



# SMME Clinic Masterclass

## How to VALUE your business

Paul Hartnady  
Profit Lab

Sponsored by



Sponsored by



Brought to you by



SmartProcurementWorld



Clinic with Purpose  
Putting you in control of your development



PROFITLAB

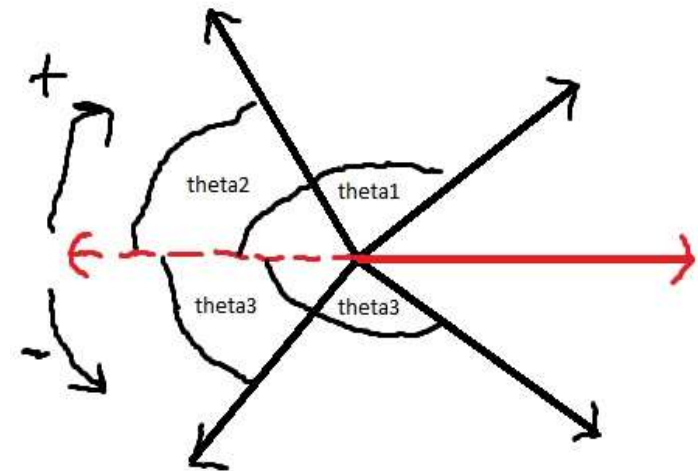


**SMME CLINIC**  
*Practical Business Remedies*

## THIS IS A 'HOW-TO' PRACTICAL LEARNING PROGRAMME

FOR THE BEST RESULTS, PLEASE  
WRITE DOWN THE CONCEPTS AND THE  
SEQUENCE OF FLOW DIAGRAMS THAT  
ARE PRESENTED STEP BY STEP

BEFORE WE PROCEED PLEASE MAKE  
SURE YOU HAVE A PEN AND PAPER TO  
HAND FOR THIS PURPOSE



Sponsored by



Brought to you by



SmartProcurementWorld



Clinic with Purpose  
Putting you in control of your development



**SMME CLINIC**  
Practical Business Remedies

# BUSINESS VALUATION

## CONTENT

1. MOTIVES
2. BUSINESS FINANCE
3. NET ASSET VALUE (Equity & Reserves)
4. EARNINGS (EBITDA & Multiples)
5. CASH FLOW (DCF)
6. ASSETS & OTHER VALUE DIMENSIONS
7. GOODWILL
8. STRATEGIC VALUE ALTERNATIVES
9. EARN-OUT TERMS
10. DUE DILIGENCE DILUTION



