



PREQUATE *strategic finance for business impact*



A Valuation Mindset

Nov 2018

Disclaimer: This paper is a property and copyright of Prequate™. No reader should act on the basis of any statement contained herein without seeking adequate professional advice. The authors and the company expressly disclaim all and any liability to any person who has read this paper, or otherwise, in respect of anything, and of consequences of anything done, or omitted to be done by any such person in reliance merely upon the contents of this paper. The intention of this Whitepaper is to educate and is not meant to be exhaustive in any manner. The opinions of expressed are those of the authors and do not necessarily mean to prescriptive either. Discretion is advised.

If you ask me, 'So what is your business model?'. Our business model's always about shifting to higher opportunities.

- Ginni Rometty
CEO, IBM

PRE
QUATE

Value is mostly understood to be the material or monetary worth of something. But it's not just. It is most akin to the alternate definition '**the regard that something is held to deserve; the importance, worth, or usefulness of something**'. This requires a shift in thinking. From looking at it an exercise at the time of any equity transaction to the effectiveness as a business. But Why? When? How?

So we thought of putting these thoughts together in an educational whitepaper to help businesses look at using valuation as a hard-hitting strategic tool that it really is.

Disclaimer: Please note that these are our views are based on our experience in being advisors and working with various organizations. They are for the limited purpose of educating the leaders of a company. The rationale and the procedure to be followed can vary significantly based on the context, exact nature & size of the business.



What is Value?

Is it more than just X times my cash-flow?

Traditionally,

your customers



to who you

provide a service/
product to



who pay you

revenue

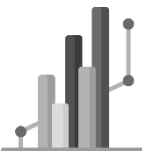


generating a reward

profit



years of
expected value



putting a number to

Business Value

PRE
QUATE

What this implied

The value of a business is merely its ability to generate cash flows in the near future. It is more a mathematical procedure at arriving at an objective number rather than the method or rationale. This thinking solved the need at the time, objectivity.

But it stopped short

The value of a business is a lot complex. It is what the business has been able to build internally that allows it to be specially qualified to be valuable.

This is a lot more than the cash flows. The earlier approach fell short in signifying the value of the intangibles in the business.

PRE
QUATE

What it is

Valuation is

the current
value



of an
extrapolation



of the
competitive
advantage



when utilised to

its exploitable
potential.



Earlier,

Valuation was an end-goal activity.



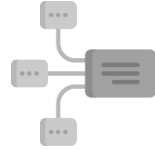
Investment Research
value investing targets



Raising Capital
for equity allotment



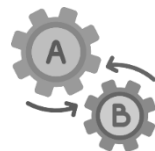
M&A Evaluation
target attractiveness



Post Merger Integration
to maximize value



Divestment/ Disinvestment
sale of a business



Spin Off
carving a new SBU

Today,

Valuation has arrived as a management tool.



Strategy Development
to maximize business value



Competitor Analysis
assessing advantage



Goal Setting
based on value drivers



Compensation Design
aligning incentives



Devising Action Plans
to meet milestones



Budgeting
to enforce discipline



Leading to the birth of a new strategic tool.

