

The Most Valuable Companies in America

By Darren Dahl
Charts by Tommy McCall

Investors are loaded with cash. Boomers are looking to buy. Foreign firms are eager to invest. What does that add up to? A seller's market for your business

A LOT OF the economic news these days seems depressing, but there is at least one reason to remain optimistic: It's still a great time to sell your business.

Sure, the downturn in the housing market and the resulting credit crunch are expected to dampen the number of billion-dollar deals led by private equity firms. But investment capital as a whole aimed at the middle market—consisting of companies with less than \$500 million in annual revenue—remains plentiful. Venture capital firms alone raised about \$34.7 billion in 2007, more than in 2006, according to the National Venture Capital Association. New hedge funds raised some \$31.5 billion, according to MarketWatch. For those and other investors, the question is

storage devices, and circuit boards, or if you offer custom programming services, you can expect to sell your company for two to six times revenue.

• **Energy.** Petroleum products, oil and gas drilling, and related services are hot. Even untested, largely speculative businesses attempting to drive the next wave of clean energy can garner big multiples.

• **Anything aimed at the aging U.S. population.** Pharmaceuticals, orthopedics, and skilled-nursing staffing and facilities all are increasing in popularity among investors. "While buyers may look at a company's past performance, they are also buying for the future," says Ken Oppeltz, principal at VR Business Brokers in San Diego. "That means they'll be willing to pay

"There aren't enough listings out there to satisfy the hunger for established, profitable businesses," one broker says.

higher multiples in markets that serve the baby boomers."

You can expect other sectors to begin cooling off. In recent years, for example, there have been plenty of deals for residential construction firms and suppliers of items like cabinets and floor coverings. But the weakening housing market will make those companies risky propositions, says Ron Johnson, president of ABI Business Sales & Mergers in San Ramon, California. "Those businesses might be hard to sell—it's hard to find any with profits," he says. On the other hand, these struggles could spark a wave of consolidation, especially among small and midsize companies looking for scale, says Jeff Snell, a broker at Enlign Business Brokers in Raleigh, North Carolina. "When markets get tight, business owners look at each other and say, 'Maybe we should join together rather than fight,'" he says.

The Boomer Effect

Just as in selling a house, selling a business requires a good sense of timing—everyone wants to sell when the market is at its peak. And if potential sellers need yet another reason to take the plunge, consider this: An estimated 65 percent to 75 percent of the small companies in the U.S.—some 10 million—will likely hang up a "for sale" sign over the next five to 10 years. Why? Retiring baby boomers. "While it has historically been a seller's market, we're on the cusp of shifting into a buyer's market," says Stabler. "The children of the baby boomers have moved on to other things, so with no one

to pass the business to, they have no choice but to sell." The likely result? An oversupply of businesses for sale—and an end to the current seller's market. In other words, use the following pages as a guide to what you might expect to sell your business for today, but maybe not tomorrow.



Security



Copier Sales



Energy

Serial Entrepreneurs

What they want: Profitable companies with good management in place

Most likely acquisitions: Human resources and staffing firms; communication and computer-related services; copier-sale companies; security companies; multi-unit rental properties

Revenue range: Less than \$10 million, with more than \$100,000 in owner's income

Risk tolerance: Medium to high

Profile: As business owners themselves, serial buyers know what goes into building a successful company and often will pay a higher multiple for something they admire—up to five times earnings. Many seek to assemble a portfolio of companies in different sectors. Others roll up several similar companies in the same industry. The key is that they want businesses that can run on their own.

Financial Buyers

What they want: Profitable companies that offer hot products or services and are poised to expand rapidly

Most likely acquisitions: Health care and long-term-care facilities; energy companies; schools and educational services; communications technology and media companies; packaged software makers

Revenue range: \$10 million to \$100 million, with earnings of more than \$1 million

Risk tolerance: Medium to high

Profile: Financial buyers, often venture capitalists or angel investors, generally seek a big exit within about five years. That means they want businesses that have great ideas or are already successful. The idea is to infuse the business with capital and get it on the fast track. For the right opportunity, they will pay high multiples and in most cases ask the seller to stay on to help guide the transition.

