



**Axis Leadership Group, LLC**

## **What's Your Business Worth?**

*Learn the TRUE market value of  
your company and the best  
strategies to increase it!*

# WHAT'S YOUR BUSINESS WORTH?

## USING A MARKET VALUE SCORECARD TO MAXIMIZE EQUITY *AS PART OF* YOUR GROWTH OR EXIT STRATEGY

### INTRODUCTION

By now, as a business owner, CEO, or executive manager (a "Principal"), you have probably been introduced to a number of financial valuation methods used to determine business value. A few of the common valuation methods are as follows:

- ◆ Discounted Cashflow (DCF)
- ◆ Industry Comparable Multiples
- ◆ Appraised Asset Value
- ◆ Book Value

All methods are widely accepted; however, despite the final valuation each method provides, the real value of your business is the value the market assigns to it.

### THE VALUE OF YOUR BUSINESS IS THE VALUE THE MARKET ASSIGNS TO IT

If you have ever sold a business or have attempted to sell a business, you quickly understand this point: financial valuation methods provide a good baseline and range of value; however, the type of buyer (financial vs. strategic), purchase structure (cash vs. owner note, asset vs. stock purchase), and the number of buyers you attract to the negotiating table will determine the value of your business.

*Over 80% of businesses for sale go unsold each year, with valuation dispute a principal reason<sup>[1]</sup>*

### THE IMPORTANCE OF UNDERSTANDING HOW THE MARKET ASSIGNS VALUE

As a Principal, it's important to understand how the market values your company.

The market assigns value to your company based on two key criteria<sup>[2]</sup>:

1. Superior operating performance
2. Superior corporate credibility

**Superior operating performance:** The drivers of superior operating performance are those that drive expected cashflows:

#### Key Drivers (Trend)

- Sales growth rate (Up)
- Operating profit margin (Up)
- Income tax rate (Down)
- Incremental working capital investment (Down)
- Incremental fixed capital investment (Down)

**Superior corporate credibility:** The key drivers are those that create credibility in the market:

#### Key Drivers (Status)

- Superior strategy (Executing)
- Strong leadership (Established)
- Proven & qualified management team (Established)
- Sound business processes & systems (Growth Platform)

Corporate Credibility Risk: Research<sup>[2]</sup> shows a company's market value differs from its own assessment of value when in the short term...

- ◆ Performance has not met expectations
- ◆ Management/company has low credibility

...and in the long term, the...

- ◆ Market does not believe the company will meet its performance expectations
- ◆ Market believes strategy is poor
- ◆ Market undervalues the company's investments and opportunities
- ◆ Market believes company will be unable to capture value of available opportunities
- ◆ Management/company has low credibility

*To support the desired asking price, all too often 3-5 year forecasts are prepared to show strong revenue and cashflow growth, yet the company's performance history doesn't support the forecasts. As a result, investors don't find the plans credible.*

### So how do you achieve a market value premium or mitigate the risk of a market value discount?

Your growth and exit strategies must focus on improving the drivers of superior operating performance and corporate credibility while at the same time maximize other traditional investment criteria.

### MARKET VALUE SCORECARD™

Whether the intent is to growth the business, maintain the status quo, or transition out of the business, a Principal should focus on the

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attributes which maximize business wealth and equity – the same attributes an investor analyzes when making a decision to buy or invest equity in a business – perhaps your business!

**Stepping into the shoes of an investor**

Principals managing the business should step out of the day-to-day operations and into the shoes of an investor to objectively evaluate their company’s performance and credibility. All too often, Principals fail to do this until the need arises to raise equity or sell the business.

Using the same criteria as investors, Principals can make better decisions as to how and when to grow or exit the business. Having the knowledge of how the market assigns value to the company substantially improves transition planning & execution. Additionally, the Principal can more effectively communicate the value of the company to current and potential investors.