The Valuation Mindset

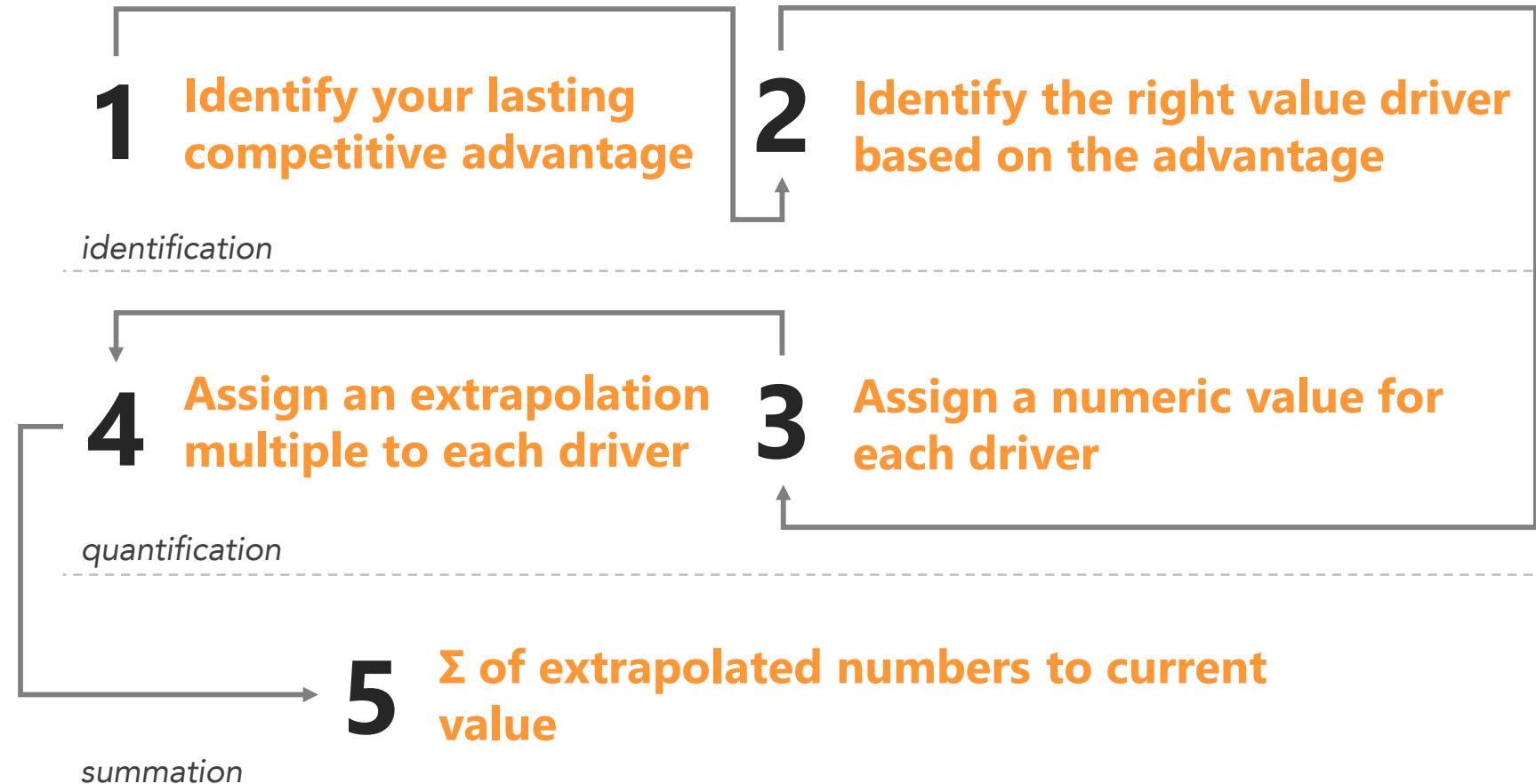
What is The Valuation Mindset?

A valuation mindset signifies the use of the valuation methodology to identify, nurture and cultivate value accretion and augmentation as a key strategic initiative within the business.

Why is this important today?

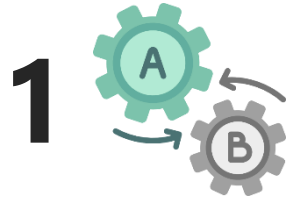
- M&As are on the rise and consolidations are becoming a norm across industries
- Public issues are in vogue
- Valuation methodologies are becoming more intelligent
- Business reporting is becoming more transparent

Step 1 **Get to a number**



What is The Valuation Mindset?

