

# ValuCompass

## Discover Assessment



**Prepared By**  
ValuCompass

**Discover**  
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# DISCOVER

## Assessment Innovation

Discover is a potent business innovation. Its design allows for a swift yet comprehensive evaluation of businesses across 18 Value Drivers in just 15-20 minutes, with the flexibility to delve deeper when needed. It's the first of ValuCompass's three primary tools that enable an Advisor to quickly and easily engage with a business owner, followed by Protect and Roadmap.

This NACVA-reviewed tool not only calculates a company's Potential and Enterprise Value, identifying gaps, but also pinpoints critical areas requiring owners' attention. Discover translates intricate financial and operational data into actionable insights, enhancing communication about a business's needs in a manner owners can easily comprehend.

## Case Study: Grant & Sons Distillery

Here's a real-world application of Discover. Picture our advisor engaging with potential client, Bill Grant, the owner of the prosperous Grant & Sons Distillery. Bill, who has been steering his successful business since 1988, is now considering retirement.

He aspires to fortify and standardize operations before passing the baton. This is where Discover shines – it's an ideal tool for such business transitions.

In the subsequent section, we detail the series of questions the advisor navigates with Bill, accompanied by the comprehensive report generated by the Discover tool.

## Business Settings

First we need to gather some basic information about your business.

Business Name \*

Grant and Sons Distillery

Number of Employees \*

100

Revenue \*

\$6,289,827

Type of Entity \*

Limited Liability Company (LLC) ▼

Year Business Established

1988

Profits (EBITDA) \*

\$694,701

Industry Sector \*

Accommodation and Food Services ▼

Business Postal Code \*

49575

Business Country \*

United States ▼



## Discover the 18 Drivers

### Business Objective

While you may have several objectives in mind for the business, please let us know what's most important to you. Your answers here do not impact your final scores, but do help us to understand the needs of the private business community.

My business objective is to ...

- ☐ Create sustainable growth
- ☐ Prepare to sell my business
- ☐ Acquire another business
- ☒ Strengthen my operations
- ☐ Renovate or repair my operations
- ☐ Align my team

### Business Capital

Within the next 24 months, will you need access to more capital?

- ☒ Yes
- ☐ No

Do you have a personal financial plan that dovetails your business and personal objectives?

- ☐ Yes
- ☒ No

### Growth

Growth refers to a company's top line revenue.

Does the business have a history of consistent growth greater than its competitors, coupled with projected future revenue growth above the market's rate?

- ☐ My business is on fire.
- ☐ We're growing at a good clip.
- ☒ We're holding steady.
- ☐ Business is slowing down.
- ☐ Honestly, things aren't so good right now.

### Potential Market

The larger the market (tapped and untapped) the more attractive it is because it represents more opportunities. However, being a leader in a smaller niche is also attractive. Even if you have a true competitive advantage, a growth market is almost always favored.

Does the market support significant growth of the business?

- ☐ Our market is enormous.
- ☐ Our market is very large.
- ☒ Our market is pretty big.
- ☐ Our market is on the smaller side.
- ☐ Our market is pretty small.

### Market Share

If your company sells products or services in more than one market, think about your primary market, or the market that is most fundamental to the success of your company.

Does the business own the highest percentage of the available market relative to its competitors?

- ☐ We have the highest share of the market.
- ☐ We're near the top.
- ☐ We're right in the middle.
- ☒ We're one of the smaller players.
- ☐ We're practically invisible.



## Recurring Revenue

A fundamental metric in measuring the value of a business is the degree to which it can generate recurring, profitable revenue from customers. Sticky revenue occurs when buyers are compelled to keep purchasing from a company.

Contracts are the best way to guarantee future revenue, but other examples include a long-term lease on a high traffic location, a strong loyalty program that rewards future purchases, etc.

Can the business rely on a portion of future revenue from contractually committed customers?

- ☐ We have assurances of nearly all future revenue.
- ☒ We have assurances of more than half our future revenue.
- ☐ We have some contracts or other reasons why we're confident in future revenue.
- ☐ We have only a few contracts or other reasons why we're confident in future revenue.
- ☐ We're not very confident in our future revenue.

