

Value Drivers

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Value Drivers

This is a thinking class...

Nothing in this class should be new
or a surprise.

---HOWEVER---

Value Drivers

The biggest flaw I typically see in
valuation reports is the ability to
identify the real value in the
company.

Value Drivers

Business value is directly dependent
on cash flow or the expectation of
cash flow

Cash flow is dependent on profit

Value Drivers

If value comes from profit, and profit
comes performance, what drives
the performance?

Connecting the Dots

Things that we do and do well...

- Financial Statements
- Common Size Financial Statements
- Prepare Ratio Analysis
- Trend Analysis
- Industry Comparisons

Financial Ratios

- Liquidity Ratios
 - Activity Ratios
 - Leverage Ratios
 - Coverage Ratios
 - Profitability and ROI
 - Growth Ratios
- These items are routinely compared to industry medians

Connecting the Dots...

- Is it enough to stop there?
- What do the comparisons tell us?

WHAT MAKES THE COMPANY VALUABLE?

WHY WOULD ANYONE BUY THIS COMPANY?

Take a Step Back...

- What type of company is this?
- What do they sell?
- What markets do they serve?
- How well do they compete in their market?
- How is this company perceived by others in the industry?

Sales Revenue

- How are products priced?
- What are the products?
- What are the related services?
- How does pricing compare to competitors?
- What is unique about sales?
- What is the sales trend?
- What is the industry trend?

Sales Revenue

- What is the total sales capacity?
 - Are there limits?
 - Is there excess capacity?
- Are there sales programs unique to the company or industry?
 - DRP programs for auto body shops
- How does the economy effect sales?

Sales Revenue

- Is there any dependence on ...
 - ◆ Other companies?
 - ◆ Other industries?
 - ◆ Weather or climate?
- What about *indirect* dependence?
 - Weather to ice cream sales to package manufacturing company

Cost of Sales

- Unique products or supplies?
- Commodity?
- Make or buy?
- Assembly?
- What are the sources for raw materials?

Cost of Sales

- Dependence for raw materials?
- What about indirect dependence?

Debt

- Amount of debt
- What is the ability to continue to borrow?
- What is the ability to borrow more?
- What are the limitations?
- Why are there limitations?
- Ability to expand?
- Other sources of capital?

Labor

- What are the labor rates?
- How much experience do employees have?
- What is the age of the labor force?
- What is the skill level of management?
 - What skill level is necessary?
- What is the ability to train?

Labor

- What is the company's ability to retain employees?
- What are the benefit costs?
- What employee skills are required?
- What are the key employee positions?
 - What is the labor force availability for these positions?
- What is the cost to replace?
 - How much business will be lost?
 - Lost customers
 - Lost capacity

Labor

- How strong are the salespersons relationships to the customers?
 - Will you lose the customer if the salesperson leaves?
 - Are there non-compete agreements?
 - Are they valid?
- Ability for employees to relocate?

Location

- Does location affect revenue?
- Ability to expand?
- Ability to contract?
- Is the business portable?
- Are the facilities unique?
- What are the key elements of the facility?
 - Docks?
 - Ceilings?
 - Power?
 - Drive in doors?

Location

- Is signage required?
 - ◆ Are there restrictions?
 - ◆ Variances available?
- What is the cost to relocate?
- What is the length of the lease?
- Is the lease favorable or unfavorable?
- Are there escalation clauses in the lease?
- Are there renewal options?
- What about option to buy?

Intangible Assets

- Recipes
- Formulas
- Processes
- Patents, trademarks and copyrights...
 - ◆ How long?
 - ◆ How strong?
 - ◆ What about overseas competition?

Equipment

- Cost to replace
- Condition of equipment
- What are the market conditions for...
 - New equipment
 - Used equipment
 - Leases
- Does the company require special equipment?

Equipment

- Are there special requirements for
 - ◆ Space?
 - ◆ Power?
 - ◆ Service?
 - ◆ Foundation?
- What is the current utilization of equipment?
- Property tax abatements?

Operations

- Are there unique processes...
 - For manufacturing?
 - Order taking?
 - Sales?
 - Purchasing?
 - Accounting?
 - Scheduling?
- Are there logistic issues?

Technology

- Unique computer applications?
- Database management?
- Database integration?
- Inventory control?
- Are sales statistics available?
- Are the systems user friendly?

Ownership

- Are the owners smart?
- Are the owners friendly?
- How old are they?
- Are they overly aggressive?
- Are they too conservative?
- Are they honest?

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Thank You for Attending...

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