

## Maximising EBITDA and establishing a growth strategy

Apart from the profit multiple your business will attract on a sale, the other key determinant of value is typically your company's profitability.

A clear and realistic strategy to achieve profit growth in the lead up to a sale therefore needs

to be devised, communicated to staff and executed. This has timing implications, particularly for investments which need to be made early on so the returns can be seen by the year of sale.

## Developing a growth strategy



A company will often have numerous potential growth platforms, some of which can be pursued through either organic growth or acquisition.

These include:

- New geographies;
- New client categories;
- New products or services;
- New routes to market;
- Implementing a digital strategy; and
- New strategic partners.

It is critical that the growth strategy adopted enhances overall value and that the strategy is well executed. It is better not to embark on a growth strategy where the risk of failure is high, as a failed attempt may indicate that this growth strategy is no longer an option for a potential purchaser.

In particular, overseas expansion is a major step which should not be taken lightly. If successfully executed, overseas expansion can add significant value by allowing you to demonstrate the overseas growth potential of the business and factor this into your financial projections. In particular, if there are likely US buyers for your business, the fact that you have successfully penetrated the US market (even to a limited extent) is likely to appreciably enhance the interest of those buyers and the price you achieve for your business.

On the other hand, if your international expansion strategy fails, it can destroy the thesis that your success in the UK can be replicated internationally and can be a negative drag on valuation.

Considerable care and preparation therefore needs to be undertaken before expanding internationally, and it is best initially to target the country which represents the lowest hanging fruit with the highest likelihood of success to prove that overseas expansion is viable.

## Operational improvement

Operational improvement in the business can affect any of the key financial drivers whether it be revenue growth, gross margins or costs.

The aim is to identify the value drivers in each of these three areas. By way of illustration, while advising a coffee vendor machine business, the following key drivers were identified for each financial area:

- For revenue growth, churn management, and sales force effectiveness were flagged as priority issues;

- For gross margin, a refocus on the most profitable customers and a review of the cost to deliver/serve customers were implemented; and
- On the cost side, sales force productivity and removing ineffective sales members, together with reduction in central overheads, were the key areas of focus.

It is important that these improvements are identified, implemented and the financial benefits tracked.



## Pricing review

Pricing opportunities are often overlooked in an operational review.

Even where a company enjoys a degree of pricing power, the proprietor may choose not to fully exploit that power.

Generally, pricing policy is designed to maximise long term rather than short term profits. This may involve keeping prices sufficiently low to deter potential market entrants.

However, in the context of a sale, consideration should be given to enhancing margins by increasing prices in the lead up to the sale to improve your bottom line. If the increased profit margins to which this gives rise attracts potential entrants to your market in ensuing years, this will not be your problem but the purchaser's (in the absence of a long earn-out).

## Review of costs

A review should be undertaken to identify and eliminate all proprietorial costs which would not be incurred by an incoming purchaser. These include relatives on the payroll, excessive travel and entertainment costs, and remuneration which exceeds accepted market norms. Whilst a purchaser might be persuaded that these costs should be added back to determine the company's underlying profit, the argument is always stronger if the business can be run for a period with these costs removed. Many proprietors run their businesses in a way which suppresses profits (by making excessive provisions, etc) in order to minimise tax. However, in the lead up to a sale, you want to be having price negotiations with purchasers on the basis of the highest audited profit figure possible, even if this involves paying a bit more corporation tax in the short term.

Over and above elimination of proprietorial costs, every element of the company's cost base should be scrutinized. If your business will attract a multiple of say eight times EBITDA, every £1 of cost savings will generate an eight fold return in the form of a higher purchase price.

It is not just the quantum of costs which should be reviewed but also their impact. You may, for example, seek to ensure that expenditure on advertising, business development and R&D is designed to produce shorter term results to help achieve a higher valuation rather than long term results which may not. You can also capitalise certain investments, e.g. R&D instead of expensing them which will lead to higher profits.

