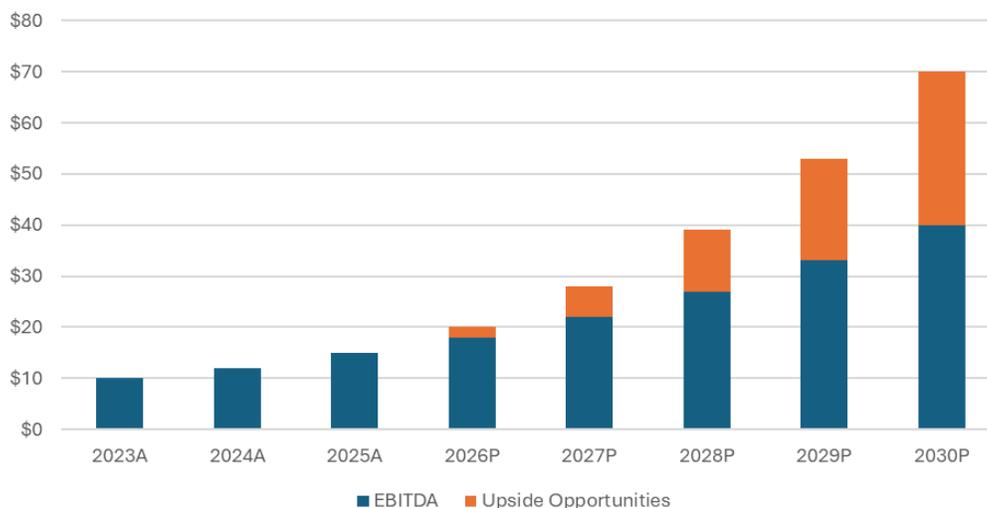


Deal Pricing: Discounted Cash Flows and Upside Opportunities

One of the most important aspects of selling a business is understanding how buyers arrive at their bids. Buyers often discuss pricing in terms of EBITDA multiples, usually in the range of 5x to 10x. But that is just a backward-looking, shorthand method of comparing valuations. When developing their bids, most buyers actually create an operating pro forma financial model of the company's expected performance over the next five years, then discount the projected cash flows and terminal value to obtain a net present value of the business.

These DCF analyses require buyers to make numerous assumptions. The sellers' projections of future performance will be heavily scrutinized by buyers and must be backed up with sound logic, facts and data. But sellers should also present "upside opportunities:" non-quantified ideas for profit growth that have not been baked into their projections. If properly presented, these suggestions can positively influence the buyers' DCF assumptions, thereby increasing their bid prices. No one knows their products and markets better than the sellers, and too many leave money on the table by not offering up their learned insights.

EBITDA Projections + Upside Opportunities



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