## Barriers to Entry

Barriers to entry may include legal, capital, and/or market barriers.

Are there significant obstacles facing a new entrant into the business's market?

- ☐ It's nearly impossible to break into our market.
- ☒ It's pretty tough, but doable.
- ☐ Our market has some notable barriers.
- ☐ There are a few barriers.
- ☐ Almost anyone can set up shop.

## Product Differentiation

A unique product or service that customers prefer will keep them coming back to you versus someone else, and may allow you to charge more.

Does the business have a product/service with unique characteristics that provide a competitive advantage?

- ☐ We offer something completely unique, and that's why customers like us.
- ☐ We have some important differences.
- ☐ We offer something different that customers like.
- ☐ We have a few small things that set us apart.
- ☒ We look like everyone else.

## Brand

A strong brand name that resonates with your customers can add significant value to your company.

Does the business have a recognizable brand that reinforces the business's presence in the marketplace and supports the business's objectives?

- ☐ Our brand is everything and everyone knows us.
- ☒ We have a pretty strong brand that folks recognize.
- ☐ Our brand is solid but not special.
- ☐ Our brand isn't very strong.
- ☐ We don't have a brand.

## Margin Advantage

Margins are simply a measure of how efficiently you make money. The better your margins, the more valuable your company.

Does the business enjoy gross and net margins greater than the industry norm?

- ☐ Yes, we're printing money compared to our competitors.
- ☐ Our margins are better than most.
- ☒ Our margins are solid, like everyone else's.
- ☐ We're making money but less than most.
- ☐ We're struggling to make any money.





## Customer Share

Valuable companies have many different customers including long term customers, new customers, and developing customers. You want to avoid putting all your eggs in one basket (or just a few baskets) to minimize risk.

Does the business have a well-diversified customer base?

- ☐ We have so many customers we won't lose sleep if a few leave.
- ☒ We can lose a few customers and still be fine.
- ☐ We can lose some customers but we'll feel it.
- ☐ It would be really tough if we lost even one customer.
- ☐ If any of our customers left, we'd be out of business.

## Business Overview

Think about the culture of the company as a whole, versus the personality of any one individual within the company.

Can an outsider easily obtain a holistic understanding of the business, including the business's performance, practices, culture, discipline, and mission?

- ☐ Yes, our business is very easy to figure out.
- ☐ One could figure it out with some digging.
- ☐ Some stuff is easy to figure out, the rest probably not.
- ☒ It wouldn't be easy.
- ☐ It would be nearly impossible.

## Financial

Effective financial practices should adhere to accounting best practices and federal and state compliance regulations, while remaining in line with your long-term goals and future growth plans. Your objective here is to establish consistency and transparency in financial reporting.

Are all of the business's financial matters in order and do you follow best practices?

- ☒ Yes, and we would be 100% comfortable if we were audited.
- ☐ We're pretty on top of our finances.
- ☐ We do an OK job of managing our finances.
- ☐ We could do a better job of managing our finances.
- ☐ We don't pay much attention to our finances beyond how much money we have in the bank.

## Sales and Marketing

Sales and marketing success is driven by more than just persuasive personalities. It requires a process-driven approach that is customer-focused while supporting overall company goals.

Can the business produce revenue in a proven and systematic way, ensuring the business is sustainable and not simply based on the efforts of individuals within the business today?

- ☐ We have an effective sales and marketing process that anyone could learn.
- ☐ We have a sales and marketing process, but it would take time for someone to learn it.
- ☐ We have a sales and marketing process, but our success is more about our people.
- ☒ We're pretty reliant on a few sales and marketing people, but we could get by if they left the business.
- ☐ If our key sales or marketing folks left, we would have some big problems.

## Operations

Running a business will always be challenging. Building a solid foundation of smoothly operating practices can make it much easier to scale and maintain.

Does the business have the ability to deliver on the sales promises made to the marketplace and to deliver in a systematic and process-driven manner?

- ☐ Yes, our business runs like a well-oiled machine.
- ☒ We're pretty good.
- ☐ We do an OK job.
- ☐ We could do a better job.
- ☐ We could really use some help.



## Customer Satisfaction

Simply put, satisfied customers are loyal customers. They drive repeat business and revenue, both of which are essential to the longevity of the business.