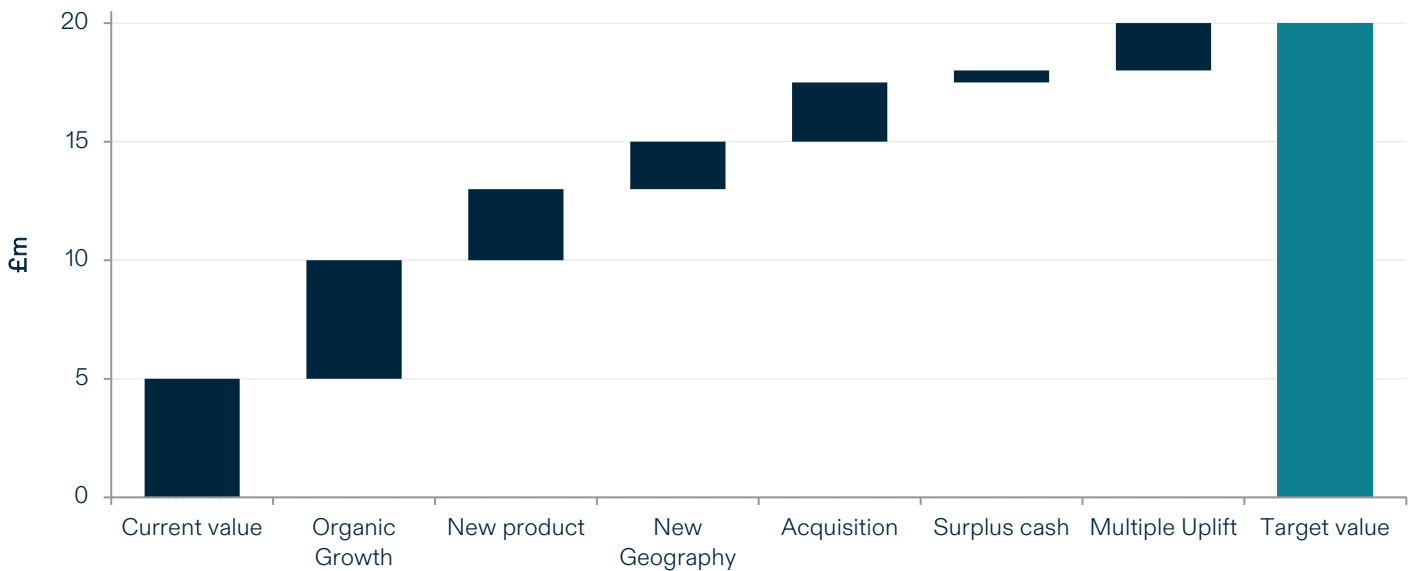


## The business plan

The business plan is the obvious place to detail both an operational improvement plan and the growth plan. This should be a 'live' three year plan where the first year becomes the budget and the execution of actions necessary to achieve the plan are monitored at board meetings. A critical

component of the business plan is the financial model which translates the growth strategies and operational improvements into financial targets. This document also serves the purpose of aligning the whole management team on the strategic direction of the company.

## Achieving a Target Valuation



## Setting a target valuation and bridging the valuation gap

Armed with the business plan and potential improvement in the multiple as part of the exit planning process, you can determine where you are now in valuation terms and what you need to do to get to your target valuation.

The graph above shows a hypothetical four year valuation bridge for an owner of a business currently worth £5m with a target sale valuation of £20m. The most significant element of the bridge

to the target valuation is organic growth of the core business; but growth is also expected to be achieved from the introduction of new products, overseas expansion and through an acquisition. The valuation bridge factors in a 1x increase in the EBITDA multiple the business is likely to achieve at the end of the four year period. This reflects the increased size of the company and its repositioning, which have made it more attractive to overseas purchasers.



# Case Study: Operational improvement ahead of sale

Transforming Opta Sports value proposition and performance in 2 years

**opta**  
Pre Plan

*“The leading European football data business. A pioneer established for 15 years. Serving all major media groups. Revenue £9.1m and EBITDA £0.2m.”*

Growth Strategy

### New products / services

- Evolved widget solution for client websites instead of bespoke solutions

### New channels/verticals

- Launched OptaPro - selling to clubs

### New international territories

- Opened in Montevideo - entering LATAM market

### Technology

- No action - already best in class

### New partners

- Appointed official football data provider to English, Spanish and US football

### Acquisitions / organic

- Acquired a rugby data business

### New sales team

- Hired new sales director. Attack long tail of smaller customers

### Doing better

- Social media strategy. OptaJoe builds consumer awareness

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At Sale

*“A leading global sports data business. The official partner to governing bodies. Serving media, betting and club customers. Projected Revenue £20.2m and EBITDA £4.1m. Sold to Perform Group for £47m.”*

**opta**

**PERFORM**  
SPORTS CONTENT & MEDIA

*“Cavendish ran a very tight process and generated real bidding excitement. Opta is seen by Perform as the missing piece in their content jigsaw.”*

Aidan Cooney, Founder and CEO



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