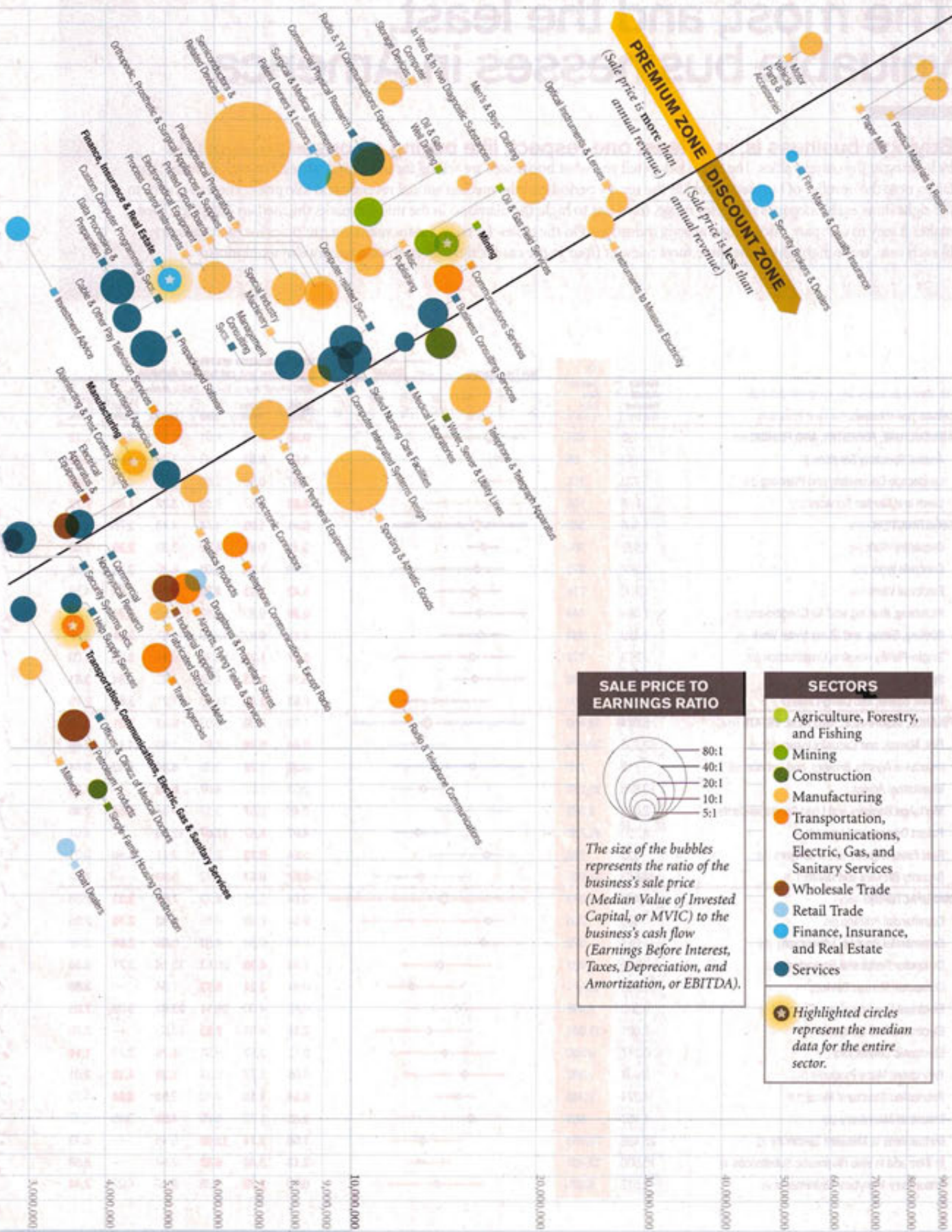
Communications Technology



Multi-unit Rental Properties



Health Care



SALE PRICE TO EARNINGS RATIO

The size of the bubbles represents the ratio of the business's sale price (Median Value of Invested Capital, or MVIC) to the business's cash flow (Earnings Before Interest, Taxes, Depreciation, and Amortization, or EBITDA).

