CFT CONSULTING

Grow and Sell
My Business

Grow and Sell My Business

Introduction

This document is designed for owners of small to medium sized businesses focused on providing professional, consulting, technical or other interpersonal services to other businesses or consumers.

Most businesses in this sector are concerned with selling skills, expertise, and capabilities. Nevertheless, *time* is usually a key driver of how services revenue is earned, and profitable growth achieved.

Many Service Business owners believe that their business is all about Fee Income and there is no or little equity value in a people business. In this world you are dependent on annual fee income and need to until a late retirement.

However, businesses with strong cashflow and profitably sustained growth over time grow a valuable asset. This asset can be sold by owners to build substantial personal wealth. Owners can realise personal dreams for themselves and their loved ones. This can also open life options, from providing transition pathways to earlier and more satisfying retirement to providing space for new and perhaps more personally rewarding endeavours.

In this compendium we will show you how to maximise the value of your firm and make it attractive to investors.

So read on if you would like to earn a great salary, enjoy cash flow growth, AND capitalise on the equity value of your firm someday.

What is My Business Worth?

The Value of your firm will vary substantially depending on how potential buyers evaluate your *Financial Performance* AND your key *Value Drivers*.

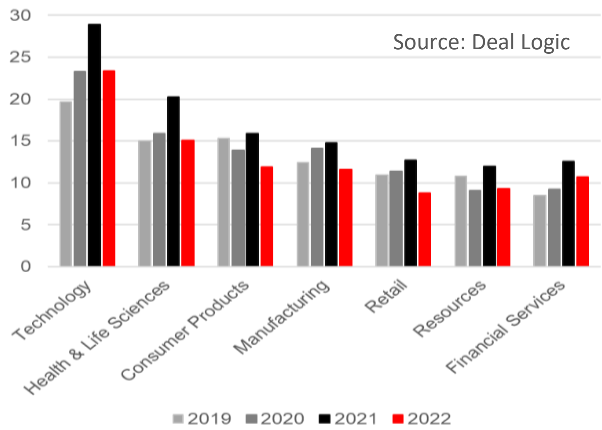
Valuers may use different formulae for calculating a Valuation. These may range from simple to complex but are often mostly a function of profitability or revenue.

Actual valuations may use Profit, averaged over the last 2-3 years, adjust for various factors such as inventory or Work in Progress, or maybe even uses both multiples on some weighted basis.

However, in simple terms, it is common practice to value a firm based on the last twelve months profit or revenue using a *multiple*.

That multiple might be, say, 4 x Profit or 0.5 x Revenue. So, for example, if your firm generates a $500,000 profit on $5m revenue, your firm could be valued at $2m - $2.5m.

In practice, the actual multiple(s) used could vary from 2-30 and average 10. They differ significantly depending on Size, Industry, various Value Drivers, and most of all, Competitive Pressure.



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Multiples also vary over time, and generally have fallen about 25% since the highs of 2021 which saw Service Sector multiples ranging generally from 3.5 to 13 in Australia.

Some typical current Multiples based on EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) are as follows:

Industry	EBITDA Multiple		
	Low	Med	High
Accounting	3.5	6.0	9
Architecture	3.5	6.0	9
Engineering	4	6.5	9
Education	5	7.5	11
Financial Services	4	7.5	11
Healthcare	6	8.0	12
Insurance Brokers	4.5	7.0	10
Legal	4	6.0	9
Logistics	5	7.0	9
Management Consulting	5	7.0	11
Technology	5	7.0	12

Lower multiples apply for companies with lower growth prospects, weaker financial performance, smaller market shares, higher staff turnover and other factors. Higher range multiples apply for companies with strong market positions, high growth potential, or unique value propositions.