Step 2 **Monitor & Benchmark** (*regularly*)



Link your annual plans
to the value drivers' #



Derive & monitor the
numbers periodically to plan



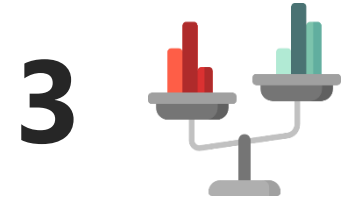
Track achievement of key
milestones



Track progress to plan,
actuals vs. planned



Evaluate hindrances to
achieve driver growth



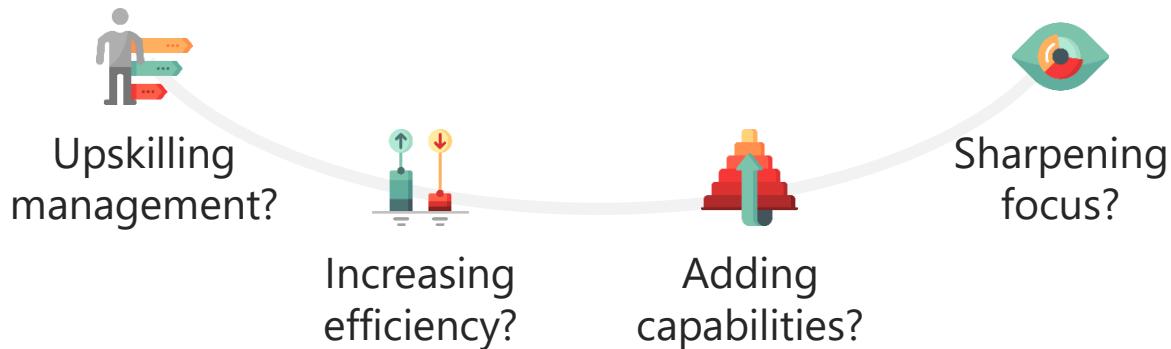
Benchmark the derived
driver values to competition

What is The Valuation Mindset?

Step 3 **Enhance, Augment** (*continually*)

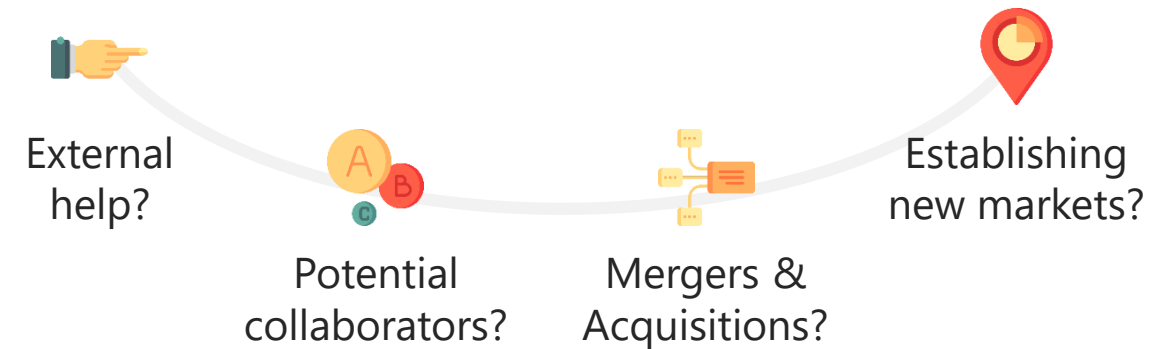
enhance

look for internal organic opportunities
to grow the value driver metrics



augment

look for external inorganic opportunities
to grow the value driver metrics



How does it link in to management processes?

Value Creation Mindset



Management Processes

provides an objective measure to maximize business value

provides process frameworks to translate objectives to action

Understanding of performance variables (value drivers) in numbers



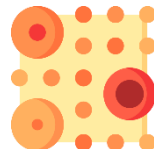
Annual planning, budgeting and goal-setting