SECTORS

- Agriculture, Forestry, and Fishing
- Mining
- Construction
- Manufacturing
- Transportation, Communications, Electric, Gas, and Sanitary Services
- Wholesale Trade
- Retail Trade
- Finance, Insurance, and Real Estate
- Services

★ Highlighted circles represent the median data for the entire sector.

\$1,000,000 to \$9,999,999

\$10,000,000 or more

MEDIAN ANNUAL REVENUE

The most, and the least, valuable businesses in America

Buying a business is, in at least one respect, like buying a house—you can learn a lot by looking at the comparables. The tables below tell you what businesses are selling for in 141 industries. For each industry, the tables note the number of businesses sold in the survey period and the median annual revenue and sale price. The line graphs to the right show each category's sale price range, from low to high; the diamond in the middle marks the median sale price. That makes it easy to compare price ranges among industries. On the tables' far right are six valuation multiples for each industry; in each case, we've highlighted the three most relevant (four in the case of ties), given the transactions in that industry.

Data based on transactions from 1/1/2004 to 12/31/2007

DIVISION/Type of Business (Number of transactions)	Median Annual Revenue (\$ 000's)	Median Sale Price (\$ 000's)	Sale Price Ranges						MEDIAN VALUATION MULTIPLES (Best, second best, and third best multiples)					
			10,000	100,000	1 Million	10 MM	100 MM	1 Billion	10 Bn	Net Sales	Gross Profit	EBIT	EBITDA	Disc. Earnings
AGRICULTURE, FORESTRY, AND FISHING (57)	435	235							0.56	0.78	2.81	3.17	2.16	2.12
Animal Specialty Services (8)	143	95							0.63	0.63	1.43	1.34	1.06	4.43
Landscape Counseling and Planning (13)	723	315							0.47	0.92	2.83	3.97	2.64	1.48
Lawn and Garden Services (27)	328	165							0.53	0.67	2.93	3.22	1.80	7.72
CONSTRUCTION (180)	1,406	560							0.41	1.08	4.74	4.48	2.76	2.22
Carpentry Work (14)	1,022	360							0.37	0.67	4.32	3.85	2.20	2.83
Concrete Work (10)	1,977	570							0.49	1.26	4.05	6.35	2.15	1.56
Electrical Work (14)	1,100	718							0.42	1.33	4.72	5.31	2.64	4.56
Plumbing, Heating, and Air Conditioning (32)	1,064	446							0.39	0.93	4.89	3.55	2.73	1.85
Roofing, Siding, and Sheet Metal Work (7)	1,429	430							0.31	0.87	12.09	11.61	3.51	2.07
Single-Family Housing Construction (21)	3,879	775							0.37	1.24	5.38	4.44	3.99	4.00
Special Trade Contractors (28)	1,138	688							0.55	1.13	4.63	4.23	2.84	3.61
Water, Sewer, and Utility Lines (9)	13,976	12,400							0.63	3.18	11.96	11.21	5.86	2.70
FINANCE, INSURANCE, AND REAL ESTATE (114)	5,074	18,400							1.33	2.00	6.53	6.84	2.31	2.36
Fire, Marine, and Casualty Insurance (5)	52,005	39,625							0.48	0.48	0.53	1.80	14.16	7.44
Insurance Agents, Brokers, and Service (13)	719	775							0.89	1.28	3.92	6.84	3.32	0.84
Investment Advice (7)	2,876	25,274							2.07	2.07	8.07	6.99	—	13.33
Mortgage Bankers and Loan Correspondents (7)	2,007	2,048							0.46	0.57	3.17	3.64	3.64	2.46
Patent Owners and Lessors (8)	8,720	35,530							4.67	6.67	12.87	12.86	—	4.01
Real Estate Agents and Managers (12)	823	288							0.64	0.73	2.71	2.11	1.99	0.21
Security Brokers and Dealers (7)	46,583	31,000							0.67	0.67	6.42	5.96	—	1.02
MANUFACTURING (782)	4,443	5,873							0.84	2.25	8.73	7.65	3.33	2.88
Commercial Printing (38)	490	255							0.64	0.99	4.83	5.40	2.70	2.05
Commercial Printing, Lithography (25)	647	372							0.57	0.89	4.97	5.65	2.64	2.06
Computer Peripheral Equipment (12)	7,361	7,662							1.49	4.96	20.63	18.18	2.71	8.08
Computer Storage Devices (7)	11,593	58,517							0.44	3.24	8.73	7.34	—	3.99
Electrical Equipment and Supplies (7)	2,002	2,400							0.86	4.00	26.11	23.82	3.88	7.65
Electromedical Equipment (7)	7,921	17,300							2.34	4.91	7.53	13.50	—	3.75
Electronic Connectors (12)	6,717	5,500							0.72	2.57	9.91	3.76	2.13	1.11
Fabricated Metal Products (14)	2,407	1,362							0.66	1.77	5.57	5.26	4.15	2.01
Fabricated Structural Metal (11)	4,874	2,340							0.59	1.10	4.10	3.85	3.24	1.23
Industrial Machinery (20)	1,183	859							0.65	1.72	5.05	4.53	3.45	2.37
Instruments to Measure Electricity (5)	25,435	25,768							1.00	2.14	12.02	8.48	—	6.73
In Vitro and In Vivo Diagnostic Substances (8)	15,300	33,450							2.13	3.40	6.87	2.64	—	8.58
Laboratory Analytical Instruments (8)	2,510	8,825							0.70	2.79	6.36	8.47	4.27	2.44

