

MAXIMISING THE VALUE OF YOUR BUSINESS



Why Maximise the Value

- **Succession**
- **Immediate returns**
- **Work/life balance**
- **Fund Raising**

The Three Test...

- **Three reasons why anyone would buy your business**
- **Three reasons why they would not buy your business**

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How much time do you have ?



3 Key Drivers

- **Profitability**
- **Sustainability**
- **Risks and Opportunities**

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Future
Maintainable
Earnings (FME)

Divided by

Capitalisation Rate

= Value

Profits

Sustainability

Risks &
Opportunities

Improving Value

- **Increase FME**
- **Increase Cap Multiple
(Reduce Cap Rate)**

Proof

- **Business Value = FME / Cap Rate**
- **\$150,000 = \$75,000 / 50% (2x multiple)**
- **\$400,000 = \$100,000 / 25% (4x multiple)**

Cap Rate

- **Inverse of Cap multiple**
- **Start with the risk free rate**
- **Required rate of return**
- **Risks/threats**
- **Opportunity/ strengths**
- **What ROI would you require?**

The key is to.....

- Increase the FME (profitability & sustainability)
- Increase the cap multiple (risk & opportunity)

First Driver - Profitability

- **Gross margin vs. industry average**
- **Net profit vs. return on investment**
- **Add backs**
- **Directors salaries**

Understanding profitability...

- **Break it down:**
- **Profit = Sales – Direct costs-
overheads**
- **Focus on each section at a time.**

Profitability – what do we look for?

- **Loss making products and services**
- **Lost/inactive customers**
- **Remove the waste**
- **Improve the trend lines**
- **Get the price points right**

7 Deadly Wastes

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- 1. Overproduction**
- 2. Waiting**
- 3. Transporting**
- 4. Inappropriate Processing**
- 5. Unnecessary Inventory**
- 6. Unnecessary Motions**
- 7. Defects**



It's the little things.....

- **Stock turnover**
- **Days debtors**
- **Bad debt expense**
- **Overhead expenses**
- **Cash flow management**

Second Driver - Sustainability

- **Consistency**
- **Contracts/Forward Orders**
- **Documentation of process – operation, sales**
- **Key employees**
- **Marketing programs – understand your SCA**
- **Investment in business development**

Third Driver – Risk & Opportunity

The Risks

- Personal goodwill vs. Business goodwill
- Reliance on owners
- Staff
- Client relationships (turnover)
- Brand name
- Management Infrastructure
- Reliance on key customers
- Reliance on key suppliers

The Opportunities

- **Potential for growth**
- **Industry trends**
- **Product lifecycle**
- **Sustainable competitive advantage- Point of difference**



The Top Three Issues

- **Profit – understanding the profit drivers**
- **Sustainability – understand your sustainable competitive advantage**
- **Risk & Opportunity – level of owner involvement**

The Next Steps...

- **Identify the sustainable competitive advantage of the business**
- **Conduct a “now” analysis**
- **Identify the potential for profit and growth improvement**
- **Action plan.....Just Do It!**

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