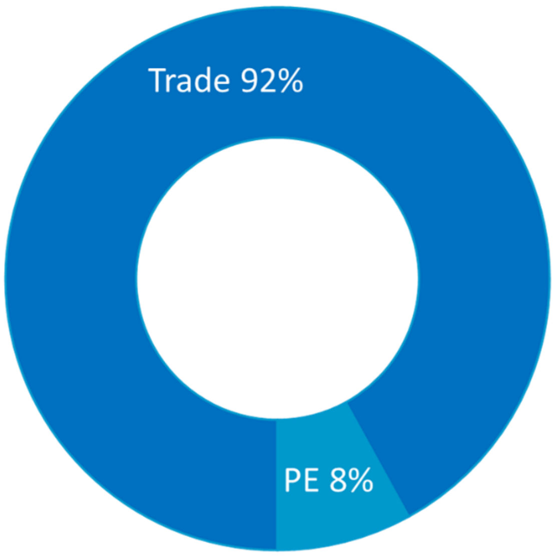
Having a good understanding of the Multiple(s) that best fits your business is paramount to you maximising the sale value of your business, especially once you have more than one prospective buyer competing for you.

There are many sources for Deal Value Multiple data, and these include Financial Databases like Bloomberg, Thomson Reuters, Dealogic, and MergerMarket which track M&A transactions plus large and specialist consulting firms, marketplaces and advisors.

1. At CFT, we focus on ensuring you have access to current and relevant industry valuation practices and Australian and offshore multiples, so you can *optimise your business sale price.*
2. We focus on driving a *competitive buying process* so that you can validate your appreciation of current market valuation with *motivated buyer offers*.
3. We help you *get your business ready for sale* with guidance on the *Value Drivers* you can leverage to ensure you get the highest return for all the effort you have invested over the years.

Buyers

In Australia, there are around 2,000 M&A Transactions per year and two main types of investors that could be interested in buying your firm.



Trade or Corporate Buyers are generally similar Service Firms looking to accelerate their growth through a strategic acquisition that broadens or deepens their market positioning. Private Equity buyers are simply interested from a financial perspective.

A Trade or Corporate Buyer could be interested in you for several reasons. These include that you:

- Have industry, product, or service expertise they don't.
- Have attractive clients they can leverage.
- Bring geographic coverage.
- Occupy adjacent business and can enhance the value of their services.
- Are a competitor who can bring scale.

Private Equity Firms are always looking for a better return on their capital. They are generally interested in mid-market or larger firms which they target for their high profits and cash-flows.

Since Service businesses don't have high working capital demands, there is often excess cash flow which enables them to leverage debt as part of the purchase structure. Leveraged buyouts can provide greater returns to their fund providers.

Examples of PE companies that may be interested in Business Services Firms in Australia include Pacific Equity Partners, CHAMP, the Carlyle Group, Quadrant, Archer Capital and Ironbridge Capital.

In any case, the key take away is that the M&A market is very active with more than a third of Australian deals, or over 650 in a typical year, selling Small to Medium Enterprises, where quality firms sell for good prices.

That means there are likely hungry buyers looking for a business just like yours right now, and you could sell your business within the next 12 months…. The key question is "Am I Investment Ready?"

This means asking yourself how to build equity value in your firm and maximise your multiple.

Getting Ready for Sale

Generally, owner value is backed by the Net Assets in a company's Balance Sheet. Cash, Receivables, Inventory, and Fixed Assets less Payables and other Liabilities equals Net Assets which equals Equity. However, the real value of Equity in a Services Firm is very different.

Many Service Firm owners think that a "People Business" doesn't have much Equity if doesn't have Net Assets. Instead, they often think that all the value resides in the people and the low value laptops they carry around. Whilst people do drive and represent enormous value in a People Business, the reality is that Equity in Service Firms are generally backed by many Intangible Assets or Goodwill which the owner(s) have grown overtime through years of hard work.

As we explain further below, the real value of your firm is in your ability to grow, and to reliably predict profits into the future.

In simple terms your firm is worth a multiple of the last twelve months profits and if you can convince an investor that those profits will continue, and in fact grow over time, then you have equity value in your firm. If you can't, then the value may indeed be low.