Awareness of non-financial objectives that also affect value



Performance measurement and employee satisfaction

Analytical drill down of performance variables to actionable KPIs

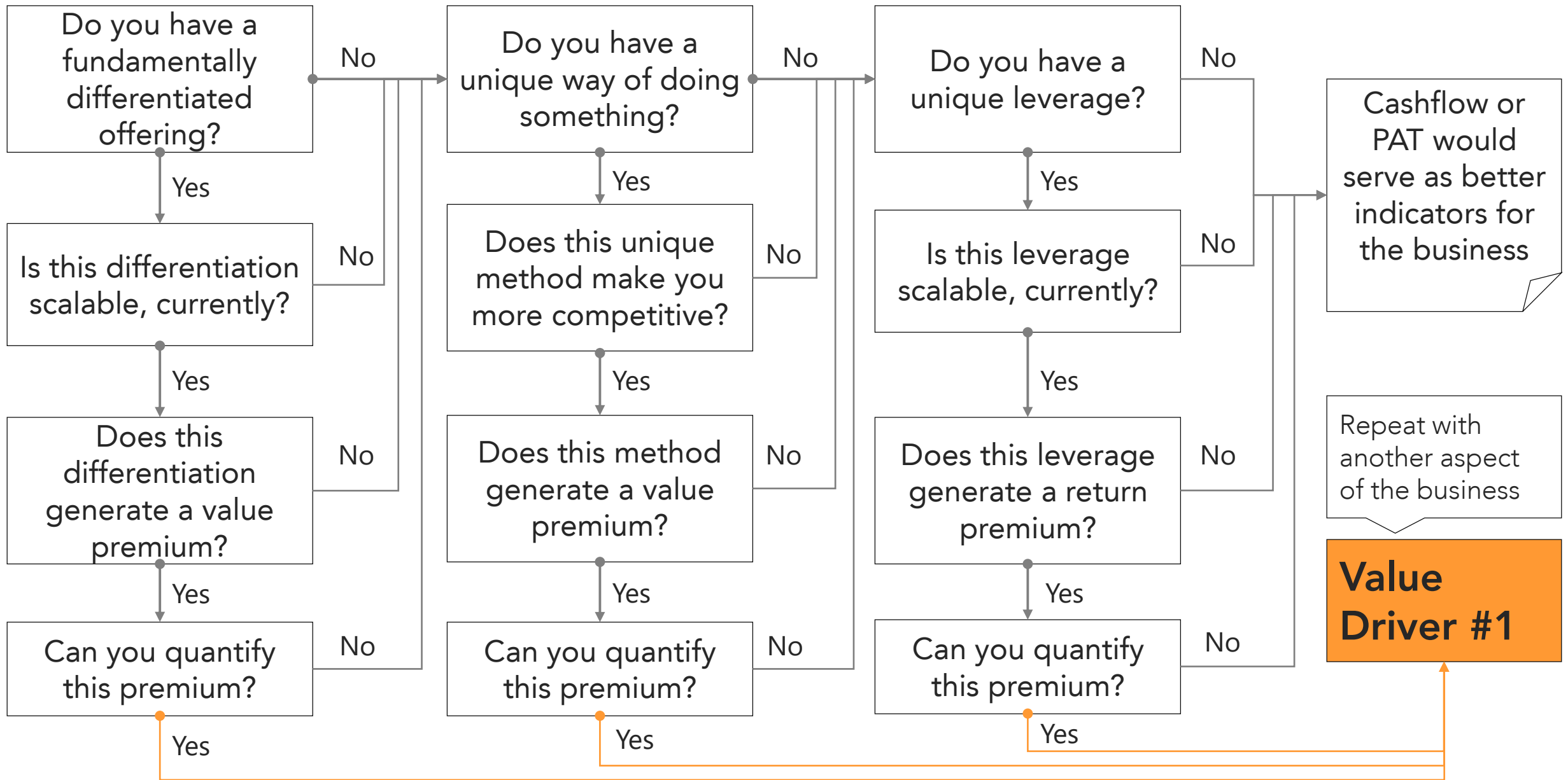


Incentive structures, compensation policies and rewards & recognitions



The Valuation Mindset

**Identifying the right
value driver**



What are the kinds of Value Drivers in vogue?

A few sample value drivers which are in vogue today.