Sponsored by



Brought to you by



SmartProcurementWorld



Clinic with Purpose

Putting you in control of your development



**SMME CLINIC**  
Practical Business Remedies

# BUSINESS VALUATION

## MOTIVE – WHY?

### REASON

1. OWNER FINANCIAL PLANNING
2. BUSINESS SALE
3. ACQUISITION / MERGER
4. RAISING CAPITAL
5. EMPLOYEE EQUITY SCHEMES

### METHOD

1. EBITDA / NAV
2. EBITDA x ? / NAV / GOODWILL
3. DCF / STRATEGY
4. EBITDA & DCF
5. EBITDA

**THE**  
**REASONS**  
**WHY**  
*in the end*

=



=



Sponsored by



Brought to you by



SmartProcurementWorld



Clinic with Purpose  
Putting you in control of your development



**SMME CLINIC**  
*Practical Business Remedies*

## BUSINESS FINANCE

# BUSINESS PURPOSE WHY?

Sustainability  
& Profit

To Create &  
Distribute Wealth

## HOW?

MONEY  
THAT  
STAYS IN  
THE  
BUSINESS

INVEST

TRADE

RETURN ON  
INVESTMENT

### SALES

- COST of SALES

GROSS PROFIT

- EXPENSES

OPERATING PROFIT

- TAX

NET PROFIT

- DIVIDENDS

RETAINED PROFIT

MONEY  
THAT  
LEAVES  
THE  
BUSINESS

Sponsored by



Brought to you by



SmartProcurementWorld



Clinic with Purpose  
Putting you in control of your development



SMME CLINIC  
Practical Business Remedies

## BUSINESS FINANCE

# RETURN ON INVESTMENT

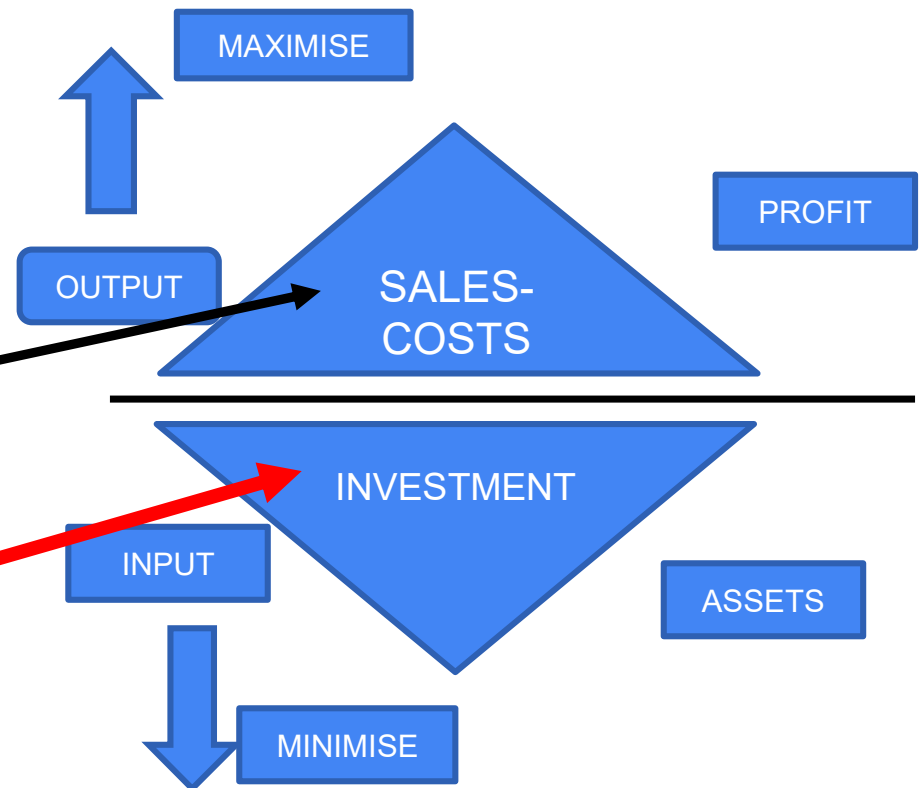
## FINANCIAL PRODUCTIVITY

PRODUCTIVITY = OUTPUT/INPUT