So the key to equity value and the multiple applied to your firm is in your ability to predict your future sales and profits reliably, AND show that the risk of you failing to achieve them is low.

Therefore the most important equity Value Driver are your business development processes that deliver a healthy pipeline that de-risks the traditional feast and famine issues often faced in service firms. However, reliably delivering Sales & Profitability is a function of more than just process. It is also a function of eight Value Drivers, which we explore below.

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Value Drivers

Our Value Driver Framework comprises eight Value Drivers you can leverage to de-risk your business and accelerate reliable profitable growth. Below is a summary introduction to each these interconnected Value Drivers.

1. **Sales & Profitability**
   Can you show reliable revenue and profit growth?

   Consistent sales growth and profitability is the most fundamental driver of value. Higher sales and strong profit margins indicate a healthy and sustainable business, making the company more attractive to investors and stakeholders.

   Firms with erratic revenues and profits send concerning messages to buyers and investors, so if you can show sustained revenue and profit growth, you have an attractive proposition.

   Before you take you firm to market, you want to be able to present consistent growth over the *last three years*.

   Sales and profit growth is an outcome of your performance in connection with the other seven Value Drivers.

   For example, Sales performance is driven by Business Development Process Capability, which builds Market Position, Client Relationships, and are reflections on how your People perform and are Managed.

2. **Market Position**
   Can you demonstrate a market leading position?

   Holding a strong market position as a market leader or having a *unique competitive advantage*, can significantly drive value. It often leads to increased market share, pricing power, and the ability to generate higher revenue and profits.

   Firms with a solid Unique Value Proposition tend to have robust processes for things like market research, competitor analysis and win/loss reviews.

   A clear value proposition helps you stand out from the crowd. The more unique, compelling, and targeted your value proposition, the better you can show that your firm commands market attention with greater ease than competitors, whilst you earn premium fees and margins.

   Market Positioning might see you dominate through size, commanding a market niche, a geography, exclusive product or service offerings, ownership of key clients or IP.

3. **Revenue Quality**
   Can you show predictably reliable revenue income?

   Revenue quality refers to the stability and predictability of a company's revenue streams. Reliable and recurring revenue from long-term contracts or subscription models is often much more valuable than sporadic or one-time sales.

Expanding services to meet changing market needs can enhance a company's competitiveness and overall value. Diverse and innovative service offerings can broaden your customer base and grow new revenue streams.

Investors like to see a diverse client portfolio with fee income growth balanced across existing clients and new business, and “not too many eggs in one basket”.

Coupled with robust processes for billing and debt collection, resulting in zero bad debt and low working capital requirements, places you in a strong position with investors.

Diverse and reliably predictable revenue reduces risk and boosts valuation.

4. **Client Relationships**
   Do you have great client relationships?

   Companies with trusted client relationships are perceived as more stable and valuable, leveraging strong, enduring client relationships to drive value in various ways.

   Solid client relationship management processes extend from account planning to the way you nurture and serve influencers, decision makers, dormant clients, and old contacts.

   Good firms employ methodologies to grow and protect key accounts. Approaches could include Strategic Account Management, Segmentation, Voice of the Customer, Client Journey Mapping, Client Scorecards, as well as Cross-Selling and Up-Selling. Clients consuming more than one service type can build client loyalty. Repeat business, referrals, and a loyal customer base can boost revenue and profitability. A CRM can sustain quality processes to acquire, retain and build your client base, increase the revenue per client and improve the quality of your fee income.

5. **Intellectual Property (IP)**
   Is your IP demonstrable or locked in your people’s heads and laptops?

   Intellectual property assets can add substantial value to a company and create barriers to entry, enhancing competitive advantage, and business value.

   A weakness for many services firms is IP locked in the minds of staff and buried in their laptops.