TECHNOLOGY

User

LTV, CAC, RPU, Retention, Repeat, MRR, ARR, Visits, Magic Number, Conversion ratio, Order value, Cart size, CPC, CTC, CSAT, CHI

Customer

Median order value, RPA, RPE, LTV, Lead Time, Sales cycle length, Conversion rate, Retention rate, Average growth per account, upsell/ cross sell ratio, DSO

Cost

CPE, D/I

Profitability

GM, NM, FCFF

MANUFACTURING

Customer

Account value, Median order value, RPA, RPE, LTV, Lead Times, Sales cycle length, Conversion, Return rate, CSC, SPA, DSO, RM to FG, Revenue per channel, Re-order rate

Facility

RM%, Capacity Utilisation, Ordering cost, TTD, GM%, CPU, Inventory TO, RMTO, Turnover ratios, Revenue to Assets, Current ratio, Liquid ratios

Cost

CPE, D/I, SOQ, Wastage ratio,

Profitability

GM at SKU, NM, Coverage

FINANCIAL SERVICES

Customer

AUM, Customer Aging, Avg. Asset Value, Reinvestment rate, ROI, CSAT, Time per account, Account growth, Account tiering, Upsell/ Cross-sell ratio

Facility

CSC, Response time, Invoice value, RMTO, Revenue per employee, Employee TO ratio

Cost

CPE, D/I

Profitability

Client wise profitability, GM at Account Tiers, NM, Coverage



The Valuation Mindset

Using it to drive management practices

A drill down into an organizational value drivers leads to business unit strategy & goal definition

Shareholder Wealth Maximization

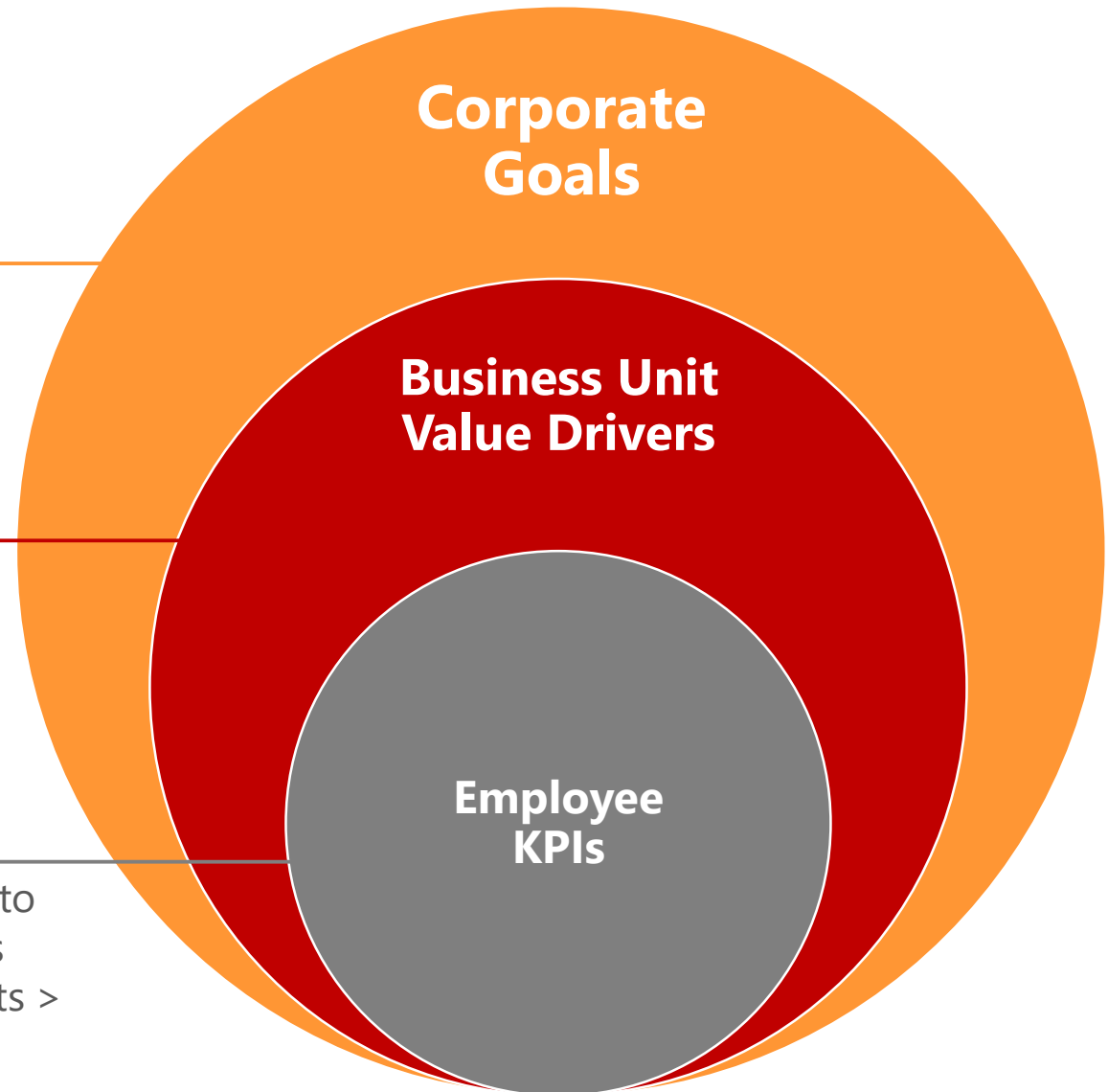
Return (Revenue and Cost Drivers) x
Invested Capital (fixed and working capital)

