

# Maximising Business Value For A Successful Exit



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

**KERRY BOULTON:** This is the I part of our exit strategy, and I is for innovation, iteration and improvement in your business, and it's the third step in the four step exit process. So innovation, of course, means being able to renew and present your business in the greatest possible life for any potential buyer. Any innovations that you make, you'll want to iterate on and improve on as time goes on.

They're fantastically interesting words, and I hope that you can understand how you can apply them to the exit planning process. And it requires thinking along a different perspective. What I'm really talking about is, how do you make your business present in the best possible light to any potential buyer?

And I'm talking about thinking strategically who might buy your business, and what improvements could they possibly make to be able to extract the greatest value to them from the business, which requires you to put on a different hat. I'm talking about forgetting the multiples for financial multiples for valuation, but looking at the future value of the business and what the future income streams could be to a prospective buyer, and thinking really hard about how you can communicate those and of course, any of the risks that might be involved.

So creating buyer value and creating future value for your potential buyer. That's really, really important. When you think about it a little more, you can see when a business makes the effort to provide the buyer with a different and more positive and more profitable future for its acquisition, then the likelihood of getting higher price and simply a multiple of earnings is much, much greater, and there are lots and lots of possibilities.

You can think of a buyer who can get more from the existing business than you can, and perhaps a buyer who could utilize the assets and capabilities within a much larger business, and they have a way of being able to exploit the underlying assets and capabilities much more than you can as a seller. These are some of the areas we'd like to look at a little bit more closely.

Don't accept being forced into using past profits to value a business or an industry albeit 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 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 the value of your business is based on the stream of future profit, naturally, more is better, but many owners only think about increasing profits. When they finally decide to sell the business, what they do is rapidly cut back expenses in some discretionary areas. They reduce overheads where they hope they are not going to be noticed, and they'll cut back on advertising and R and D and trim their personal expenses.

But you know, what they don't appreciate is that the savvy buyer is expecting that that's going to happen, and they're looking for those sorts of changes, they're soon able to identify that that's just window dressing, and they'll know that they have to dig very, very deep to discover the real cost of the business.

There's nothing wrong with improving profitability of course. Many owners are, quite frankly, asleep at the wheel, and improvements in productivity and profitability are relatively easy to implement. A business that's actually been going for many years may well be somewhat lazy at watching expenses, driving sales productivity, or managing the right mix of debt and equity to generate better profits.

In fact, the owner may have been living a very comfortable and relatively stress free lifestyle because they weren't pushing the business. And those things are fine, and it does mean that there's scope for improving profits, but improving profitability is going to take some level of investigation to uncover, and that's why understanding the true value drivers in your business and how you currently shape up can significantly reduce the time it would take to make any desired improvements.

Resources and time will be needed. You need to put in place new systems and processes or other changes to make any desired improvements. Don't think your profit can be improved overnight. It can take months, if not years, to put in place, and that's one of the reasons why I've emphasized that the most important thing in creating an exit strategy is to give yourself enough time, time to be able to implement the changes that you need to make and to get your business truly ready for exit.

If growth makes a difference in the valuation, then significant growth would have a dramatic impact. However, few businesses can maintain high rates of growth over a long period of time, it just doesn't happen. And if you're projecting growth rates in excess of 10 to 15% over any extended period, you're going to require some very, very, very convincing support evidence.

Short term increases in growth and or step changes are certainly feasible, whether they're achieved through innovations in the business, through even a series of acquisitions that you might make yourself, or even the introduction of new lines of business, they're common and they're easy to demonstrate, and the effects of those sorts of changes can easily be validated if it's happened and the results are already contributing to profits.

But projected increases, they're often dismissed by buyers because there's no track record. So to show the growth that you can be can be achieved and sustained, requires a lot of work. Achieving anything like growth beyond the capabilities and resources of the current owner, you're going to have to put in some groundwork and in order to be able to demonstrate what you can achieve, that's what you need to do now.

There's nothing like watching the value of your business grow. It's that simple. One of the best things that I can recommend for you is that you have access to a tool that I'll give you the web address for as we get a little bit further here, but I'm talking about doing something like you might do an assessment before you go into a bank to get a bank loan, just to see where you stand.

What I have for you is access to a fantastic tool. It's called core value, actually, and it's really a body scan for your business. It's identifies the weaknesses and quantifies the value, and shoring up those weaknesses, and that can even

suggest specific tasks for you to work on, and will identify which tasks are going to give you the biggest bang for your buck.

This is an incredible tool that I really would love everybody to have access to, and it's based on years of academic and in market research. And not only will it give you a guide as to your value, the value of your business, but it's going to identify your potential value and the drivers that are actually holding you back. Because what we want to do here is increase your profitability and access absolutely every tool that you can get hold of to be able to do that.

You're going to need time, as I said, and you're going to need resources to be able to put in to driving your profitability and substantially improving it over time, to get the absolute best value that you possibly can for your business in the future. Achieving step change growth might be possible, and it might be beyond your capabilities and beyond your own resources as you are now.

What I'd love to do, though, is for you to access this tool, and as I said, it's a body scan for your business, get an idea of where you currently sit in terms of towing the water valuation before you do anything about going to market. Highly probable future profits based on only projects which the business undertakes before sale isn't going to create long term value for any future buyer.

So I'd highly recommend that you find out where you sit right now and understand where the gaps are and what you can do to improve your profitability in the shortest possible time frame. So all you need to do is go to [www.theexitstrategygroup.com.au/freereport](http://www.theexitstrategygroup.com.au/freereport). I think you'll be really pleased when you get the information that that report is going to give you, and you'll be able to see the areas that you need to work on in terms of building your growth potential for the future.

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