Does the business track and use key measures to meet customer expectations at all levels?

- ☐ Yes, we know exactly how we're doing with our customers at any point in time.
- ☒ We have a pretty good idea most of the time.
- ☐ We have the ability to check when we need to.
- ☐ Not completely sure.
- ☐ We really don't know.

## Senior Management

Think about who would run the company for an extended period of time if the business owner disappeared for a while (got sick, took a long vacation, etc.). Do you have someone or a team in place who could take over if needed?

If your management team is simply an individual, assume your senior management team is just that individual.

Does the business have a leadership team/individual in place to realize the business's vision and mission while helping the owner achieve his/her objectives?

- ☐ Yes, we have an outstanding management team.
- ☐ We have a very good management team.
- ☒ Our management team is pretty solid, most of the time.
- ☐ Our management team isn't always clicking.
- ☐ We could, but don't really have a management team, or our team is a bit dysfunctional.
- ☐ The business doesn't have any other employees besides the business owner.

## Human Resources

Simply said, Human Resources is all about people. It can be sticky, difficult, full of legal land mines, and if not managed properly, can be very costly to an organization.

It's worth spending some time here to make sure you're following best practices, you're in compliance with all relevant (and ever changing) laws, and properly managing and nurturing one of your company's most important assets!

Does the business have the ability to find, develop, and retain quality individuals that enables success in all aspects of the business?

- ☐ Yes, we can easily find, hire, and retain the best of the best, if and when needed.
- ☐ We're pretty good.
- ☒ We're OK.
- ☐ We can use some help.
- ☐ HR is a problem for us.
- ☐ The business doesn't have any other employees besides the business owner.

## Legal

There's nothing like legal problems to distract you from your mission. From tax law to human resources, proper legal compliance applies across many facets of the business.

Do you have all legal matters in order, documented, and does the business follow best legal practices?

- ☐ Yes, we are completely buttoned up.
- ☒ We're pretty good.
- ☐ We're doing an OK job.
- ☐ We could do a better job.
- ☐ Legal matters are a bit of a headache for us.

## Innovation

The one constant in business is change.

The more your company encourages and rewards innovation at every level, the more you will be able to stay ahead of changes and continue to prosper.

Does the business understand that innovation is invaluable to creating an ongoing competitive advantage and does it have a proven and systematic way to drive and capture innovation at all levels and encourages innovation in every area of the business?

- ☐ Yes, we drive and capture innovation at every level within the organization.
- ☐ We're pretty good at encouraging and capturing innovation.
- ☐ We recognize good ideas when they bubble up.
- ☒ We look at new ideas, but tend to just stick with what's working.
- ☐ We don't put a lot of energy into new and unproven ideas.



# Discover Assessment Report

## Grant and Sons Distillery

**Presented by:**

Alec Richards

**Prepared for:**William Grant  
Grant and Sons Distillery  
June 15, 2023

This report is not a certified business valuation. The business value shown cannot be used to provide a determinative value for Federal or State tax purposes.

## Overview

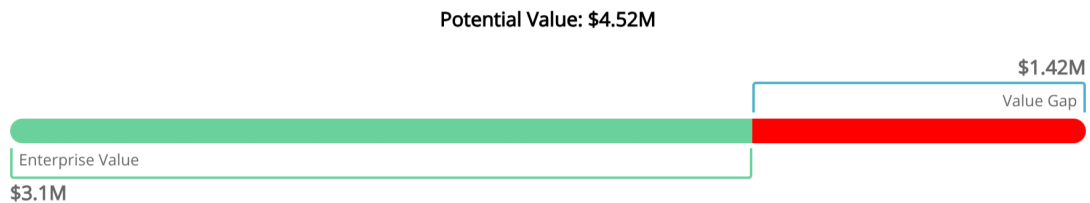
Revenue \$6.29M	EBITDA \$695K	Enterprise Value \$3.1M	Potential Value \$4.52M	Value Gap \$1.42M	Flags 2	CoreValue 56	Diligence C+
Objective Strengthen my operations				Driver 1 Marketing	Driver 2 Differentiation	Driver 3 Growth	

## Enterprise Value

*Enterprise Value* is a measure of business value based on what a theoretical buyer would pay for a business after conducting a thorough due diligence. It is calculated based on the ability of the business to generate future revenue and profit using an algorithm that includes industry normalized trading ranges, financial performance, and the calculated *CoreValue Rating*.

