



### **Valuing Manufacturing Companies: Valuation Measures That Make a Difference**

Outsourcing...environmental concerns...trade agreements...fuel costs. These issues have affected every U.S. industry, but perhaps none so dramatically as manufacturing.

The manufacturing sector took huge hits in the early part of the decade and, according to the National Association of Manufacturers (NAM), just got back on its feet in 2004. During the downturn, exports recorded their largest drop in 50 years, and more than 2.8 million manufacturing jobs were lost.

Based on these figures, one would expect a gloomy outlook for U.S. manufacturing. But industry sources say that is not the case at all. According to First Research, economic recovery and higher efficiency are helping to drive robust manufacturing expansion. In a recent NAM study, 67 percent of respondents believe the manufacturing industry will match or exceed overall economic growth, and 40 percent plan to expand their workforce.

All of these positives and negatives combine to make manufacturing business valuations particularly challenging. As with all business valuations, digging into the data and examining the risk factors of the individual business yields the most reliable results.

#### **Higher Risk Equals Lower Value**

A host of external and internal factors affect the value of a manufacturing business. From plant location to material supply chain, each business faces unique circumstances. Here are some of the more volatile risk factors to consider:

*Government regulations* — NAFTA, CAFTA, EPA, OSHA — acronyms abound in the manufacturing sector. Trade agreements affect each niche and region differently. Environmental and safety regulations can place expensive burdens on certain sub-sectors.

*Foreign competitive forces* — A growing trade deficit — particularly with China — is causing great concern among many manufacturers. Is the business affected by foreign manufacturing practices? Will lower foreign labor costs reduce demand for the company's domestically manufactured products?

*Research and development* — Staying current in manufacturing requires large investments in equipment and systems. Operational efficiency depends on sophisticated technology. The most successful manufacturers are those that have been able to automate effectively.

*Labor management and relations* — The downside of automation? Labor relations. Many manufacturers have turned to employee leasing as one way to manage labor and associated costs. Labor management must be factored into the risk equation.

With the manufacturing sector in such flux, it is difficult to make assumptions about future performance. Given the uncertainties inherent in the industry, it is important to rely on a business valuation professional with the experience and resources to adequately assess the manufacturing business in question.

*Our firm is well versed in the ups and downs affecting the value of manufacturing businesses. Give us a call and we will be happy to share our expertise with you.*

#### **Manufacturing At A Glance ...**

- The U.S. manufacturing sector consists of approximately 300,000 companies.
- The net output of the manufacturing sector is about \$1.5 trillion, or 16 percent of the U.S. gross domestic product.
- The National Association of Manufacturers reports that manufacturing accounts for 62 percent of all U.S. research and development initiatives.
- Wages paid to manufacturing workers are nearly 20 percent higher than in other sectors.

*Source: First Research*