Mari Magno *Navigating Business Performance*

Mari Magno: delivering business performance, business valuations, new market development and business exit strategies, internationally and across all industries.

Valuing Your New Business to Attract Investment

For a free consultation regarding your business requirements, please contact Emma Heathcote

info@marimagno.co.uk * +44 77 390 72717 (UK) * www.marimagno.co.uk

Mari Magno *Navigating Business Performance*

Mari Magno: delivering business performance, business valuations, new market development and business exit strategies, internationally and across all industries.

Mari Magno is Latin for **Big Sea**. For many hundreds of years merchant mariners have sailed the globe, opening up new trade routes, supply chains and international markets: www.marimagno.co.uk

These merchant mariners were passionate about navigating new and exciting business environments.

They were strategic thinkers, with the diplomacy to develop strong business relationships, the skill and tenacity to drive their ships forward through challenging environments, the calculation and tactics to out-perform their competitors, and a commitment to exploration, innovation and watch-keeping, to identify and capitalise on new business opportunities.

Navigating Business Performance

Mari Magno is a business consultancy delivering business performance, business valuations, new market development and business exit strategies, internationally and across all industries

Mari Magno Business Valuations

Our business valuations are the ultimate performance metric for any business, large or small. They are based on strong business analytics and market research and are used by business owners to navigate their market and chart their business direction. Our unique valuation tools may be used year-on-year, enabling business owners to consider new market development , attracting investment or options for business exit.

For a free consultation regarding your business requirements, please contact Emma Heathcote

info@marimagno.co.uk * +44 77 390 72717 (UK) * www.marimagno.co.uk

Mari Magno Limited
Mari Magno Limited
Business Consultancy
Auburn * High Street * Borth *
Ceredigion * SY24 5JF * UK
www.marimagno.co.uk

Emma Heathcote
Director of Mari Magno Limited
Business Consultant
Tel: +44 77 390 72717
Email: info@marimagno.co.uk

Mari Magno Services

Our first port-of-call for your business is the development of a unique and comprehensive business valuation report. Working together with the business owners, we then use the results of the business valuation to deliver consultancy services, for business development , attracting investment or business exit:

Business Development:

- New and existing market development
- Brand development and management
- Business analytics, performance and KPIs
- Market research, competitor analysis and market positioning
- Attracting investment & funding
- Business acquisitions
- Franchising arrangements

Business Exit:

- Succession planning
- Business brokerage and sales
- Franchise sales

Your Business Valuation

Your business valuation is the ultimate performance metric for your business. It will be based on strong business analytics using either forecast or actual performance data, and solid market research. You will be able to use your business valuation to navigate your market, quantify your unique ‘value drivers’ and potentially, attract investment.

The development of your business valuation will require the development of valuation tools, unique to your business. You will be able to use these tools year-after-year, for easy financial modelling.

Your business valuation tools may be used with input of actual data to track your historic business performance. The tools may also be used for input of forecast data, to enable you to consider scenarios for your future business performance.

Both actual and forecast data input will enable you to develop insight for business planning and strategy, and navigate business performance. Your business valuation may be considered as the ultimate performance metric for your business.

Considerations for Your Business Valuation

A business valuation is far more than simply a consideration of your business financials, forecast or actual. A business valuation normally involves consideration of your tangible and intangible assets as well. Tangible assets are physical assets such as buildings, land, equipment and computers.

Intangible assets are sometimes referred to as ‘soft assets’ and might include product design IP, customer ‘good-will’, autonomous systems, operational model, location, supply chain and brand, all of which contribute significantly to the value of your business. These intangible assets may be considered as ‘value-drivers’ because they drive your financials and the value of your business. They are what makes your business unique and different from your competitors.