In some cases, *Strategic Buyers* within specific industries will pay above this financial value and thereby create strategic value. These buyers will purchase a specific asset or capability they believe can be leveraged beyond how the business performs today. It is important to understand that strategic value can change quickly and should not be fully relied on when planning for the future.

Balance sheet adjustments are not included in the value calculation. It assumes a neutral balance sheet.



## Operational Transparency

Your *CoreValue Rating* is a measure of how dependably the business can operate and generate future revenue and profit at or above its current rate. The rating is scored from 0-100 and is divided into *Market Drivers* (external in nature) and *Operational Drivers* (internal in nature). Businesses with a rating below 30 are at risk of having little or no value, and businesses above 80 have significant strategic potential in a sale or transfer.

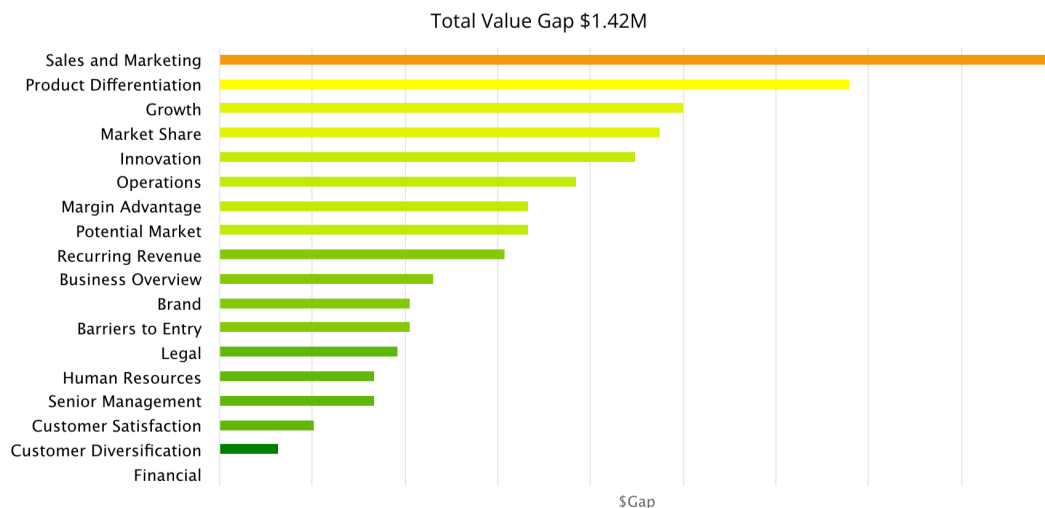
The chart below displays your score broken down between Market Drivers and Operational Drivers. For each category, we display the current scores for the value drivers in that category.



## Value Gap Analysis

*Value Gap* is the difference between how much the business is worth today and how much it could be worth. The top most *Critical Drivers* are contributing most directly to your Value Gap and represent the greatest opportunity to improve the value of your company.

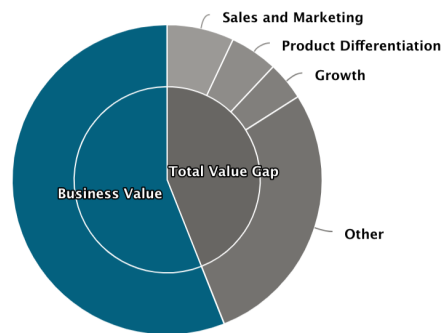
Value Gap is measured in real dollars, broken down in the chart below by driver so you can see not only how much money you are leaving on the table, but just as important, the 'Return on Investment' (ROI) for making future investments back into the business. In this chart drivers are sorted from highest value gap to lowest.