DIVISION/Type of Business (Number of transactions)	Median Annual Revenue (\$ 000's)	Median Sale Price (\$ 000's)	Sale Price Ranges						MEDIAN VALUATION MULTIPLES (Best, second best, and third best multiples)					
			10,000	100,000	1 Million	10 Mil	100 Mil	1 Billion	10 Bil	Net Sales	Gross Profit	EBIT	EBITDA	Disc. Earnings
SERVICES (1,372)	846	606							0.74	1.08	5.76	6.70	2.27	3.71
Accounting, Auditing, and Bookkeeping (21)	448	480							1.12	1.20	4.01	7.31	2.32	7.66
Advertising Agencies (8)	5,014	5,475							0.65	1.89	2.92	9.14	4.94	2.27
Advertising, Miscellaneous (10)	241	259							0.63	1.57	4.28	4.28	2.05	1.42
Amusement and Recreation (15)	586	295							0.57	0.79	2.49	4.60	2.73	8.58
Automotive Services (25)	562	340							0.79	0.98	4.62	4.79	3.22	2.25
Beauty Shops (62)	285	110							0.39	0.50	2.44	3.08	1.64	1.86
Building Maintenance Services (27)	299	150							0.66	0.75	2.29	2.25	3.00	5.05
Business Consulting Services (19)	13,580	14,941							1.12	3.05	11.39	10.84	2.79	5.62
Business Services (116)	388	258							0.69	1.04	3.64	5.43	2.75	3.62
Car Washes (15)	252	315							1.23	1.39	6.27	7.34	4.15	1.82
Child Day Care Services (32)	323	143							0.49	0.51	3.67	3.83	2.75	1.06
Coin-operated Laundries and Cleaning (20)	127	143							1.13	1.28	4.58	3.71	3.28	2.16
Commercial Art and Graphic Design (7)	2,400	470							0.53	0.87	15.41	12.74	2.41	3.56
Commercial Nonphysical Research (9)	2,900	3,700							0.83	2.41	10.76	12.56	2.27	5.82
Commercial Physical Research (7)	10,629	38,934							2.18	8.23	29.61	13.55	—	5.81
Computer Integrated Systems Design (38)	9,434	10,876							1.05	2.45	11.02	15.63	2.01	5.90
Computer-related Services (19)	9,818	12,480							1.47	3.23	11.24	13.15	5.14	3.96
Custom Computer Programming Services (30)	4,323	14,500							2.87	4.83	13.19	9.78	1.93	8.30
Data Processing and Preparation (6)	4,171	17,587							2.82	5.70	14.58	13.82	2.44	7.33
Detective and Armored Car Services (10)	1,693	1,103							0.56	1.52	3.89	5.42	2.61	4.80
Direct Mail Advertising Services (14)	524	363							0.57	1.30	5.61	5.55	2.70	6.40
