



## 3 STEPS TO INCREASED MIDDLE MARKET BUSINESS VALUE

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The middle market is a dynamic one, with about 20 percent of organizations making an acquisition and 5 percent making a sale every year.<sup>1</sup> In addition to that activity, this market experiences large infusions of venture capital, which reached \$179 billion<sup>2</sup> last year. Pharmaceutical and life science middle-market businesses in particular experience significant fundraising activity, undergoing regulatory approval and certification in hopes of landing an IPO or an acquisition or funding round. Whether it is debt or equity, industry analysts expect these numbers to only increase in the coming years.<sup>3</sup> Yet, if yours is anything like the majority of these businesses, you are ill-prepared for an acquisition or explosive market event. Putting off some basic business and digital practices can directly diminish the valuation of your company, shortchanging you and other shareholders in the process.

It is easy to subscribe to the “learn from your mistakes” mantra when a planned lab experiment is in question, but when it comes to rapidly going to market, you want to get it right the first time. It can be a challenge to take on anything more than you already have on your plate, but pre-transaction due diligence needs to be a priority and must be addressed in advance if you are to maximize the financial outcome when the big event happens.

To immediately increase your middle-market business value and get your business and people ready; our recommendations are to eliminate risk, demonstrate performance excellence and be vigilant.

“WHEN THEY ARE FACED WITH A NEED TO INCREASE THE VALUE OF THEIR BUSINESSES IN ORDER TO CLOSE A VALUE GAP, [PRIVATE COMPANY OWNERS] TYPICALLY ONLY FOCUS ON GROWING SALES, REDUCING COSTS, OR MAKING AN ACQUISITION. NONE OF THOSE STRATEGIES ARE THE MOST EFFECTIVE INITIAL WAY TO INCREASE VALUE. ADOPTING MEASURES TO REDUCE COMPANY-SPECIFIC RISK IS THE BEST INITIAL WAY TO MAXIMIZE VALUE.”

KEN SANGINARIO, CORPORATE VALUE METRICS

<sup>1</sup> [https://www.suntrustrh.com/assets/files/2b/1517418225\\_ncmm\\_ma\\_report\\_final\\_web.pdf](https://www.suntrustrh.com/assets/files/2b/1517418225_ncmm_ma_report_final_web.pdf)

<sup>2</sup> <https://pitchbook.com/news/reports/2q-2018-us-pe-middle-market-report>

<sup>3</sup> <https://www.inc.com/graham-winfrey/middle-market-companies-private-equity-investors.html>



# 01 ELIMINATE RISK

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IN OUR CONSULTING WORK, WE'VE SEEN BUSINESSES CARRY UNNECESSARY RISK, WHICH DIRECTLY TRANSLATES INTO LOWER VALUATIONS, WHICH RESULTS IN LOWER CAPITAL INFUSIONS AND LESS MONEY FOR ACQUISITIONS, THE INABILITY TO GET CLEARANCE FOR NEW TRIALS, OR MISSING THE MARK WITH REGULATORS, THUS DELAYING A PRODUCT LAUNCH INTO THE MARKET.

THOSE ARE SCARY MOMENTS, WHICH CAN BE PREVENTED IF YOU TAKE INVENTORY OF WHAT YOU OUGHT TO HAVE IN PLACE AND BEGIN TO CLOSE ANY GAPS.

## ASK YOURSELF WHETHER YOU HAVE:

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- Formally defined and documented your corporate structure, articles of incorporation and annual meeting minutes.
- Established financial systems and scheduled audits, valuations and internal due diligence.
- Prepared a ready response to due diligence requests, even if it's to deflect them.

Defined necessary digital policies and adopted procedures to support them. For example, have you defined a data privacy statement aligned with applicable laws and regulations? Do you have a backup and disaster recovery process in place as part of a continued operations plan should something go awry.

# 02 DEMONSTRATE PERFORMANCE EXCELLENCE

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IT IS EASY TO GET DISTRACTED BY DAY-TO-DAY BUSINESS OPERATIONS OR THE LATEST CLINICAL TRIAL APPLICATION; HOWEVER, DON'T LOSE SIGHT OF THE NEED TO DOCUMENT YOUR EFFORTS AS YOU GO, SINCE DOCUMENTATION WILL BE THE BASIS OF CALCULATING YOUR COMPANY'S VALUE FOR AN ACQUISITION OR CAPITAL INFUSION.