$$\text{ROI} = \frac{\text{PROFIT}}{\text{INVESTMENT (ASSETS)}}$$

TRADING STATEMENT  
OR PROFIT & LOSS  
ACCOUNT

BALANCE SHEET



Sponsored by



Brought to you by



SmartProcurementWorld



Clinic with Purpose  
Putting you in control of your development



**SMME CLINIC**  
Practical Business Remedies



## BUSINESS FINANCE

### BALANCE SHEET

THE MONEY THAT'S INVESTED INSIDE THE BUSINESS

**NET  
ASSET  
VALUE  
(NAV)**

**OWE**

**FROM**

**SHAREHOLDER CAPITAL  
RESERVES / RETAINED PROFIT**

**LONG TERM LOANS**

**SHORT TERM LOANS**

**CREDITORS**

**TAX & OTHER S-TLIABILITIES**

**OWN**

**TO**

**FIXED ASSETS**

**INVESTMENTS**

**STOCK**

**DEBTORS**

**CASH**

**TRADING  
PROFIT**

**OWNERS EQUITY + LIABILITIES = TOTAL ASSETS or INVESTMENTS**

Sponsored by



Brought to you by



SmartProcurementWorld



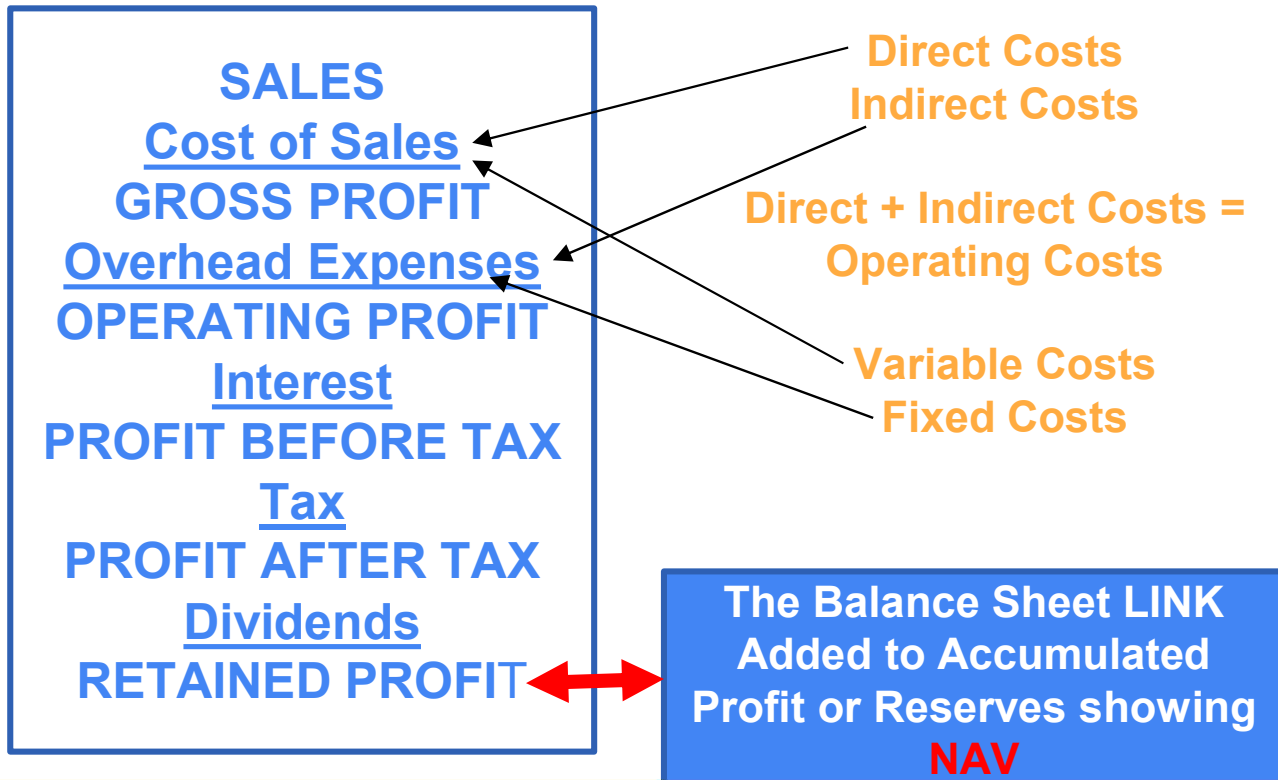
Clinic with Purpose  
Putting you in control of your development



**SMME CLINIC**  
Practical Business Remedies

# The PROFIT & LOSS Statement also known as: INCOME STATEMENT

## BUSINESS FINANCE



**GROSS MARGIN**  
 $\text{Gross Profit/Sales} \times 100\%$

**MARKUP**  
 $\text{Gross Profit/Cost of Sales} \times 100\%$

**DISCOUNT**  
 $\text{Sales less \% discount} =$   
 $\text{Gross Profit less actual discount}$   
i.e. 10% discount yields > reduction in GP