Disinfecting and Pest Control Services (8)	3,622	4,022							1.12	1.70	13.69	9.95	5.04	4.99
Dry-cleaning Plants, Except Rugs (24)	295	250							0.81	1.04	9.72	5.78	4.29	2.48
Employment Agencies (15)	1,190	405							0.28	1.05	7.32	8.48	3.64	3.49
Engineering Services (9)	2,550	2,273							0.99	2.35	7.79	8.12	4.00	3.01
Equipment Rental and Leasing (13)	534	589							1.10	1.30	4.92	5.07	3.19	4.56
General Automotive Repair Shops (46)	643	243							0.41	0.73	4.12	4.94	3.47	2.16
Help Supply Services (23)	3,513	2,464							0.35	1.46	5.21	4.94	2.43	3.70
Home Health Care Services (11)	2,186	1,070							0.49	0.99	4.66	3.55	2.39	4.20
Information Retrieval Services (24)	1,574	1,475							0.71	1.19	12.29	7.38	1.84	8.37
Management Consulting Services (46)	7,935	10,841							0.98	2.07	10.37	10.37	3.33	5.18
Medical Laboratories (8)	12,212	12,500							0.87	1.26	11.95	4.52	1.73	0.98
Miscellaneous Personal Services (39)	250	113							0.57	0.67	1.86	2.64	2.36	3.88
Offices and Clinics of Dentists (84)	1,338	770							0.63	0.63	62.68	33.73	1.23	1.64
Offices and Clinics of Medical Doctors (12)	2,936	2,375							0.40	0.40	8.02	7.83	1.01	2.83
Physical Fitness Facilities (38)	195	122							0.61	0.66	3.71	3.24	2.52	2.20
Prepackaged Software (183)	4,684	11,978							2.26	3.95	18.40	15.87	3.32	8.48
Repair Services (21)	583	425							0.55	0.76	4.51	4.37	2.73	2.11
Schools and Educational Services (15)	331	322							0.84	1.01	2.93	3.45	2.32	1.68
Security Systems Services (14)	2,809	3,647							1.57	2.32	6.98	5.83	3.14	2.68
Skilled Nursing Care Facilities (5)	10,122	11,315							0.83	2.32	18.77	13.66	2.33	4.72
Testing Laboratories (5)	2,487	1,520							0.73	1.21	3.72	3.44	4.67	2.27
Top and Body Repair and Paint Shops (28)	550	210							0.47	0.84	5.00	5.08	2.51	1.23
TRANSPORTATION, COMMUNICATIONS, ELECTRIC, GAS, AND SANITARY SERVICES (184)	3,534	2,139							0.79	1.43	5.86	6.16	2.67	2.79
Airports, Flying Fields, and Services (7)	5,378	2,691							0.56	1.89	11.29	10.73	—	4.12
Cable and Other Pay Television Services (9)	5,039	7,220							1.50	4.08	10.67	9.66	—	4.29
Communications Services (11)	14,379	18,433							0.88	2.53	10.49	9.90	4.45	3.63