IN ADDITION, IF YOU ARE SEEKING ANY KIND OF REGULATORY APPROVAL OR LOOKING FOR A PATENT APPLICATION APPROVAL, HAVING DOCUMENTATION AT YOUR FINGERTIPS WILL MAKE THE PROCESS GO MORE SMOOTHLY AND FASTER, AND WILL SHORE UP YOUR DEFENSES SHOULD A COMPETITOR CHALLENGE YOUR INTELLECTUAL PROPERTY

## ASK YOURSELF WHETHER YOU HAVE:

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- Clarified ownership, responsibility and accountability for all objectives and communicated these in a way that ensures that everyone in the business understands their role.
- Developed the necessary project plans across the company, such as those relating to samples, pilots, reports, milestones, teams, team leads, approvals, filings, etc.
- Based decision-making on budgets, forecasts and other logical business performance indicators.
- Provided for regular performance updates from all teams as a way of communicating often and early where there might be an issue.
- Pinpointed clear accountability for meeting objectives, timelines and deliverables.
- Communicated a process to resolve issues, whether technical or operational.
- Documented those digital policies that are important for mitigating risk to the business (e.g., those relating to accessibility, privacy, security, backup and disaster recovery and cloud services).

All of the above demonstrate sound corporate governance and are what distinguish a stand-out middle-market business from its competitors. Boosting your activity in any one of these areas can ensure that your valuation will be higher and that regulatory review will proceed more smoothly.



## 03 EXERCISE VIGILANCE

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YOU NEED TO BE ALL IN AND READY TO GO!  
IT COMES DOWN TO THE DIFFERENCE  
BETWEEN SOMEONE NOTICING YOU AND  
TAKING AN INTEREST IN YOUR BUSINESS OR  
PASSING YOU BY.

IT'S UP TO YOU TO DEMONSTRATE YOUR  
MARKET STRENGTH NOW AND IN THE  
FUTURE, ALONG WITH QUALITY, RISK AND  
FINANCIAL METRICS.

INCREASING YOUR VALUATION IS NOT JUST  
ABOUT THE NEW PRODUCT, FORMULA,  
TEST RESULTS OR FDA APPROVALS. YOU  
ALSO NEED ORGANIZATIONAL SYSTEMS,  
STRUCTURES, AND STRENGTHS THAT CAN  
SCALE AS YOU GROW A SELF-SUSTAINING  
OPERATION.

### ASK YOURSELF WHETHER YOU HAVE:

- Secured broad commitment to implement improvement projects to grow the company and expand opportunities even if they require change.
- Adopted a process to communicate and recognize the company's results, including the contributions of teams, individuals and particular products.
- Created processes and procedures for how to handle buyers' due diligence requests while protecting enterprise and product value.

# GET STARTED

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Your secret sauce involves the core elements that are essential to your company's intrinsic value, but only if you protect them and your team doesn't give them away unintentionally. This is something else to think about and address.

The benefits of advance planning cannot be disputed, but most businesses still don't plan far enough ahead of any potential transaction. A seller's pre-emptive due diligence preparation provides leverage and control you can't achieve any other way, and your internal due diligence preparation is critical to negotiating the highest valuation and the most advantageous terms.

So what are you waiting for?

## LET'S GO!

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### **KNOW YOUR STUFF.**

- Undertake internal due diligence before bankers, buyers and investors come knocking. It's better to know where the gaps are and to start to address them, than to have a third party expose them.

### **PROTECT YOUR CORPORATE VEIL.**

- That includes getting your corporate structure, governance, filings, patents, trademarks, contracts, board minutes, etc., current and up to date.

### **FORMALIZE YOUR DIGITAL POLICY AND IMPLEMENT IT THROUGHOUT THE COMPANY.**

- Include cybersecurity awareness, policies, training and systems.

Start now and get help if you need it. It is essential to integrate these cost-effective preparations as part of running your business in order to increase enterprise value.

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