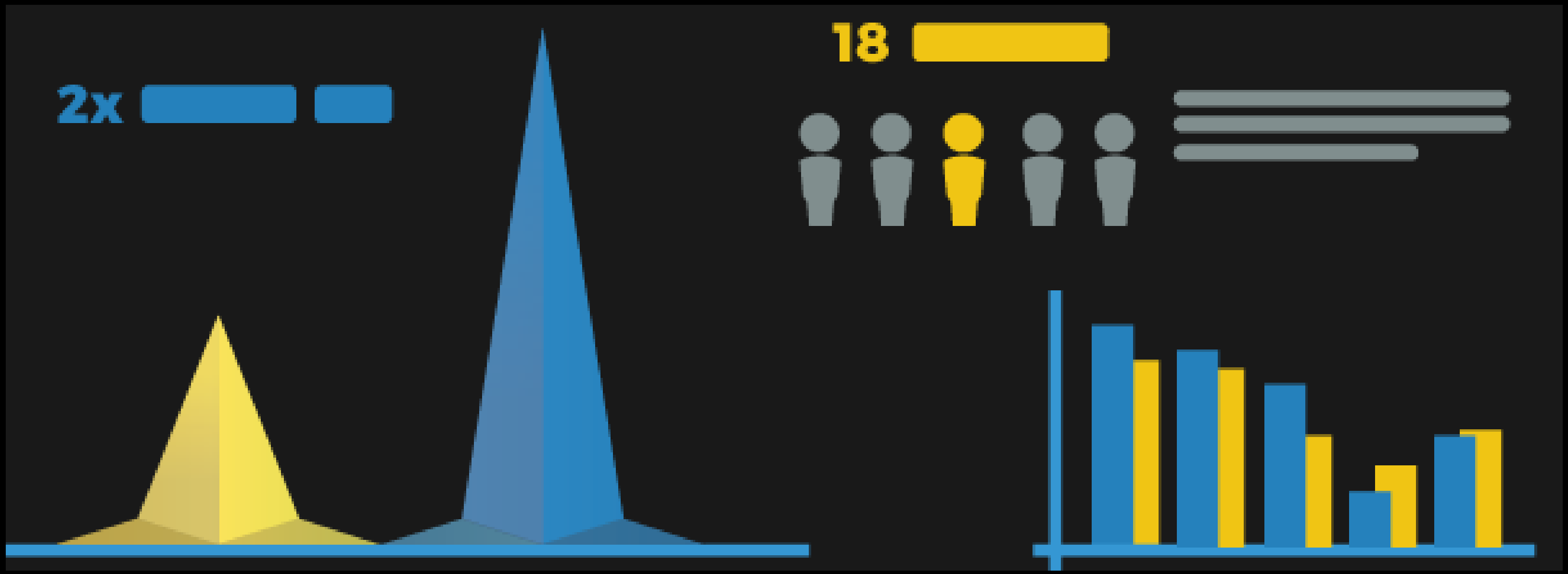
intelliVen

Intelligent Strategies. Successful Ventures.

What are we worth?



What are we worth?

A business is worth what someone is willing to pay for It.

- Three ways to derive the value of a business:
  - **Discounted Cash Flow** = The present value (to account for a dollar today being worth more than a future dollar) of certain (and highly certain) future profits.
  - **Book Value** = A multiple of the tangible (e.g., money in the bank) and intangible (e.g., company name or IP) assets of the company less its liabilities (e.g., loans, obligations).
  - **Comparable Businesses** = What has been paid recently by others for similar businesses (adjusted for peculiarities of the subject business) generally expressed as a multiple of operating profit (e.g., *5.5 X EBITDA*) or a % of Revenue (*90% of Revenue*).
- All three get considered as part of deciding what to pay for a business.
- A buyer can be strategic (a business that will merge operations with their own) or financial (restructure financing, usually with debt, keep the team).

Some factors that affect the multiple of EBITDA or Percent of Revenue.

- Revenue
  - Size
  - Long term sustainable growth rate (how big can the business get and with what certainty, cost, and risk over what time frame)
  - Mix of revenue from new vs. existing customers
  - Long term contracts
  - Backlog
  - Concentration
  - Key customers
- Market
  - Clear, simple, easy to understand value proposition
  - Differentiation, sustainable competitive advantage
  - Defensible market position
  - Prime v. Sub
  - Contract Vehicles
  - OCI
  - Target Market, Market Trends
  - Context (what else is going on in the world; what's hot and what's not)
- Operations
  - Team
  - Delivery model (on premises, SaaS)
  - Business Model (Product, Service, Channel, Operation, or Exchange)
  - Synergy (What acquirer believes they can do with in terms of growth and performance such as improve efficiency; see: How to Make an Acquisition work)
  - Personnel (e.g., cleared staff, high percent of PhDs)
  - Intellectual Property that lowers the cost of sale, delivery, and growth
  - Contract mix (FFP, CPFF, T&M)
  - Special Status (discount for SADBU, etc.)
  - Operating excellence (systems for do/sell/grow)
- Finances
  - Gross and Net Margins; how efficiently can business get at turning revenue into profit and sustain growth
  - Predictability
  - Certainty
  - Track record

Each business model works differently; it is easier to perform and grow using just one model.

Model	Output	Payment	Example	Competencies	Financials (notional)	Metrics
Product	Software, Hardware, Information	Per copy Per unit	Hewlett Packard Microsoft	Sales, Support R&D Product Management	EBIT=20% P/E = 100X	# of salespeople, salespeople tenure, $/sale $/salesperson
Service	Hourly or project consulting or service	Per hour Per deliverable	Accenture BA&H Deloitte	Project Management, Client Management	EBIT=15% P/E = 25X	Staff utilization Average hourly rate
Operation	Outsourcing Facilities Management	Per unit of time Per unit processed	EDS CGI Utilities	Efficiency of operation Drive to scale	EBIT=10% P/E = 10X	Cost per unit Service levels
Channel	Set up and administer connection between buyer and provider	Percentage of revenue	Placement Firms IDIQ Contractors	Contracting, administration, space, inventory	EBIT=3% P/E = 5X	Contract order backlog Commitment level
Exchange	Broker links between many buyers and many sellers	Subscription fee Transaction fee	NYSE UBER	Domain competence Efficiency of operation	EBIT<0 P/E = na	Number subscribers Number of transactions

Lessons Learned in Building High-value Businesses

- Keep it simple.
- Play in markets that are essentially infinite.
- Use IP (software, method, data, etc.) to create an unfair advantage.
- Sell value not process.
- Be clear about what you seek.
- Make sure everyone on the team is playing the same game!

Links to Suggested Reading

- IntelliVen Content:
  - Are we for sale?
  - Growth is good and money matters
  - Personal Financial Planning Model
  - How much money do I need?
  - Ten Lessons on Selling a Company
- Texts:
  - Rich Dad Poor Dad; Stanley
  - Millionaire Next Door; Kiyosaki

Topics for discussion:

- What is our firm worth today and why?
- What is our target valuation in three or five years (without any commitment to sell at that point)?
- How do we get there (dos and don’ts)?

Thank you.