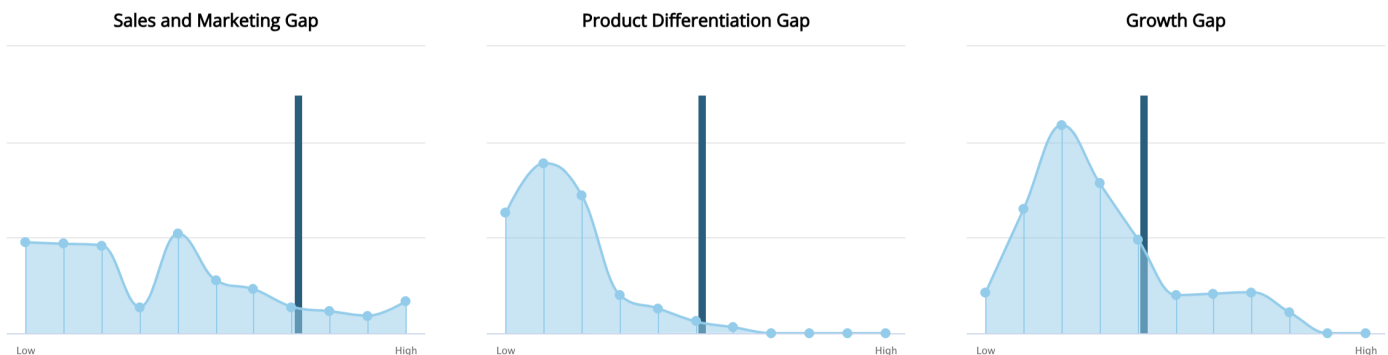
## Growth and Value Opportunity

Based on the answers you provided, we've identified multiple opportunities to unlock the potential for growth and value trapped inside the business.



## Value Gap of Critical Drivers

These charts compare your growth opportunities with similar drivers in other businesses within your industry. These three drivers are causing you the most pain. For the biggest "bang for your buck", focus on improving these drivers first.





## Red Flags

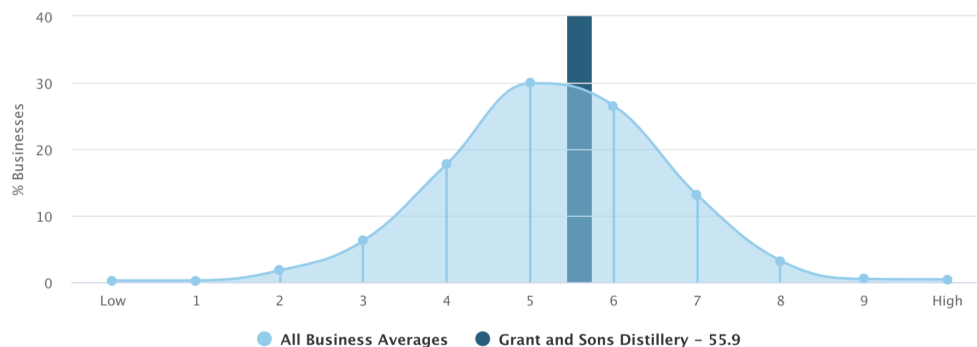
*Red Flags* are important issues or "watch outs" that can negate all the value in the business. If you are trying to raise capital or sell the business, these are the types of issues that will bubble up during due diligence. They are the major reason half the businesses never make it through the due diligence process. For those that do make it through due diligence, the majority take a significant hit in price and negotiating terms when these issues are present.

Based on your responses in your assessment, the table below lists specific red flag conditions we believe are harming the business value. Be proactive and work to eliminate all your red flags. The ValuCompass application will recommend tasks you can do to remove each red flag and track your progress.

Here are the red flag conditions we found in your assessment:

 <b>Business Overview</b>	A business that can clearly be explained and understood is valuable. You want outsiders to be able to easily understand what you do, why you do it, and how you do it so they understand the value of the organization.
 <b>Organizational Roles and Responsibilities</b>	Ambiguous employee roles and responsibilities is a sign of deeper organizational issues.

## CoreValue Rating



The CoreValue rating looks at businesses in a given industry to establish best in class characteristics that are indicators if a business will transact at the higher or lower end of a given industry's trading multiple, typically in relation to its EBITDA.

Based on the answers you provided in your assessment of the market and operational areas, the business may be attractive to potential acquirers making it more likely to monetize when the time comes to exit. However, protecting your value and de-risking the business is important if you expect to have a business rich, cash accessible outcome.