   Investment in systemic approaches to innovation, knowledge management and IP building will make your firm more valuable because it de-risks value loss through staff attrition.

   Service firms develop IP in various ways. These can include various collateral that clarify your unique approaches to winning and delivering client advantage such as:

   - Service Methodologies
   - Case Studies
   - Brochures
   - Portfolios
   - Presentations

   Effective IP development and management improves your market position by raising the bar for competitors and making your business more scalable.

6. **Process Capability**
   Can you rely on your business processes?

   Effective and efficient business processes lower operational costs, improve productivity, and increase profitability. Firms with strong process capabilities are more attractive to investors due to their potential for scalability and cost control.

   Core processes that underpin the success of Service Firms are:

   - New Business Development

     Identification, marketing, and acquisition of new clients. It includes market research, lead generation, marketing campaigns, sales prospecting, and client onboarding.

   - Client Relationship Management

     Building business with existing clients. It Includes communication, account management, feedback, and ensuring client satisfaction.

   - Service Delivery

     Planning, design, implementation, project management, quality assurance, and meeting on-time to plan and/or service-level agreements (SLAs).

   Strong core business processes assure you can reliably grow and forecast your sales and profits.

   If your sales and marketing activity is driven by a small number of rainmakers, or large sales opportunities, then you are hostage to a group of very mobile assets and your sales pipeline will be vulnerable & unpredictable.

   Investors want lead generation to be independent of any individual, with automation embedded into the sales and marketing processes. A marketing-led firm, where prospects are attracted through a balance of new business development and client relationship management can build a robust sales pipeline.

   Overall they want a culture where sales and marketing effort is seen as an investment.

   Support processes that may also be important during due diligence include Management of Resource Allocation, Utilisation, Projects, Financials, HR, IT, Suppliers, Knowledge, Quality Assurance, IT Management, Supplier Management, Analytics and Reporting, Compliance, Incident Response, and Environmental Initiatives.

7. **Human Capital**
   How do you keep your equity from walking out the door?

   A skilled and motivated workforce can be a significant driver of value, even more so when we are looking at the talent of a Service Firm.

   Talented employees can innovate, drive growth, and adapt to changing market and client needs. High employee morale and low turnover contribute to long-term value creation and are pivotal in winning and serving key client personnel.

   How you attract, retain, recognise, reward, and develop your key staff and high performers, and how you nurture a quality culture, all help build your human capital.

   If you create such an environment, you'll be more likely to hire the best people to keep your business growing and reduce their desire to take the next head-hunter call.

Moreover, if you've locked your key staff into the future of your firm through profit-sharing and share options, then you'll have a team focused like you on the equity growth of your firm and its future acquisition. This is probably one of the harder issues for an owner to grapple with…the thought of giving up equity in return for a bigger return at journey's end.

8. **Management Calibre**
   Do you have a solid leadership team and structure?

   Effective and capable leadership is critical for a company's success. Competent management teams can make strategic decisions, navigate challenges, and execute growth plans effectively. Investors assess the quality of a company's management when evaluating its value.

   Investors devalue firms that have key man risk. They want to see a balanced, experienced leadership team with a track record of delivering results, working in an environment where they spend more time working "on the business" rather than in it.

   Investor value firms more highly if they have good management structure and depth. This can be demonstrated by the quality and number of staff in key leadership positions as well as some focus on the next layer or two of evolving leaders and star performers.

   It is also demonstrated in the development and execution of quality business plans, budgets and forecasts, reports, and achievement of good KPIs and financial control, both at the entity and service delivery levels that assure on-time to plan performance, utilisation and margin management. Management reports and meetings should provide a good record of review and action, supported by well documented policies and procedures that identify and mitigate business risks.

   This can then be supported by key personnel when they are interviewed as part of buyer due diligence where your investor will want to see their management ownership and passion in working for your business.

Value Driver Summary

These Value Drivers are all interconnected and collectively contribute to a company's overall value. A well-rounded and strategically managed company will often excel in multiple areas, enhancing its attractiveness to investors, potential buyers, and stakeholders.