GLOSSARY: BVC (Book Value of Invested Capital) = (Total Assets - Total Liabilities) + Long-Term Liabilities; Discretionary Earnings = Operating Profit + Owner's Compensation + Noncash Charges; EBIT = Operating Profit; EBITDA = Operating Profit + Noncash Charges; Gross Profit = Net Sales - Cost of Goods Sold; MVIC (Market Value of Invested Capital) = Reported Selling Price (includes noncompete value and interest-bearing debt; excludes real estate, consulting agreement values, and contingent payments); Net Sales = Annual Sales - Returns and Discounts

DIVISION/Type of Business (Number of transactions)	Median Annual Revenue (\$ 000's)	Median Sale Price (\$ 000's)	Sale Price Ranges						MEDIAN VALUATION MULTIPLES (Best, second best, and third best multiples)					
			10,000	100,000	1 Million	10 Mill	100 Mill	1 Billion	10 Bill	Net Sales	Gross Profit	EBIT	EBITDA	Disc. Earnings
Courier Services, Except by Air (9)	332	300							0.77	0.85	2.57	2.52	2.01	—
Local Trucking Without Storage (8)	754	413							0.59	0.61	5.03	4.86	3.12	2.33
Radio and Telephone Communications (12)	11,954	1,360							0.59	3.09	11.14	4.44	1.09	3.02
Refuse Systems (8)	2,138	940							0.87	1.51	7.72	6.15	2.77	3.77
Telephone Communications, Except Radio (34)	6,482	3,534							0.73	2.07	8.98	7.57	1.60	4.67
Travel Agencies (8)	4,838	1,750							0.83	1.15	8.75	10.68	13.17	6.43
Trucking, Except Local (13)	2,558	1,800							0.69	1.43	11.92	4.94	4.48	2.04
WHOLESALE TRADE (212)	1,316	545							0.43	1.27	4.79	5.79	2.92	2.26
Electrical Apparatus and Equipment (10)	3,445	3,980							0.84	2.26	8.89	7.70	3.02	4.54
Electronic Parts and Equipment (8)	1,462	1,248							0.59	1.42	6.43	9.05	2.87	2.23
Groceries and Related Products (8)	1,244	508							0.41	0.67	5.69	2.24	1.36	2.01
Hardware (8)	1,717	844							0.44	1.48	8.78	20.12	7.41	1.79
Industrial Supplies (8)	5,000	2,700							0.33	1.39	8.07	8.41	4.11	1.00
Medical and Hospital Equipment (13)	1,820	617							0.51	1.03	7.14	5.95	2.58	1.50
Motor Vehicle Supplies and New Parts (8)	871	2,163							0.40	1.82	12.69	4.75	2.22	2.46
Nondurable Goods (10)	1,305	463							0.31	0.88	4.10	7.62	3.94	6.32
Petroleum Products (8)	3,547	1,151							0.30	2.09	7.56	12.04	8.82	2.52

Calculate your company's value

Use this work sheet to get a rough estimate of what your business might fetch in today's market. First, find your industry in the preceding tables and note the three best valuation multiples. Enter those figures into the appropriate boxes in the Multiple Value column below. Next, insert the appropriate financial information in the corresponding boxes in the middle column. (This may require some help from your accountant or CFO.) In all three cases, multiply the dollar figure by the multiple and enter the sum in the far right column. Average the figures—and there's your number. This will be a very rough estimate, but a useful starting point.

Your Industry: _____

Top Three Indicators
For your Industry
Check yours off

#1	#2	#3	Multiple	Multiple Value (get from tables)	Your Company's Figures	Your Company's Estimated Value... (Market Value of Invested Capital)
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	MVIC/ Net Sales	___ . ___	Net Sales \$ _____, _____, 000	= \$ _____, _____, _____, 000
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	MVIC/ Gross Profit	___ . ___	Gross Profit \$ _____, _____, 000	= \$ _____, _____, _____, 000
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	MVIC/ EBIT	___ . ___	EBIT \$ _____, _____, 000	= \$ _____, _____, _____, 000
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	MVIC/ EBITDA	___ . ___	EBITDA \$ _____, _____, 000	= \$ _____, _____, _____, 000
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	MVIC/ Disc. Earnings	___ . ___	Discretionary Earnings \$ _____, _____, 000	= \$ _____, _____, _____, 000
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	MVIC/ BVIC	___ . ___	BVIC \$ _____, _____, 000	= \$ _____, _____, _____, 000
Add up your estimates						\$ _____, _____, _____, 000
						Number of estimates + _____
ESTIMATED VALUE OF YOUR COMPANY						\$ _____, _____, _____, 000