For a free consultation regarding your business requirements, please contact Emma Heathcote

info@marimagno.co.uk * +44 77 390 72717 (UK) * www.marimagno.co.uk

Mari Magno Limited

Mari Magno Limited
Business Consultancy
Auburn * High Street * Borth *
Ceredigion * SY24 5JF * UK
www.marimagno.co.uk

Emma Heathcote
Director of Mari Magno Limited
Business Consultant
Tel: +44 77 390 72717
Email: info@marimagno.co.uk

Developing a Business Valuation

Irrespective of whether you are using actual or forecast performance data to derive your business valuation, will need to include three important considerations when calculating the value of your business. These considerations include the value of your business earnings, the value of your tangible assets and the value of your intangible assets.

If you are using actual data from previous trade years, you may already have financial monitoring systems in place that may be developed to create a business valuation tool.

However, if you are a new business owner and your business has no trading history, your business valuation will be based on forecast data. It follows that in order to calculate a forecast valuation for your business, you will need to develop a range of forecast data, to input into your valuation calculation. This forecast data will include forecast business earnings and forecast financial values for both your tangible and intangible assets.

New Business Owners

As a new business owner, you are unlikely to have much actual data to track the historic performance of your business. It is therefore more likely that much of your consideration of value will be using forecast performance data. This is perfectly acceptable, providing that

you commit to the basic principles of market research, and that your forecast performance data is sensible and realistic, bearing in mind your proposed business model and market conditions.

You will be keen to present your business as unique, different from competitors, and ready to adopt a strong position in the market. Hence the importance of good market research, competitor analysis and the allocation of sensible and realistic values, when considering the value of your fledgling business.

Developing Forecast Performance Data

Tangible Assets

Your tangible assets refer to assets that are physical, such as machinery, equipment, buildings and land. They are physical assets that are owned by the business and have either been purchased by the business or transferred to the business, at a later date.

The value of your tangible assets is dependent on their market value, if your business was to sell them now. Normally, the value of your tangible assets will depreciate, year-on-year, and this depreciation of value will be reflected in business valuation tools.

If your tangible assets were recently purchased new, and potentially are still under warranty, then the valuation starting point for your tangible assets in year one, is the purchase price as new. In subsequent years, you will need to depreciate this value, to reflect their second-hand market value.

If your tangible assets are already more than a couple of years old and not under warranty, your valuation starting point in year one will be their current estimated second-hand value. This value will be informed by market research considering other similar-type tangible assets currently on the market. Again, once you have a starting point you will need to continue to depreciate their value, on an annual basis.

Liabilities

Liabilities are an important consideration in your business valuation, as you will need to calculate your net asset value which is essentially you assets minus your liabilities.

Assets – Liabilities = Net Asset Value

As a new business owner, it is possible that you already have business liabilities, such as a bank overdraft or a business loan. They might also include the value of any tangible assets that you have transferred from your personal ownership, into the ownership of your business, and any personal financial investment you have made in your business.