Managing Efficiency & Profitability

Capacity Management (utilization and productivity metrics) , Customer Mix, Customer Retention, Fixed And Variable Cost Allocation

Meeting Individual Goals (or OKRs)

Quantifiable performance benchmarks (**Key Results** tying into individual **Objectives**) - collectively defining individual OKRs (e.g. doing 20% more sales (*Objective*) and closing 2 accounts > \$100k (*Key result*))



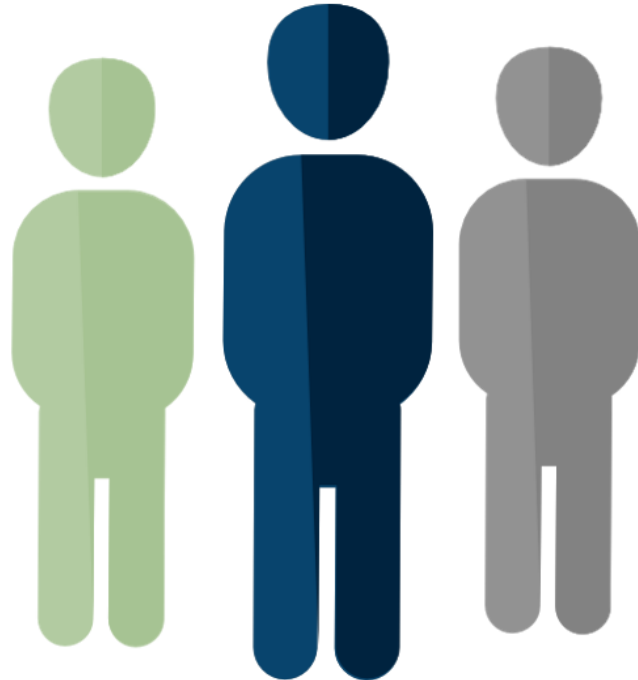
Planning under the Valuation Mindset should percolate to all decision makers



with incentive structures clearly aligned to value drivers.

Line Manager

Resource Utilization, achievement of operating metrics of team



CXOs

Returns to shareholders, overall profit, corporate operating value drivers

Business Unit Manager

Business Unit Profitability, Utilization of capital allotted, achievement of milestones (e.g. R&D)

For a value based planning process to be truly effective, incentive structures (compensation) from the top down should be aligned with the goal setting process.

