What Are We Worth:
considerations that drive enterprise value

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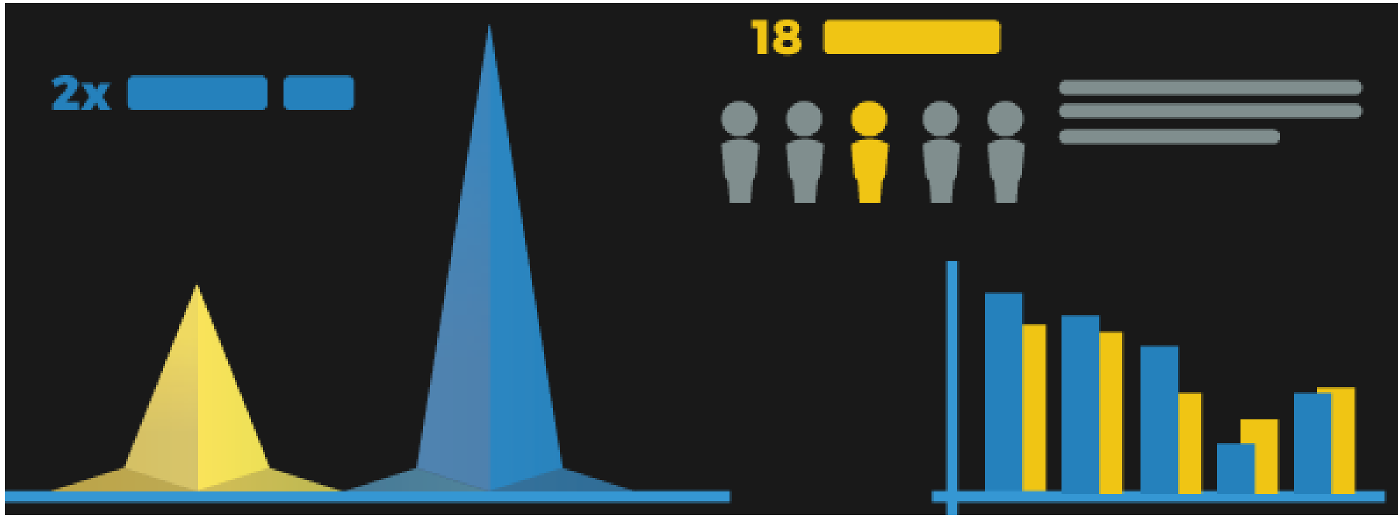

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A business is worth what someone is willing to pay for It.

- There are three ways normally used 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** = The tangible (e.g., money in the bank) and intangible (e.g., company name or Intellectual Property) 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 (e.g., *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).

Numerous other factors can affect the multiple of EBITDA or Percent of Revenue.

- Business Model (i.e., Product, Service, Channel, Operation, Exchange, hybrid, evolving)
- Scale
- Track record of performance against plan
- Long term sustainable growth rate (how big can the business get and with what certainty, cost, and risk over what time frame)
- Margin and margin prospects (i.e., how efficiently can business get at turning revenue into profit and sustain growth)
- 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)
- Long term contracts
- Personnel (e.g., cleared staff, high percent of PhDs)
- Intellectual Property that lowers the cost of sale, delivery, and growth
- Clear, simple, easy to understand value proposition
- Differentiation, sustainable competitive advantage
- Operating excellence (maturity of do/sell/grow systems)
- Defensible market position
- Predictability of business
- Mix of revenue (e.g., new vs. existing customers; types of customers by product, market, etc.)
- Diversity vs. Concentration of revenue
- Contract mix (FFP, CPFF, T&M)
- Team
- Backlog
- Special Status (discount for SADBU, etc.)
- Prime vs. Sub
- Organizational Conflict of Interest barriers
- Delivery model (e.g., on premises, SaaS)
- Contract Vehicles
- Target Market, Market Trends
- Context (what else is going on in the world; what's hot and what's not)

A tight management presentation tells a story that ties company-specifics to key operating metrics

Waterfall Quality:
Backlog, Pipeline, Prospects, Win Rate, and Market Presence

Quality of Client Base:
Diversity, Loyalty, Longevity, Organic Growth, Renewal

Quality of Financial Achievements:
12-36 Months of Sustained Performance, Patterns of Growth Reliably Informing Expected Performance for 3-5 years, Rational Balance Sheet

Governance:
Thinking and acting strategically, Delivery Against Plan and Objectives, Time spent on the Business vs in the Business, Intentionally Building Value

Team Strength:
Quality, Stability, Longevity, "Collegiality", Resilience to Change, Turnover, Diversity

Organizational Effectiveness:
Process Quality, Order Fulfilment, Responsiveness

Strategic Positioning:
Market Share, Mindshare, Strategic Position, Market Perceptions and Permissions

Objective Value Proposition:
No matter what you are doing, you are always competing for favorable attention from Clients, Employees, Prospects, Competitors, Teaming partners, and Others Who are Outside Looking In

It is easier to grow and perform when an organization works in a well-known way.

Five common business models

- 1. Product
  Hardware, Software (tools, systems, applications, departmental, enterprise, cross-company, cross-industry)
- 2. Service
  Staff augmentation, Project management, Consulting, Program mgt., Systems development, Systems integration, Engineering
- 3. Operation
  Hosting, Outsourcing, Facilities management, Service processing
- 4. Channel
  Reselling, Contracts
- 5. Exchange
  Dynamic markets, Marketplaces, Information Exchanges

- Each business model drives the need for different:
  - Competences
  - Financial model
  - Performance metrics
- It is easier to perform and grow using just one model
- Businesses with one operating model are easier to understand, easier to sell, and drive greater enterprise value

It is harder to perform and grow, and therefore *value,* companies with multiple or hybrid models.

Model	Financial Model*	Critical Competencies	Success Metrics
Product	EBIT=20% P/E=100X	Sales, Call Center, Development	# of salesmen, salesmen tenure, $/sale, $/salesman
Service	EBIT=15% P/E=25X	Project Management Account Management	Staff utilization Average hourly rate
Operation	EBIT=10% P/E=10^{+}X	Efficiency of operation Driving to scale	Cost per unit Service levels
Channel	EBIT=3% P/E=5X	Contract management & administration Space, Inventory mgmnt	Contract order backlog Commitment level
Exchange	EBIT<0 P/E=na	Domain competence Efficiency of operation	Number subscribers Number of transactions

*notional

Lessons Learned in Building High-value Businesses

(see: Ten Lessons on Selling A Company)

- 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!

Suggested Reading

- 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
- Millionaire Next Door; Stanley
- Rich Dad Poor Dad; Kiyosaki

Thank you.

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