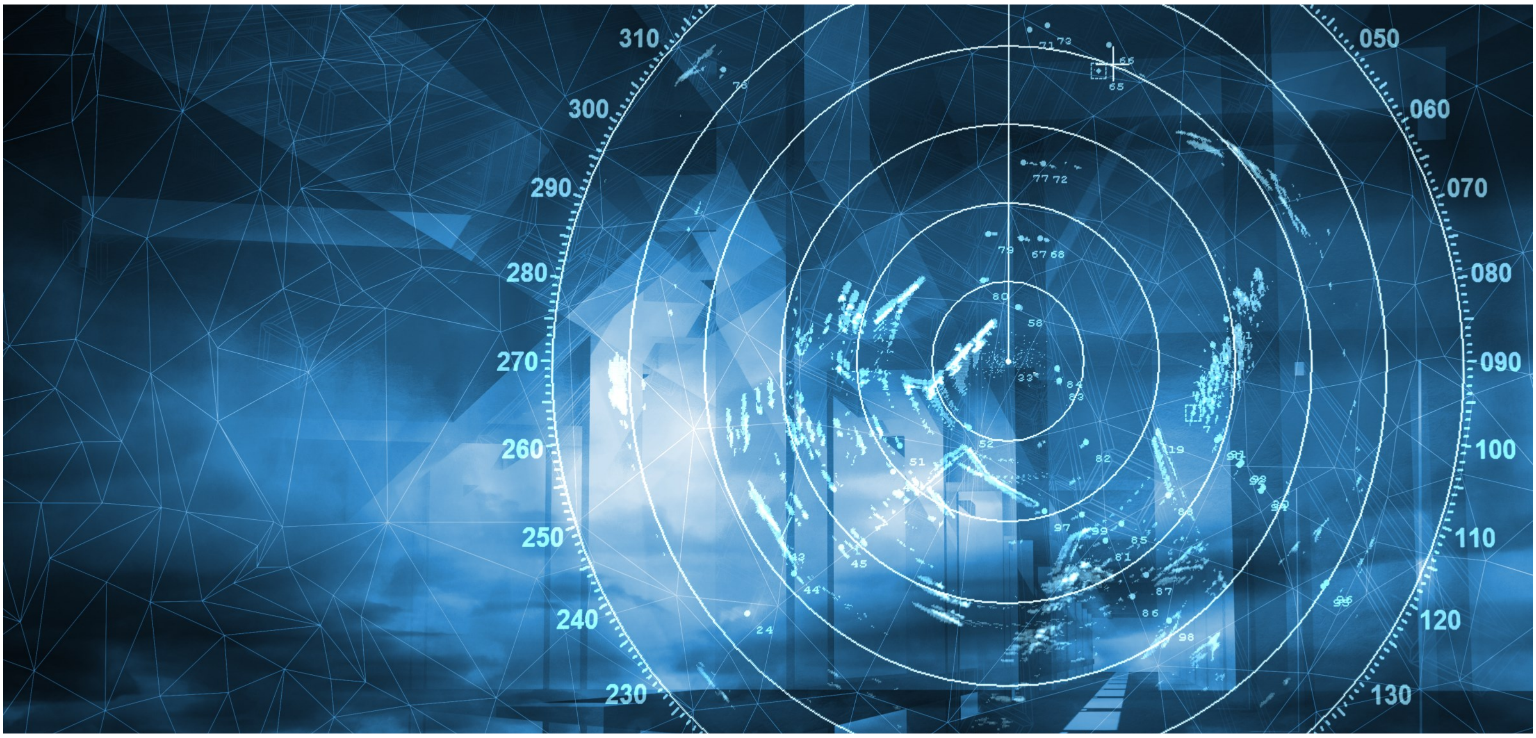
The inclusion of your own financial contribution or the transfer of personal assets to the business, effectively means that your business owes you money.

If you decide to include these as liabilities in your business, you ***may*** be able to withdraw their financial value back from the business, at a later date. However, if you do decide to include them as business liabilities, they will of course impact on your business valuation, and this may not present as such an attractive proposition to a potential investor.

Mari Magno Limited

Mari Magno Limited
Business Consultancy
Auburn * High Street * Borth *
Ceredigion * SY24 5JF * UK
www.marimagno.co.uk

Emma Heathcote
Director of Mari Magno Limited
Business Consultant
Tel: +44 77 390 72717
Email: info@marimagno.co.uk



Intangible Assets

In contrast to valuing tangible assets, deriving a sensible and reasonable value for your intangible assets, is slightly more tricky. Valuing intangible assets relies on excellent market knowledge and an understanding of the unique qualities of your business, as compared to market competitors. Intangible assets are important value-drivers for your business and will need to be considered in financial terms, in order to include them in your business valuation calculation.

A good way of allocating financial value to your intangible assets, is to use a system of ratios and weightings, to compare your business with other businesses offering similar products and services. Some competitor information may be difficult to obtain, such as the profit and loss account, but more obvious ratios might include product price, client feedback, Google rankings and possibly the balance sheet (available for all UK registered companies from Companies House).

When dealing with prospect investors, this is the most fragile aspect of your business valuation as it will always be subject to debate. Your defence and justification for the value of your intangible assets will rely on the quality of your market research, and the evidence that your comparative research has generated.

