Future Income Streams And Risk Factors In Business Valuation

TheExitStrategyGroup.com.au/Media

Kerry Bolton is Australia's most respected Exit Strategy Advisor and CEO of the Exit Strategy Group. Welcome to this week's segment.

KERRY BOULTON: Thirty percent being forced into using past profits to value a business or an industry, EBIT valuation model, and that's more guesswork than science, because a buyer doesn't invest in past income streams. They only invest in future ones. Your effort in preparing your business must concentrate on how you communicate your future income streams and risks to a prospective buyer.

So let's have a look at those risks and what they actually might be. If, in fact, the buyer is looking at you and sees that there's strong competition and that you rely on just a few large customers. You've got some old products which might become uncompetitive, you might even rely on one major product only. You could have outdated plant and equipment, or, you know, maybe you've got a poor management team.

Well, these are really serious factors that actually reflect higher risk that a buyer would really look at. What you would love to have in your business, and these are the factors that actually represent much lower risk to a future buyer, and they will result in a much higher price for you, for your business.

Things like strong brands, which still have further potential, a diversified product range and a large customer base, I mean, the more the merrier. If you've got a strong management team, not the owner. If you own the business that is the highest risk that anyone could have, that doesn't create value, you need to have a strong management team in place running the business.

If you've really got a dominant market position, of course, and there's limited competition, well, that is a that really lowers the risk to a future buyer. And if you have any unused capacity with plant and equipment as well, they're great things to make your business look attractive. So these are just, you know, some of the indicators that really could affect the price that you get for your business, if you're preparing it for sale.

It doesn't. They don't. They don't rule out, of course, cash flow or profits. Naturally, you have to have those and future cash flows. Not really something that anyone can put their finger on, but it's something that you need to be able to learn how to show a future buyer what that would be worth to them.

If you don't have a copy of Kerry's new book, ***The Uncensored Truth About Exit Strategy***, please visit https://freeexitstrategybook.com.au/