We can assist you in benchmarking your Firm's performance against our Value Driver Framework, so you have an action plan on how to drive a premium valuation for your business.

We have 80 tips underpinning our Value Driver Framework that will help you grow your equity that are spelled out in "Value Driver Framework - 80 Tips to Equity Growth for a Service Firm".

However, you may already be thinking about things you would like to prioritise for more immediate attention.

Your attention to addressing each Value Driver category will add more value and improve your multiple. So to get started, let's provide some guidance to help you focus your action plan.

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Achieving a Premium Valuation

There are six main factors a buyer will prioritise when appraising your business value:

1. **Sales and Profitability**: The buyer will closely examine your financial statements, including revenue, profit margins, cash flow, and historical financial performance. A strong track record of sustained, profitable growth will attract a Premium. These are some relevant KPIs:

Industry	Sales Growth	EBITDA
Accounting	10%	15%
Architecture	10%	15%
Engineering	10%	15%
Education	10-20%	20%
Financial Services	10-30%	20%
Healthcare	10%	15%
Insurance Brokers	15%	15%
Legal	10%	20%
Logistics	15%	10%
Consulting	15%	15%
Technology	20%	20%

Note: The higher sales growth rates for Education & FS are for Ed & Fin Tech companies

2. **Growth Potential**: Buyers favour firms with growth potential. They assess growth trajectory, market opportunities, and scalability. Factors such as a growing client base, expanding service offerings, or entering new markets can positively influence valuation. A clear growth strategy, a well-documented plan and realisable pipeline are crucial.

   A premium will be placed on a firm with 75% of its pipeline as business booked over the next 3 months and 50% booked over the next 6 months.

3. **Client Relationships**: Quality and diversity of the customer base are critical. A diverse, loyal client portfolio can reduce risk and increase the perceived value of the business. Long-term client relationships, high customer retention rates, and a history of satisfied clients are all factors that enhance valuation. Contracts or recurring revenue streams with clients can be particularly appealing.

   A professional services firm with 50% recurring revenue or repeat business would win a premium value. Financial Services, Brokers, Legal, and Contract Logistics need much higher levels, whilst A&E firms are much lower. A firm with a Pareto Client base (i.e. 80% of revenue from 20% of clients) will attract a discount.

4. **Intellectual Property and Competitive Advantage**: Intellectual property (IP), proprietary technology, unique processes and methodologies, or other competitive advantages can significantly impact valuation. Buyers are often willing to pay a premium for a service business that has a strong IP portfolio or a unique position in the market. The presence of barriers to entry for competitors is also a positive.

5. **Management Team and Talent**: The quality and experience of the management team and overall depth talent are vital considerations. Buyers want assurance that the business can continue to operate successfully after the sale. A competent and motivated team, including leadership, can enhance the perceived value of the business. Succession planning and talent development are important factors.

6. **Size**: The size (and location) of a business can have a very substantial impact on valuation multiples. For example, see:

Company Type	EBITDA Range & Multiples		
	$3m	$5m	$10M
Architecture	4.5	6.5	8.5
Accounting	4.0	5.3	7.0
Consulting	4.0	6.0	8.0
Engineering	3.0	4.5	5.5
Health	5.5	6.0	7.0
IT	6.5	8.0	10.0
Insurance	4.5	6.5	7.0
Financial Services	5.5	6.5	7.0

Note: Sourced from Pepperdine & First Page Sage

While these five factors may be prioritized, it's essential to remember that the valuation process is multifaceted, and each service business is unique. Buyers may weigh these factors differently based on their investment goals, industry dynamics, and risk tolerance.

It's also important to understand that valuation is not a science, and other factors such as synergy with the buyer have a major influence, so the figures above should be taken as guidelines. However, a firm's ability to demonstrate numerically the growth and repeatability of sales is always going to attract higher multiples.

