Maximizing Business Value

A Value Driver Framework That Increases Company Value
Owner Motives Matter Most 1/2

Classic economic theory; goal of firm is to maximize profits

Motives and goals of Montana’s business owners may be oriented to:

- quality of life
- job satisfaction
- satisfied customers

Motives tend to be about satisficing (satisfy + suffice)
Owner Motives Matter Most 2/2

Consequently, business success may be measured by:

- days spent hiking, skiing, biking, fishing, hunting, etc.
- quality of product
- respect and satisfaction of the customer

From an economic perspective, making a reasonable living, not growth, constitutes a measure of success…

…unless and until children (& their education), legacy, retirement and other needs emerge & begin to dominate owners’ thinking
When Motives Change…(1/3)

Owners’ thinking about their businesses may shift to:

Sustainable Growth
Protecting & Strengthening
Renovating & Repairing
Reorganizing as a Team
(Preparing to) Sell or Transfer
Acquisition
When Motives Change…(2/3)

Owners…

are/get BUSY! – busy working “in” the business not “on” the business…and we humans are creatures of habit

begin to think about how/when/why to prepare for future events – changes in business climate, adopting new technologies, succession planning, economic uncertainty

thinking may be clouded by personal perceptions of value
When Motives Change…(3/3)

Risk Exposure - more than just tax, legal, insurance (5D’s)

Lack an holistic, objective view into business operations

Is there a business plan that dovetails with owners’ personal financial plan(s)?
Maximizing Business Value: Assessing Your Business’s Operational Value

• Owner motives matter most - value creation as an end goal tends to align with lifestyle owners and profit maximizers

• Operational Value vs Financial Valuation - what’s the difference, why does it matter?
Four Key Questions

1. What’s your business worth today, and what could it be worth?

2. What’s behind the gap?

3. How do you compare to your peers?

4. What are the threats to your success?
Standards of Value 1/2

Common standards of value are:

- **Fair Market Value**…when a willing business buyer and a willing seller reach an agreement, with both parties acting in full knowledge of all facts and not being forced to conclude the transaction by circumstances.

- **Investment Value** standard lets you determine the value to a real business person with specific business ownership objectives.

“We drive into the future using only our rear-view mirror”
Standards of Value 2/2

The **intrinsic business value** standard enables you to determine the business worth based on your solid understanding of the business fundamental attributes. This knowledge allows you to develop a comprehensive estimate of business value based on what business ownership benefits can be achieved. These benefits are tied to a number of key factors such as:

- Business earnings potential.
- Likely business growth.
- Company’s financial and operational strength.
Operational Value vs Financial Valuation (1/2)

Straight financial valuation algorithms use data to:

• Calculate yesterday's performance
• Give a number which is stale almost as soon as delivered
• Produce non-actionable data
Operational Value vs Financial Valuation (1/2)

Measure Operational Excellence

• Identify a company’s ability to prove it will reliably and predictably produce and increase financial outputs (revenues, profits) into the future
• Obtain accurate, efficient and actionable measures of operational performance and enterprise value
• Highly correlated with financial valuation
Value, hiding in plain view

“Intangible assets often turn out to be the hidden value drivers of SMEs, and as such are crucial to their competitive advantage and future earnings.”

Value, hiding in plain view

“Intangible assets often turn out to be the hidden value drivers of SMEs, and as such are **crucial to their competitive advantage and future earnings.**”

Operational Value Analysis

- Several approaches – MAUS, Corporate Value Metrics, CoreValue, and others
- No dominant approach; MEP centers seem to prefer one data rich tool developed at MIT
- Operational valuations tend to correlate well with financial valuations – key difference is **detailed, actionable insights to drive value gain dollar amounts**
- Just one example - CoreValue
Based on 18 Value Drivers that measure the intangibles

**MARKET**
- Growth
- Recurring Revenue
- Brand
- Large Potential Market
- Barriers To Entry
- Margin Advantage
- Dominant Market Share
- Product Differentiation
- Customer Diversification

**OPERATIONS**
- Company Overview
- Operations
- Human Resources
- Financial
- Customer Satisfaction
- Legal
- Sales & Marketing
- Senior Management
- Innovation
Question & Answer Format

Best Practices question for each driver
Business owner rates company with answer selection

**Growth**

Does your business have a history of consistent growth greater than its competitors, coupled with projected future revenue growth above the market’s rate?