Business Earnings

As a new business owner, you are likely to be using forecast data to calculate your forecast business earnings. This forecast data will include forecast income data and forecast expenditure data.

Your forecast income will be generated from expected volume of sales and your proposed sale price per product or service. Your forecast expenditure will include your ‘cost of sales’ such as the purchase of stock and raw materials, and your operational costs such as staff salaries, rent, rates, internet, marketing, travel and owner benefits.

When applying forecast financial data, it is be reasonable to expect that your business earnings will increase, year-on-year, as your sales volume increases. However, it is also likely that some of your business costs will also increase annually, such as staff salaries, rent and utilities supplies. To your benefit, you may also consider that new operational efficiencies will develop within your business, creating operating efficiencies in both time and money.

Spreadsheets for Business Earnings

Developing Financial Spreadsheets

Whether you are using actual or forecast financial data, you will need to develop a set of spreadsheets that allow you to model your financial data.

Your spreadsheets should be unique to your business, and should use basic formulae throughout, to create automated calculations. This means that by changing one of the many variables on a spreadsheet, you will immediately see the financial impact of that change. For example, if you increase the price of your product but maintain the same sales volume and annual costs, you will immediately see your profit margin increase.

Spreadsheets requirement for calculating the value of **business earnings** would include:

Spreadsheet 1: Capital Costs & Start-Up Costs

These are essentially 'one-off' costs for setting up your business. You can include costs already incurred by you personally, if you wish these to become liabilities against the business. Start-up costs might include the development of a website, initial training or the purchase of computer equipment and software.

Spreadsheet 2: Annual Costs

Your forecast annual costs will include your 'cost of sales' and separately, your operating costs. You will also need to include evidence of the variables associated with calculating your costs. For example, if you plan to make and sell 100 products per year, and each product costs you £30 in raw materials, then your cost of raw materials for one year will be £3,000 p/a. It is important that your spreadsheet can automatically calculate this, as you may decide to change the input variables of raw materials and/or sales volume, at a later date.

If you are expecting costs to change dramatically year-on-year, then you may need to create an individual spreadsheet for each forecast year of trade. Alternatively, you can keep things simple and develop a single spreadsheet for your annual forecast costs. You can then add a small percent extra to your annual costs, to bolster any small cost increases, over the next few years.

Spreadsheets 3, 4 & 5: Cash Flow Year 1, 2 & 3

This will include the product or service sale price and anticipated volume and/or frequency of sales on a month-by-month basis. Your forecast data will need to reflect anticipated changes in your sales volume, according to seasonal fluctuations in your market. You will need one spreadsheet for each year of forecast trade.

Sheet 6: Profit and Loss for Year 1, 2 & 3

This spreadsheet will calculate your profit and loss, for each year of forecast trade. It will give you your annual business sales income (turnover), cost of sales, gross profit, operational costs and net profit or loss.

For some businesses, it is acceptable to break-even or even make a small net loss in year 1, provided that forecast cash-flow is reasonably consistent and that the business shows an increasing profit margin in subsequent years. It is really useful to see the forecast profit and loss result for each year of trade, displayed on the same spreadsheet, so that you can immediately compare the results.

Sheet 7: Financial Breakdown

This spreadsheet will give financial totals, percentages and a financial breakdown in relation to which costs you are hoping to attract business funding for. Often business funding is capped by percentages, or upper and lower financial limits, or defined by type of cost the funding may be used for.

Showing a financial breakdown of costs with percentages, enables a business investor to see immediately how much money being requested, how it will be spent, and how the investment is essential to your business.

Spreadsheets for Tangible and Intangible Assets

Spreadsheets requirement for calculating the value of **tangible and intangible assets** would include:

Sheet 8: Tangible Assets & Liabilities

This spreadsheet will list your individual tangible assets and your proposed asset valuations. You will need to show evidence of how you have estimated or calculated the value of these assets. For example, you may show annual depreciation on the original purchase price of some equipment, or the second-hand market value of a similar piece of equipment, as seen advertised.