Sponsored by



Brought to you by



SmartProcurementWorld



Clinic with Purpose  
Putting you in control of your development

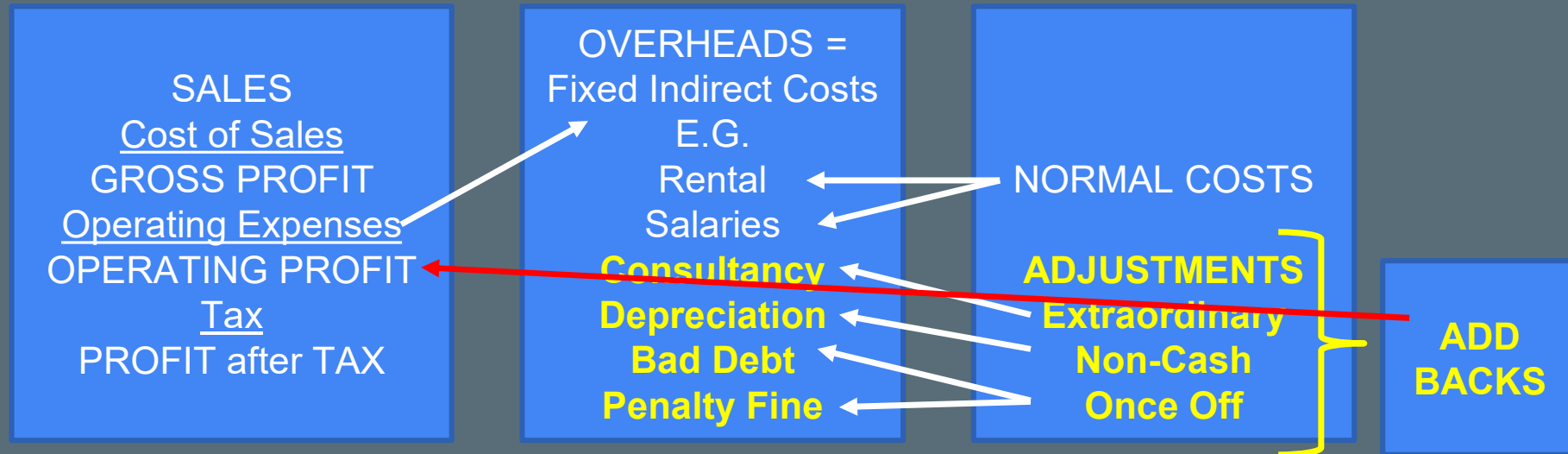


**SMME CLINIC**  
Practical Business Remedies



# EBITDA

Earnings Before Interest Depreciation and Amortisation



**EBITDA = NORMALISED CASH FLOW EARNINGS**

Sponsored by



Brought to you by



SmartProcurementWorld



Clinic with Purpose  
Putting you in control of your development



**SMME CLINIC**  
Practical Business Remedies

## THE MULTIPLE

AVERAGE  
EBITDA  
3YRS+

X

The Period in Years estimated for  
sustainable EBITDA achievement

### CURRENT TRENDS 2022

Retailing x 1 - 2

Services x 2 – 2,5

Manufacturing x 2,5 – 3

Strategic x 4+

**THE MULTIPLE DEPENDS ON THE PERIOD REQUIRED FOR RECOVERING THE INITIAL  
INVESTMENT THROUGH AVE EBITDA + GROWTH**

Sponsored by



Brought to you by



SmartProcurementWorld



Clinic with Purpose  
Putting you in control of your development



**SMME CLINIC**  
*Practical Business Remedies*

## DETERMINING THE MULTIPLE

### THE ASKING PRICE

EBITDA = R4M

X 3.5 = **R14M**

PAYBACK @ R4M + 25% pa  
= **R18.2M** over 3 YEARS

V

### COMPARATIVE VALUE

LONG TERM LOW RISK EQUITIES  
INVESTMENT (BALANCED FUNDS)

R14M @7% x 3yrs  
= **R17.3M**

FACTOR THE RISKS, THE RETURNS  
& THE STRATEGIC VALUE

Sponsored by



Brought to you by



SmartProcurementWorld



Clinic with Purpose  
Putting you in control of your development



**SMME CLINIC**  
*Practical Business Remedies*

## DCF - DISCOUNTED CASH FLOW

The **future free cash flow** streams discounted back to today using the appropriate **Discount Rate**

**Future Free Cash Flow** = the cash a company generates after taking into consideration cash outflows that support its operations and maintain its capital assets

### **The Discount Rate**

The average market related (Bond) rate for discounting external & internal risks

### **The Calculation (SIMPLIFIED)**

**EBITDA – Tax + Growth x Multiple +/- Equity Adjustments x Systematic (External) & Non-Systematic (Internal) Discount Rates adjusted for Risk**

**USE THE APPROPRIATE METHOD FOR THE INDUSTRY AS PROVIDED BY QUALIFIED ASSESSORS (i.e. Consult the Specialists to calculate DCF valuations)**

Sponsored by



Brought to you by



SmartProcurementWorld



Clinic with Purpose  
Putting you in control of your development



# ASSETS & OTHER DIMENSIONS WITH VALUE

WHAT ABOUT MY EXPENSIVE EQUIPMENT or PROPERTY INVESTMENTS?

WHAT ABOUT MONEY TIED UP IN MY STOCK INVESTMENTS?

WHAT IS THE VALUE OF MY CUSTOMER BASE & FORWARD CONTRACTS?

HOW IS MY INTELLECTUAL PROPERTY VALUED?

HOW IS THE FUTURE POTENTIAL OF MY BUSINESS VALUED?