- My business is on fire.
- We’re growing at a good clip.
- We’re holding steady.
- Business is slowing down.
- Honestly, things aren’t so good right now.
Growth

Strong growth means your company has a history of consistent top line growth greater than its competitors, coupled with project future revenue growth above the market’s rate

• My business is on fire
• We’re growing at a good clip
• We’re holding steady
• Business is slowing down
• Honestly, things aren’t so good just now
Company Value Gap

Overview Report

CoreValue® Overview
- Industry: Public Administration
- Annual Revenue: $18,000,000
- Annual Profit: $2,000,000
- CoreValue® Rating: 54
- Enterprise Value: $4,710,000
- Potential Value: $8,750,000
- Value Gap: $4,040,000
- Confidence Range: < 90%

CoreValue® Enterprise Value
- Potential Value: $8,750,000
- Value Gap: $4,040,000

CoreValue® Rating: 54
- Strategic Value
- No Value

Progress since August 29, 2013
- CoreValue® Rating: +1 pts
- Enterprise Value: +$87,500
- Enterprise Value: +1.89%
- Value Gap Closed: 2.12%

Value Gap: Critical Drivers
- Financial
- Product Differentiation
- Large
- Potential
- Market
- Margin
- Advantage
- Operations

Red Flags
- Operating Reports
- Risk and Insurance
- Tax
- Roles & Responsibilities
- Team Functionality
- Litigation

Confidential
Company Value Gap

**Potential Value:** $8,750,000

**Current Estimate:** $4,710,000

**Value Gap:** $4,040,000
Company Value Gap

CoreValue® Rating: 54
Company Value Gap

Value Gap: Critical Drivers

- Financial
- Product Differentiation
- Large Potential Market
- Margin Advantage
- Operations

0k – 500k
Company Value Gap

Red Flags

- Operating Reports
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TELL ME MORE...
Components of the Value Gap

Total Value Gap: $4,040,000

Value Gap: Drivers

- Financial: $709,000
- Tangible Assets: $26,300
Assess: What If?

Baseline Values

Current
- Annual Revenue: $18,000,000
- Profit (EBITDA): $2,000,000
- Margin: 11.12%
- Estimated Annual Growth Rate: 5%
- CoreValue® Rating: 46
- Enterprise Value: $4,710,000

Projected Enterprise Value

Target Achieved

Simulation Goals

Target:

Margin & Growth CoreValue® Rating Enterprise Value

Margin (% of Revenue): 11
Annual Revenue (% Growth): 10
CoreValue® Rating: 46
Enterprise Value: 4,710,000

Simulation Results

Simulation End Date: December 2018
Value At End Date: $9,920,000
CoreValue At End Date: 56
Revenue At End Date: $27,000,000
Profit At End Date: $2,970,000
Margin At End Date: 11%
# Tasks and Planning

**Suggested Tasks**

The tasks shown below are suggested to improve the value of your company. You can create a *To-Do* based on a suggested task or create your own custom *To-Do*.

Total Enterprise Value Gap: $4,040,000

<table>
<thead>
<tr>
<th>Suggestions</th>
<th>My To-Dos</th>
<th>Completed</th>
<th>Collapse All</th>
<th>Expand All</th>
<th>Sort By</th>
<th>Earn for Buck</th>
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<tbody>
<tr>
<td>Large Potential Market</td>
<td>Future Market Growth</td>
<td>Score 0.0</td>
<td>Value Gap $115,000</td>
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<td>Large Potential Market</td>
<td>Niche Clarity</td>
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<td>Margin Advantage</td>
<td>Margin Trends</td>
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<td>Large Potential Market</td>
<td>Competitive Monitoring</td>
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<td>Value Gap $92,100</td>
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</table>

**Goals:**

You have a system or process in place to monitor significant competitors and new entrants into your market.

**Create a To-Do**

- **Document how you monitor competition**
  Take the time to document how your company monitors competition.
- **Create a custom To-Do**

| Product Differentiation | Financial Differentiation | Score 0.0 | Value Gap $230,000 | 5.7% |        |               |
| Large Potential Market | Market Size | Score 1.0* | Value Gap $104,000 | 2.6% |        |               |
Manufacturing Benchmark Report
Thank You!

Questions?