

Valuing My Business Exercise

This exercise will give you a rough guide to what your business might be worth.

Remember that all such tools are only a guide. In the end, a business is worth what the vendor is prepared to accept and the buyer is prepared to pay.

However, we use the valuation tools to see if we are in the ball park. Note, that the values are on the optimistic side. They are close to the maximum you should expect unless you are reincarnated Kerry Packer and have found your Alan Bond.

A major part of the exercise is not just what is your business worth now, but what are the **key drivers of that value**. Is it profit margins, sales growth, risk factors or a combination. You should then be thinking what levers you need to start shifting **now** to maximize the value of your business in a few years' time when you may want to exit!

So try a base case valuation and log your results on the attached sheet.

Then try some sensitivity analysis. What if sales growth is higher or lower? What if the risk factors are higher or lower? What if you could improve the profit or if it falls? When do you want to exit your business? See if you can figure out which are the most critical factors.

Then try some scenario analysis. What if there are a combination of factors. An upside case might be the sales boom and you can increase profit margins while better establishing your business. A downside scenario is that competitors or customers squeeze you or your technology becomes obsolete.

Later will come the most critical part. What can you do to minimize or offset the risks and what can you do to grow the sales and increase the profit margins? **Do you need some help?**

Anyway, give it a go! The model has the instructions on the opening sheet. The base parameters are for a simple company (typically service company) that has been going for just a few years but you can change those parameters. There are some dummy numbers in the model now but change those to depict your business. Some of the inputs just require you to place an "x" in the cell that describes your business. When you change the response cell for an "x", please clear the contents of the cell that used to have the "x".

The templates on the next pages will help you record your analyses.

First, record your base case – how you think your business is.

Then there are templates for 4 sensitivities (but do more if you like). Then try an upside (best case) scenario and a downside (worst case scenario).

See the spreadsheet model for explanations of the inputs and what is required.

Valuation of My Business Template

Base Case (how you think your business and its outlook currently stand).
Record your inputs here for your base case. You will want to refer back to them when you start making changes.

Inputs:

Current Sales (\$) \$
Expected profit after tax (\$) \$

Do you expect your profit margin

- to fall
- to remain steady
- to grow somewhat
- to grow rapidly

Growth Rate in Sales % p.a. %
Ongoing Capex (\$) \$

At what stage is your business?

- Start Up
- Early Stage
- Established

Risk Level

- Low Risk
- Medium Risk
- High Risk

Exit Year

Now Record the results for your base case:

Net Present Value:

10 Year Value \$
Value with terminal value \$

Multiples

Year of Exit
Sales Multiple Value \$
Earnings Multiple Value \$

Value in Today's money:

Sales Multiple Value \$
Earnings Multiple Value \$

Now Try Some Sensitivity and Scenario Analysis

Sensitivity 1:

Inputs:

Current Sales (\$) \$

Expected profit after tax (\$) \$

Do you expect your profit margin

- to fall

- to remain steady

- to grow somewhat

- to grow rapidly

Growth Rate in Sales % p.a.

Ongoing Capex (\$) \$

At what stage is your business?

- Start Up

- Early Stage

- Established

Risk Level

- Low Risk

- Medium Risk

- High Risk

Exit Year

Net Present Value:

10 Year Value

Value with terminal value

Multiples

Year of Exit

Sales Multiple Value \$

Earnings Multiple Value \$

Value in Today's money:

Sales Multiple Value \$

Earnings Multiple Value \$

Sensitivity 2

Inputs:

Current Sales (\$) \$
Expected profit after tax (\$) \$

Do you expect your profit margin

- to fall
- to remain steady
- to grow somewhat
- to grow rapidly

Growth Rate in Sales % p.a.
Ongoing Capex (\$) \$

At what stage is your business?

- Start Up
- Early Stage
- Established

Risk Level

- Low Risk
- Medium Risk
- High Risk

Exit Year

Net Present Value:

10 Year Value
Value with terminal value

Multiples

Year of Exit
Sales Multiple Value \$
Earnings Multiple Value \$

Value in Today's money:

Sales Multiple Value \$
Earnings Multiple Value \$

Sensitivity 3:

Inputs:

Current Sales (\$) \$
Expected profit after tax (\$) \$

Do you expect your profit margin

- to fall
- to remain steady
- to grow somewhat
- to grow rapidly

Growth Rate in Sales % p.a.
Ongoing Capex (\$) \$

At what stage is your business?

- Start Up
- Early Stage
- Established

Risk Level

- Low Risk
- Medium Risk
- High Risk

Exit Year

Net Present Value:

10 Year Value
Value with terminal value

Multiples

Year of Exit
Sales Multiple Value \$
Earnings Multiple Value \$

Value in Today's money:

Sales Multiple Value \$
Earnings Multiple Value \$

Sensitivity 4:

Inputs:

Current Sales (\$) \$
Expected profit after tax (\$) \$

Do you expect your profit margin

- to fall
- to remain steady
- to grow somewhat
- to grow rapidly

Growth Rate in Sales % p.a.
Ongoing Capex (\$) \$

At what stage is your business?

- Start Up
- Early Stage
- Established

Risk Level

- Low Risk
- Medium Risk
- High Risk

Exit Year

Net Present Value:

10 Year Value
Value with terminal value

Multiples

Year of Exit
Sales Multiple Value \$
Earnings Multiple Value \$

Value in Today's money:

Sales Multiple Value \$
Earnings Multiple Value \$

Upside Scenario

Inputs:

Current Sales (\$) \$
Expected profit after tax (\$) \$

Do you expect your profit margin

- to fall
- to remain steady
- to grow somewhat
- to grow rapidly

Growth Rate in Sales % p.a.
Ongoing Capex (\$) \$

At what stage is your business?

- Start Up
- Early Stage
- Established

Risk Level

- Low Risk
- Medium Risk
- High Risk

Exit Year

Net Present Value:

10 Year Value
Value with terminal value

Multiples

Year of Exit
Sales Multiple Value \$
Earnings Multiple Value \$

Value in Today's money:

Sales Multiple Value \$
Earnings Multiple Value \$

Downside Scenario

Inputs:

Current Sales (\$) \$
Expected profit after tax (\$) \$

Do you expect your profit margin

- to fall
- to remain steady
- to grow somewhat
- to grow rapidly

Growth Rate in Sales % p.a.
Ongoing Capex (\$) \$

At what stage is your business?

- Start Up
- Early Stage
- Established

Risk Level

- Low Risk
- Medium Risk
- High Risk

Exit Year

Net Present Value:

10 Year Value
Value with terminal value

Multiples

Year of Exit
Sales Multiple Value \$
Earnings Multiple Value \$

Value in Today's money:

Sales Multiple Value \$
Earnings Multiple Value \$