



## Valuation

# Sizing up a firm is part calculator, part crystal ball

**VIRGINIA GALT**

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When it came time to sell the company he had nurtured from a startup to \$250-million in sales, founder Savvas Chamberlain looked for a buyer who would appreciate Waterloo-based Dalsa Corp. for its long-term prospects, not its breakup value.

Potential buyers had expressed unsolicited interest from time to time. They were drawn to the company's state-of-the-art semiconductor and digital imaging technology, which is used to make Google Earth images, bone density scans and even incorporated in golf course simulators and quality control in manufacturing plants.

“There were quite a few companies circling around in the past three years,” and not all of them were committed to keeping Dalsa intact, said Mr. Chamberlain, who is chairman of the firm. “I realized I could not really keep the barbarians out of the gate, so I decided to find a good buyer.”

Late last year, Dalsa announced that Teledyne Technologies Inc. of Thousand Oaks, Calif., would acquire the company in a transaction valued at \$341-million. The offer of \$18.25 a share represented a 28 per cent premium over the weighted average trading price at the time – a reflection of the value that Teledyne saw in Dalsa, Mr. Chamberlain said.

Calculating the sale price of a business can be tricky. Prospective buyers typically look at balance sheets, assets, products, markets, track record and quality of management, said chartered accountant John Carruthers, a Halifax-based partner and chartered business valuator with Grant Thornton LLP.

When qualified business valuers are called in to assess a company, they tend to focus most heavily on future cash-flow prospects, he said. “At any point in time that you want to sell your

business, you have to understand what it's earning, but you also have to understand what it's capable of earning,” he said.

Mr. Chamberlain says that, in its new incarnation as Teledyne Dalsa, the company he founded in 1980 has the potential to hit the billion-dollar sales mark.

Initially, Teledyne was interested in Dalsa's technology. “But when they started looking at the business, they realized that the company is well run, the company has good management, it has good employees. The technology is supported by this resource, which is the human resource.”

Under the deal, which is expected to close next month, Dalsa will continue to operate out of Waterloo, Ont., and Bromont, Que. Teledyne, which depends heavily on doing business with government for its \$1.8-billion (U.S.) in annual sales, will gain a strategic foothold in the commercial sector as it expands into the Asia-Pacific markets where Dalsa has a strong presence. Among other applications, Dalsa's technology is used in China to inspect railway cars for wear and flat-screen plasma television sets for defects.

“Basically, they needed to expand, and we gave them the opportunity to get into these markets,” said Mr. Chamberlain.

Canada's support for research and development was also a big selling point.

“With the acquisition of Dalsa, Teledyne is making a substantial commitment to Canada. We are especially attracted to strong support for research and development and advancement of technology provided by the Canadian federal [government] and the provincial governments of Ontario and Quebec,” Teledyne chief executive officer Robert Mehrabian said at the time of sale.

But balance sheets and profit predictions are just part of the sale process. Once the numbers have been crunched, “you're really still left to negotiate the best deal you can,” Mr. Carruthers said. “You need all that information in hand, and then it's a bit of a card game. You have to determine what price you are willing to move at, and how hard you want to push,” he said.

Mr. Chamberlain, for instance, said he calculated the sale price based on both the value of Dalsa's technology and Teledyne's estimated “threshold of pain.”

Buyers are ultimately aiming to “increase cash flow because, at the end of the day, cash is king,” said chartered accountant Vimal Kotecha, a vice-president and chartered business valuator at RSM Richter.

“That's probably why they [Teledyne] were willing to pay what they did, because it's a strategic fit,” said Mr. Kotecha, who was not involved in the transaction but could see clear benefits to both parties to the deal.

Both Teledyne and Dalsa are leaders in digital imaging technology, Mr. Mehrabian said, “but our product lines and customer bases are almost entirely complementary.”

The combined strengths of Teledyne's and Dalsa's technologies will allow the newly combined company to develop new infrared and visible light products, he said.

### **Propping up the price**

Businesses sometimes have to assess themselves in a hurry. The need for financing, or an out-of-the-blue purchase offer, can crop up unexpectedly. A common refrain, said chartered accountant John Carruthers, a Halifax-based partner and chartered business valuator with Grant Thornton LLP, is “somebody knocked on my door and they want to make me an offer – I need to understand what I can ask.” So, it is prudent to be prepared. Grant Thornton offered these pointers:

- Clean up the balance sheet: Is your debt-to-equity ratio appropriate? Do you have assets that are redundant to operations? (In 2009, Dalsa Corp. sold excess property that it owned in Waterloo, Ont. and discontinued its unprofitable digital cinema business unit.)
- Bolster your bench strength: Ensure that a strong management team is in place and review hiring and training practices to attract and retain top talent. (Dalsa’s work force of 1,000 includes 40 PhDs doing research and product development.)
- Market research: Review customer demand, and anticipate what these demands may be in the future. Establish a marketing plan. Differentiate your product.
- Diversify: Try not to rely on a small group of customers. Dalsa has established a broad customer base, including Google, Microsoft and NASA.
- Continuous improvement: While not impossible, it is usually difficult to increase the value of your business in the short run. Make it an ongoing process, Grant Thornton recommends.