AGED or REDUNDANT ASSETS WILL BE DEDUCTED FROM **NAV** VALUE

**GOODWILL**

FACTORED INTO PRICE AS ASSETS USED IN GENERATING SALES & PROFIT

Sponsored by



Brought to you by



SmartProcurementWorld



Clinic with Purpose  
Putting you in control of your development

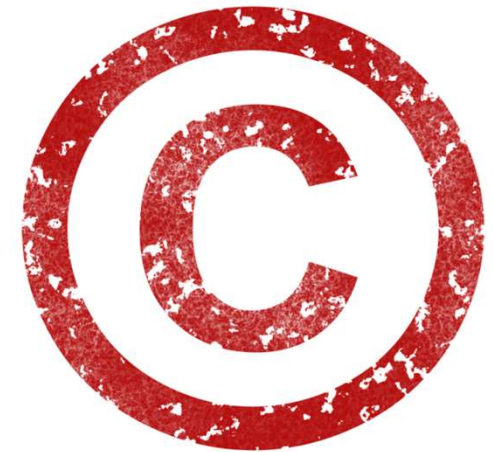


**SMME CLINIC**  
Practical Business Remedies

# GOODWILL

The value of the business that exceeds its assets minus liabilities. It represents the intangible or non-physical assets, such as the value created by a **solid customer base, brand recognition or excellence of management.**

**GOODWILL** is normally taken into account when the value of the business at the Multiple or DCF calculation does **not** provide a realistic true value .  
It requires a **FORMULA** & the subject of a negotiation



Sponsored by



Brought to you by



SmartProcurementWorld



Clinic with Purpose  
Putting you in control of your development



# STRATEGIC VALUE

The value an Investor is willing to pay for a business, over and above what an impartial business valuator might determine as 'fair market value'

Overall rating



Sponsored by



Brought to you by



SmartProcurementWorld



Clinic with Purpose

Putting you in control of your development



**SMME CLINIC**  
*Practical Business Remedies*



# The UNCONVENTIONAL

START-UPS  
VOLUME DRIVEN ENTERPRISES  
LOSS LEADERS  
FIRE SALE



Sponsored by



Brought to you by



SmartProcurementWorld



Clinic with Purpose  
Putting you in control of your development



# EARN-OUT

A contingent payment that the seller only receives from the buyer when specific performance targets are met

An Earn Out is a business purchase arrangement in which the seller finances the business sale and the seller's payment is based on the earnings of the business over a period of years.

Earn Out can work 2-ways:

(i) If targets exceeded the Seller benefits with higher value.

Or (ii) If targets missed the Seller may receive a diminished settlement.

***2022 Trend: 90% of acquisition deals involve earn-out contracts***

The effect of an Earn Out is the requirement for a Seller to **Warrant** a projected performance (share the risk) and to retain their active presence in the business for a period of time

Sponsored by



Brought to you by



SmartProcurementWorld



Clinic with Purpose  
Putting you in control of your development



# DUE DILIGENCE

A comprehensive appraisal of a business undertaken by a prospective buyer to establish a true fair-value of its assets and liabilities and to evaluate its commercial potential in accordance with a seller's claims

**HoA [Heads of Agreement] = INTENT**

Due Diligence helps investors understand the nature of a deal, the risks involved, and whether the deal fits with their portfolio.



Sponsored by



Brought to you by



SmartProcurementWorld



Clinic with Purpose

Putting you in control of your development



**SMME CLINIC**  
*Practical Business Remedies*

# 10TAKE OUTS

1. **REASONS** = MOTIVES = METHODS
2. **NAV** = RESERVES + EQUITY
3. **EBITDA** = NORMALISED CASH EARNINGS
4. **FAIR VALUE** = EBITDA – TAX x MULTIPLE
5. **DCF** = DISCOUNTED FUTURE FREE CASH FLOWS
6. **ADJUST EQUITY** : FOR AGED, DISCOUNTED, REDUNDANT ASSETS
7. **GOODWILL** = INTANGIBLE LOCKED-IN VALUE BY FORMULA
8. **STRATEGIC VALUE** = BUYER VALUE / UNCONVENTIONAL MODELS
9. **EARN OUT** = CONTINGENT VALUE + WARRANTY PERIOD
10. **DUE DILIGENCE** = BUYER SCRUTINY SUBJECT TO HoA



Sponsored by



Brought to you by



SmartProcurementWorld



Clinic with Purpose  
Putting you in control of your development





# Thank You



Sponsored by



Brought to you by



SmartProcurementWorld



Clinic with Purpose

Putting you in control of your development