How do I find out if my firm is attractive to buyers?
Talk to us. We have experience in mergers and acquisitions and have bought and sold service businesses. We know the market, and how to evaluate the attractiveness of a firm of your size, market and services.

Buyers will also be willing to pay a premium for firms with a high degree of synergy to themselves. If a buyer really wants what you are selling and you are the perfect strategic fit, then you can achieve an even higher price.

Remember to be calculated and cautious in the early stages, you can't take every positive conversation too seriously. You may hear a lot of flattery when you put your firm on the market but the most important thought to keep in mind is the golden rule of selling your firm - 'one buyer - no buyer!' and aim to achieve a bidding contest for your firm.

When is the best time to sell?

In an ideal world, the best time to sell is when the M&A Market, Your Sector and Your Profit are all growing or peaking.

If these things coincide and you go to market with a great sales and profit track record, and client loyalty, then you stand a very good chance of getting a premium value for your firm. If all three aren't in alignment, it may be better to do a deal now, rather than work hard for another 3 years. You may well be able to push up your valuation, but does that trade well against the uncertainty of what may happen, and would you be better off with cash in the bank now?

How do I prepare for a sale?
Preparation is key. If a buyer's due diligence uncovers nasty surprises, then the deal could be devalued or fail. It will normally take about 3-6 months to get your firm prepared for sale and it will be a big distraction to normal business. So it's a great opportunity to make use of Chairmen, CFOs, your accountant etc. Get them to go through things with a fine toothcomb *whilst the management team stays focused on growing the business.*

Scrutinize and clean up your business, implementing changes to reinforce future profits. This may include removing wayward shareholders or employees, dealing with project or legal challenges, streamlining teams, or ensuring that client, supplier, and employee contracts are sound and in place.

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How do we help?

Clearly this is also when you should be making use of Consulting M&A experts to maximize price and increase the chance of a successful outcome. We can help you:

1. **Assess Market Valuation**

   We scan the market and report on current valuation practices, and multiples from market sources and industry M&A data specialists. Our report will provide referenced guidance regarding what sort of valuation you should expect from potential buyers.

2. **Drive Value**

   We identify actions to improve and grow your equity using our Value Driver Framework. This includes the 8 Value Drivers introduced above and 80 specific underlying factors designed to help you grow sales, profitability, de-risk and improve and other key aspects of your business that are fundamental to how buyers use multiples and value your business. Valuations of 7 to 10 X EBIT is a realistic expectation for a well-prepared firm, matched with a motivated buyer.

3. **Find Buyers**

   We create a competitive business sale opportunity for you. We identify potential domestic and international buyers and specific business contacts. We develop and execute tailored introductions to those prospective buyers, capturing interest and building it with a Teaser, Information Memorandum, and opening dialogue. We facilitate your introduction to qualified players and support you through attracting offers, Term Sheets and Contract Negotiations.

CFT

CFT Consulting is focused on helping CEOs, Business Owners and Executives realise their goals. CFT is run by Greg Clarke.

CFT Principal Advisor

Greg is an experienced Chair, Director, CEO, Management Consultant & Chartered Accountant with over 30 years Professional Advisory service to both private and public sector clients.

He is the Founder and Chair of Decision Inc. Australia, an Information Management Consulting Firm focused on Digital Transformation, FP&A, Data Analytics, Process Automation, AI, Application Development and Systems Integration. As CEO he grew the business at 26% p.a. delivering 15% EBIT.

Greg is experienced in Strategy Development, Business Management, the facilitation of Acquisitions, Mergers & Divestments (M&A) and implementing Change Initiatives.

Greg provides M&A and growth advice to owners of SME sized businesses focused on providing professional, consulting, technical or other services to businesses or consumers. He helps SME owners to grow profits, equity value and successfully sell their firms. and investors find and acquire their ideal company. Greg can be contacted on 0418614620 or by email at greg@cft.ai