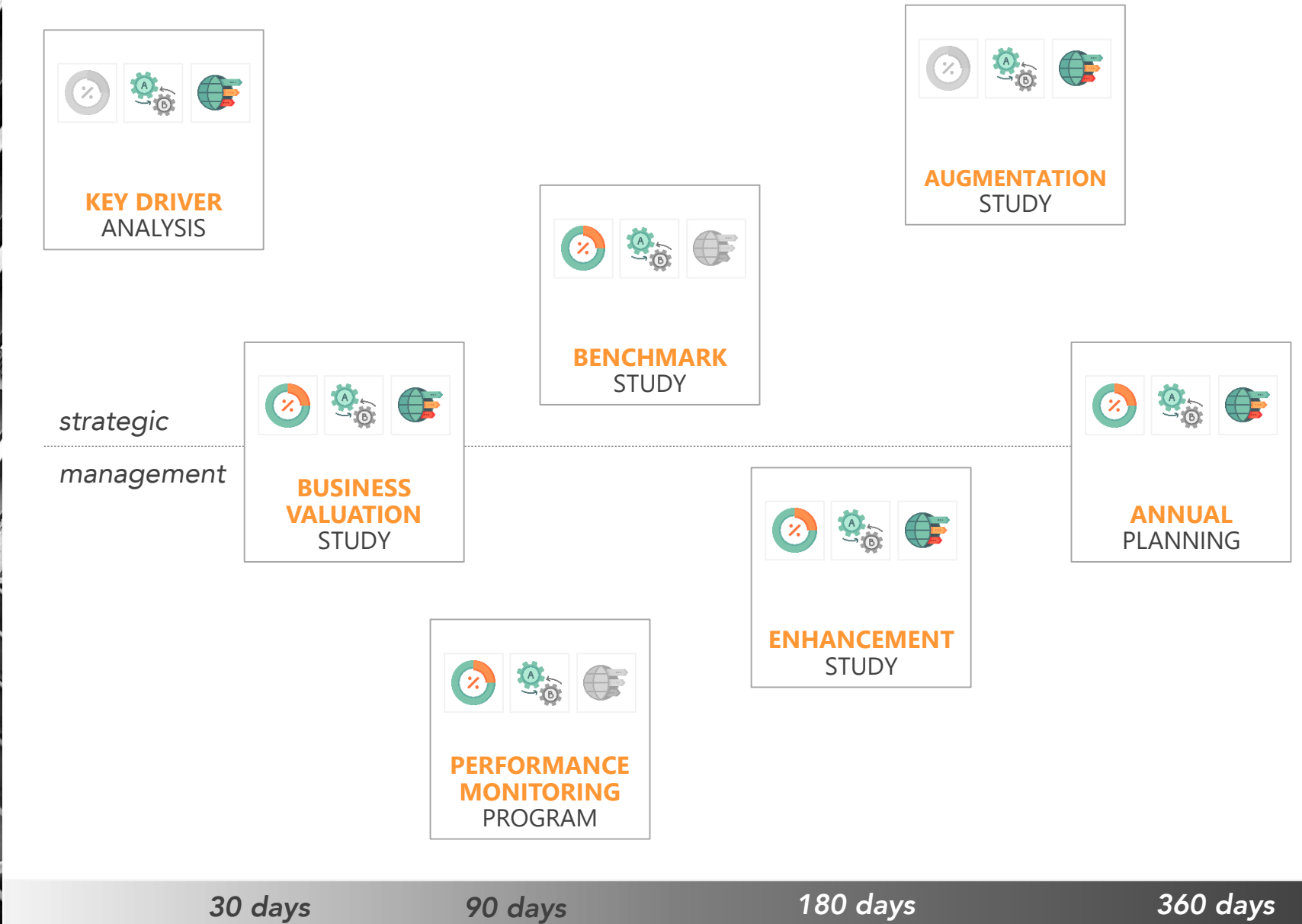
A balance between long term and short term goals will need to be defined at both the organizational and business unit level to achieve critical value based milestones

Now, can **Prequate** help?

Of course



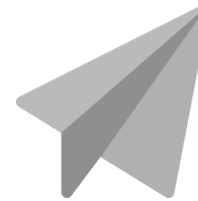
PRE
QUATE



Disclaimer: This paper is a property and copyright of Prequate™. No reader should act on the basis of any statement contained herein without seeking adequate professional advice. The authors and the company expressly disclaim all and any liability to any person who has read this paper, or otherwise, in respect of anything, and of consequences of anything done, or omitted to be done by any such person in reliance merely upon the contents of this paper. The intention of this Whitepaper is to educate and is not meant to be exhaustive in any manner. The opinions of expressed are those of the authors and do not necessarily mean to prescriptive either. Discretion is advised.

The best way to understand how we can engage with your organization, is to speak with us.

A single click can go a long way.



*To write to us by email,
< click*



*To set up a quick discovery talk/
request more information
< click*