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ABC Company

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John Doe

RE:ABC Company Saleability Score

Thank you for filling out of our Saleability Score questionnaire.

Our primary goal is to educate entrepreneurs across all industries on what drives value to help get the best possible outcome for their business. The assessment considers various factors such as growth potential, customers, employees, various risks and market conditions. It’s essential to know your saleability score if you’re looking to exit or grow your business – allowing you to make key business decisions.

Below is a summary of your sub scores as well as overall saleability score:

Assesment	Points Earned	Points Total	Percentage
Customer Score	15	25	60
Growth Score	12	25	48
Employee Score	11	25	44
Financial Score	18	25	72
Total	56	100	56

On the following pages, we will provide the following for each score:

- **Value Drivers:**

  Key factors that are driving value for your business

- **Improvements:**

  Highlight areas of improvements for future growth

Customer Score

Score: 15/25

What is measured?

For most small businesses, especially service-based businesses, and businesses with low-to-no assets; the customer base and the associated goodwill is the biggest asset a buyer is purchasing. This score measures the strength of your customer base.

Value Drivers

Customer Retention

Customer loyalty is priceless and can even result in further customer acquisition for your company. After all, word of mouth advertising is not only free, but possibly one of the most credible forms of advertising. Customers will always talk, and they will always listen to other customers. Your customer base is a growing source of referrals for new customers. You can even encourage acquisition from your retention efforts by giving your existing customers incentives to refer their family and friends to your company

Improvements

Customer Concentration

Buyers typically look for a customer base in which no single client accounts for more than 8-10% of total sales. A diversified customer base insulates your company from the loss of a major customer. For example, if your three top customers generate 25-40% of your sales, a buyer will be concerned that one or more of them would leave upon learning that you sold your company. Customer concentration then, is a risk factor to be avoided regardless of the exit path you choose.

Dependence on Owner

Owner dependence is a business's reliance on the owner for the functioning of day-to-day operations. It means that the owner is too essential to the success of the company. Without him or her, the business can't function nearly as well if at all. For small businesses, buyers are concern that when the owner leaves, the customers will leave as well. Before selling it is important that those relationships are transferred to employees. Some businesses can't be transitioned because the talents of the original owners are too unique

Growth Score

Score: 12/25

What is measured?

The ability to display growth potential is a primary driver of value and is something that potential investors, buyers or partners are always looking for. This score measures the growth potential of the business.

Value Drivers

Industry Outlook

Operating in a growing industry is key as the company growth is limited to the size of the marketplace. As an example, companies that focus on CD and DVD production are operating in a declining industry and will not be able to significantly grow which makes the company less valuable.

Improvements

Scalability

A scalable business is one in which profit margins increase as revenues increase. Profit margins increase because costs do not rise in lockstep with increasing revenue. For example, most professional service firms like law firms are not highly scalable because their revenues are based on an individual lawyer's billing rates. To increase revenue, increase the number of lawyers; in other words, costs rise in tandem with revenue. Compare that to a business that licenses software to that same law firm—the cost to produce the software, once created, is almost nothing. The additional licensing revenue it receives increases revenue, profit margin, and cash flow.

Systems and Processes

Creating and implementing good business processes is an excellent way to increase a company's day-to-day productivity and profitability. It also lessens the risk of losing key knowledge if and when key workers retire or leave the company. For these reasons, it's vital that owners create business processes and systems and train their employees on how to perform them. Additionally, without proper systems and processes; companies will have a hard time scaling to the next level.

Employee Score

Score: 11/25

Improvements

What is measured?

Buyers need to feel that customers can be retained after the seller departs. In addition, they want to know that employees can help deal with difficult issues in their own absence. Having qualified second-level management is a key benefit to selling your business and a major obstacle if they are not present. This score measures the employees / management of the business.

Are you able to take a two-week vacation and feel like your business is in good hands? Are you working 45 hours per week or are you working 55 to 65 hours per week? If your answer to the former question is yes and you are only working 45 hours per week, you may be in good shape as it relates to second-level management. If your answer to the two-week vacation question is no or you are working 55 to 65 hours per week, you may have a big obstacle that needs to be addressed to successfully sell your business

Buyers need assurance that customer relationships can continue without the current owner's involvement. They also want to know that employees can deal with difficult issues that inevitably arise in the day-to-day running of a business. Buyers usually want the flexibility to take time off and want to have a life outside of their commitment to the business they intend to acquire.

If you do not have a much of a life outside of your business, it could be a strong indicator that your second-level management is inadequate or non-existent. Granted, good people are hard to find. But small business owners must persevere and identify talented employees, train them and provide increasing responsibilities. Owners need to delegate and "loosen the reins" and perhaps also "loosen the purse strings" for their best employees.

If all the knowledge about a business resides in the owner's head and has not been adequately transferred to key employees who are capable of running the business in the owner's absence, it's a significant obstacle that might preclude the possibility of a successful sale.

In the long run, the investment in a few key people will pay off. It will improve the prospects of selling your business, and likely will help the business grow, providing greater personal flexibility.

Financial Score

Score: 18/25

What is measured?

The ability to display growth potential is a primary driver of value and is something that potential investors, buyers or partners are always looking for. This score measures the growth potential of the business.

Value Drivers

Record Keeping

Small businesses should use monthly or quarterly financial statements to monitor the progress of the business. The financial statements should provide reliable information that can be used as the basis for making decisions affecting the profitability of the business. Meaningful financial statements are also necessary to obtain lender financing.

Gross Margin

Your Gross Profit Margin tells you how much profit you make on each dollar earned before expenses. While it’s not a true indicator of profit, it tells you a lot when evaluating the value of a business and helps you ask the right questions: (1) How do this company’s margins compare to industry averages? (3) Is the pricing strategy sound? (3) How is the profitability of this industry holding up over time?

Revenue and Profitability

When valuing small businesses, the baseline of the value for most small businesses is how much cash does the business produce. Companies that have negative or declining revenue and profitability over time are less value than companies that have strong probability. Additionally, companies with growing and higher revenue and cash flows are usually able to garner higher multiples which makes the company more valuable.

Clean Cash Flow

Its not uncommon for small business owners to utilize tax savings strategies to minimal the company's tax burden year-to-year. While this may be a good short-term strategy, it negatively impacts not only the long-term value of the company but the deal terms. If you want max value as well as large portion of the sale paid to you upfront; avoid having messy cash flow.

Recurring Revenue

Building a business with more recurring revenue, as opposed to one with one-off revenue, has almost a direct correlation to an improvement in valuation. Buyers love recurring revenue as it gives them (1) guaranteed revenue monthly, (2) allow for better forecasting and (3) decreases customer acquisition cost over time.