**Market Value drivers**

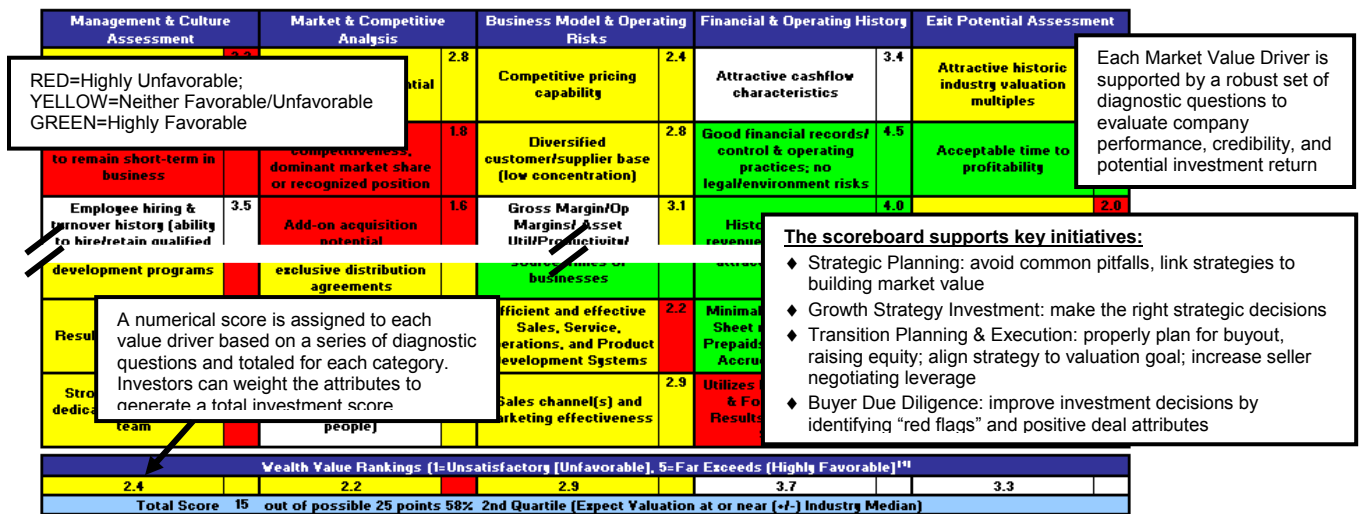
Axis Leadership Group (“AXIS”) has identified the following five major categories containing thirty market value drivers that are used by investors to evaluate investment opportunities:

1. Management & Culture Assessment
2. Market & Competitive Analysis
3. Business Model & Operating Risks
4. Financial & Operating History
5. Exit Potential Assessment

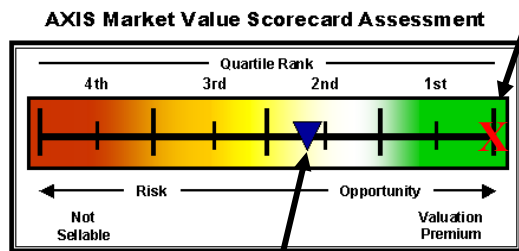
Each category consists of six value drivers. When scored for performance, the combined results provide an excellent investment profile of the business. Using the AXIS Market Value Scorecard™, the Principal has a snapshot of the following:

- ◆ The key drivers of superior operating performance and credibility
- ◆ The key investment criteria investors use to assign value to the company

**Axis Leadership Group’s Market Value Scorecard™<sup>[3]</sup>**



**WE CAN HELP YOU GET HERE**



**YOU ARE HERE**

To learn more about the AXIS Market Value Scorecard™, email [info@axisleadership.com](mailto:info@axisleadership.com) or visit [www.AxisLeadership.com](http://www.AxisLeadership.com).

*John Holloran is Founder & President of Axis Leadership Group, LLC, a strategic advisory firm specializing in building wealth and equity for its clients. Axis Leadership Group and its alliance partners help CEOs with growth strategy execution, exit strategy planning & execution, and performance improvement initiatives. John can be contacted at 214.613.6712 or by e-mail at [jholloran@axisleadership.com](mailto:jholloran@axisleadership.com).*

[1] Source Biz Stats, Industry Research  
 [2] Bain & Company  
 [3] Abbreviated scorecard of service company due diligence results.