For a start up business, your liabilities are listed and valued, at your discretion. Liabilities will decrease the value of your business, and may not be attractive to a potential investor. However, you may wish to show the value of your personal investment, with a view to potentially recovering some or all of your investment, at a later date.

Sheet 9: Intangible Assets

This spreadsheet will list all your unique business qualities as intangible assets, with your proposed valuation for each. It is essential that you provide full evidence showing how you calculated these values, including the ratios and weightings used to compare your intangibles assets with those of your competitors. This is not an exact science so please be prepared to evidence and justify your proposed valuation of your intangible assets.

Developing Your Forecast Business Valuation

Your Forecast Business Valuation

Your business valuation may be calculated using careful consideration of the value of your tangible assets, your intangible assets and your business earnings.

- By using actual data in your valuation calculations, you can develop your business valuation reporting on an annual basis, to track your historic business performance.
- By using forecast data in your valuation calculations, you can develop your forecast business valuation annually, to plan your future business performance.

Most importantly for you as a new business owner, your forecast business valuation may be used attract business investment. For this reason, it is vital that you understand the valuation process, and that you are able to justify your business valuation when subjected to the scrutiny of a potential investor.

Calculating the Value of Your Business

There are many different ways of valuing a business, and most have merit, depending on the type of business they are applied to. Knowing which method will work best for your business is important, as you will be keen to present your forecast business valuation as positive, credible and attractive to a potential investor.

Whichever business valuation method you use, it is always wise to sense-check your valuation by comparing it to similar-type businesses that are currently on the market.

The most important point to remember when using any valuation formula is to make sensible and reasonable decisions about your choice of data input. After all, if you cannot justify the valuation to yourself, then you cannot justify it to a potential investor, either.

Similarly, if you don't understand the process of developing a business valuation and the importance of using realistic market data, then you will not be able to defend your business valuation when it is exposed to the shewed scrutiny of a potential investor.

For a free consultation regarding your business requirements, please contact Emma Heathcote

info@marimagno.co.uk * +44 77 390 72717 (UK) * www.marimagno.co.uk

Mari Magno Limited

Mari Magno Limited
Business Consultancy
Auburn * High Street * Borth *
Ceredigion * SY24 5JF * UK
www.marimagno.co.uk

Emma Heathcote
Director of Mari Magno Limited
Business Consultant
Tel: +44 77 390 72717
Email: info@marimagno.co.uk

Developing Your Valuation Tool

Whether you are using actual performance data or forecast performance data, the process of calculating a valuation for your business is fairly simple, providing you already have all the data to hand.

As a new business owner, it is likely that you will be developing your business valuation for the first time, based entirely on forecast data. This being the case, you will need to establish forecast data spread-sheets, to derive data for forecasting business earnings and the value of both your tangible assets and intangible assets (please refer to spreadsheets 1 -9 above).

Once you have this data to hand, you will then be able to develop a business valuation tool which will automatically calculate the value of your business, using a variety of comparative valuation methods.

Creating an autonomous valuation tool, unique to your business, is a valuable investment of both time and money. You will be able to run fresh data through your valuation tool, year-on-year, using actual data for historic review, and forecast data for future planning and strategy.

Business Valuation as a Performance Metric

Future-Proofing Your Business

Understanding the changing value of your business and the different drivers that create value, will enable you to regularly use business valuation reporting as a single and comprehensive performance metric for your business. It will also enable you to identify and accelerate specific value drivers, which will impact on the financial performance of your business.

By calculating and tracking the value of your business on an annual basis, you will develop an understanding of how variations in the performance of your assets, impact on the value of your business. More importantly, you will be able to make informed decisions about how to increase the value of your business, by selective investment in your tangible assets, and ‘turning up the volume’ on your intangible assets.

This opens the opportunity of developing robust and comprehensive business planning and strategy to future -proof your business, and to protect and grow the value of your business.