



Operational Value Report

XYZ Company

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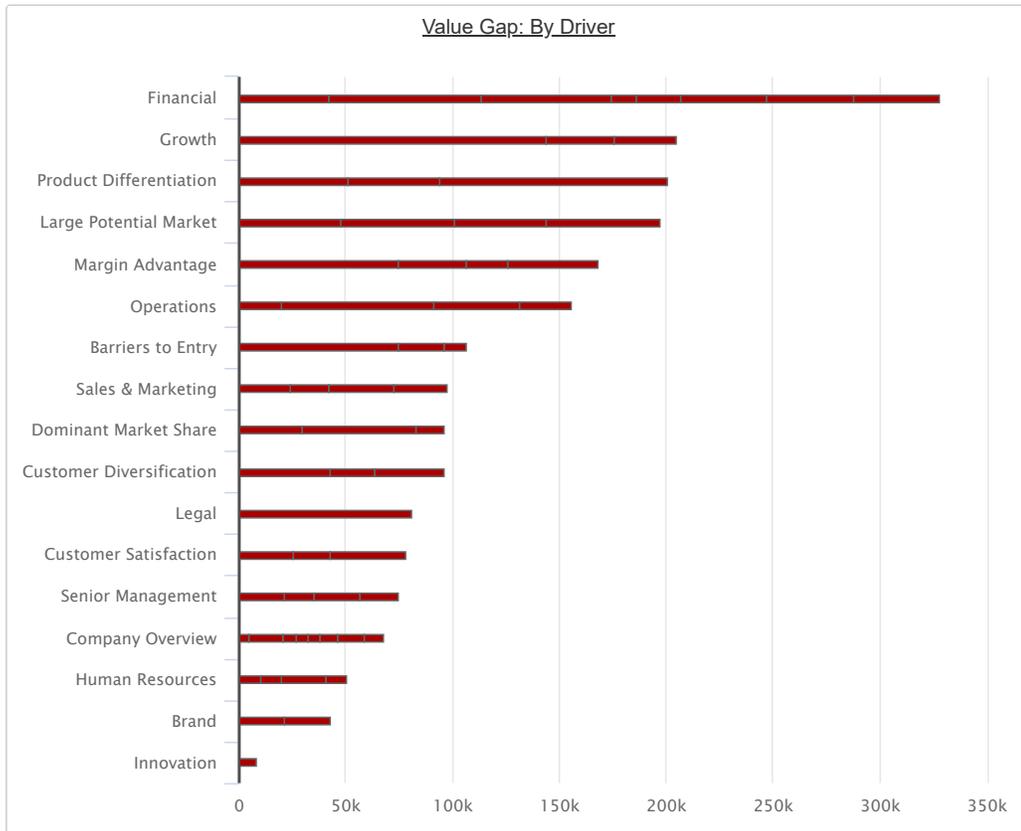
Executive Summary

- XYZ Company is a business in the Construction industry with annual revenues of \$8M and EBITDA of \$1.2M.
 - The business currently scores a CoreValue rating of 49. The business has an *Enterprise* (current) value of \$3.65M and a *Potential* value of \$5.7M. We calculate a *Value Gap* of \$2.05M.
 - We found 5 *Red Flag* issues associated with drivers: Operating Reports, Risk and Insurance, Tax, Reporting Relationships, and Litigation.
 - We found the following top 5 *Critical Drivers* that are contributing to the majority of your *Value Gap*: Financial (Gap: \$328K), Growth (Gap: \$205K), Product Differentiation (Gap: \$200K), Large Potential Market (Gap: \$197K), and Margin Advantage (Gap: \$168K).
 - We offer 21 *Suggested Tasks* (see below) to help you close your *Value Gap*.
- Currently, there are no documents in your due-diligence vault.

Value Gap Analysis

Value Gap is the difference between how much your 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. In this chart drivers are sorted from highest value gap to lowest.

Total Value Gap: \$2,050,000



Detail by Driver

Value Driver Detail Reports

These 18 reports show your workbook answers and scores for the components of each single driver. Higher scores are better. The drivers are listed in descending order by largest value gap to smallest. We recommend you tackle the biggest gaps first.

Financial Gap: \$328,000

Goal: All of your company's financial matters are in order and you follow best practices.

Audits

Goal: You have had routine, independent inspections and assessments of your company's financial integrity and related processes which provide quantitative proof your company has a healthy and standardized reporting structure reflective of the business.

Response: *We have someone review our finances only if it's necessary.*

Financial Statements

Goal: Your chart of accounts clearly reflects the business you are in, enabling fast and effective communication both internally and externally, and you routinely generate the standard set of three statements (income, balance sheet and cash flow).

Response: *We could be better, but there are probably companies a lot worse than us.*

Operating Reports

Goal: Financial operating reports are routinely generated and used by management to review your company's performance and make operational decisions.

Response: *We don't have operating reports.*

Tangible Assets

Goal: You have knowledge of and documentation that defines the ownership, control, and use of the tangible assets needed to deliver products and services.

Response: *We have documentation, but it may need some updating.*

Intellectual Property

Goal: You have a thorough understanding of your company's Intellectual Property (IP).

Response: *IP isn't that important in our company.*

Banking and Capital

Goal: You efficiently utilize banking services, and have the ability to obtain and manage outside capital.

Response: *We have a poor banking relationship.*

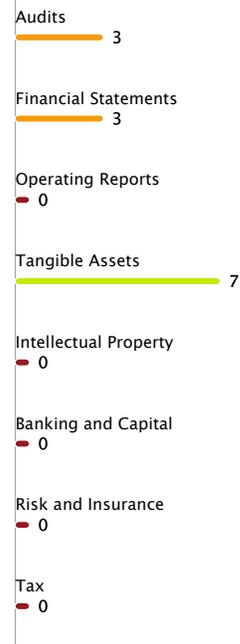
Risk and Insurance

Goal: You have protected your company from, or limited its risk. **Response:** *We're not worried about risk, nothing bad will happen.*

Tax

Goal: You have a complete understanding and fulfillment of all tax obligations.

Response: *Not sure.*



Growth Gap: \$205,000

Goal: Your company has a history of consistent growth greater than its competitors, coupled with projected, future revenue growth above the market's rate.

Company Growth

Goal: Your company can demonstrate quantifiable and historic growth greater than its competitors, and can substantiate growth projections greater than the industry rate.

Response: *Not sure, we'd have to do some work to figure it out.*

Industry Growth

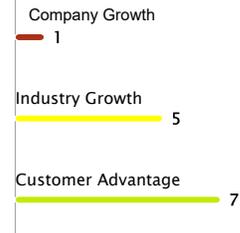
Goal: Your company can clearly document the growth of its industry (broad category definition) and within its niche (specific market).

Response: *Think so.*

Customer Advantage

Goal: Your company can articulate why its products/services will continue to effectively provide for and service future growth.

Response: *We have a few compelling reasons.*



Product Differentiation Gap: \$200,000

Goal: Your company has a product/service with unique characteristics that provide a competitive advantage.

Proof of Differentiation

Goal: You can quantify how the uniqueness of your company's products/services gives you a competitive advantage in a significant market or customer segment.

Response: *We're not really sure if our products or services are unique, but people seem to buy them anyway.*

Product/Service Lifecycle

Goal: You can articulate where the products/services are within its lifecycle, and show plans to keep, replace, or upgrade the products/services as the market continues to evolve.

Response: *We really don't know.*

Financial Differentiation

Goal: You have quantitative proof of differentiation, by product or service, and can show a pricing and/or cost advantage over its competition. For example, your company can demand a higher market price for comparable products/services at a cost that results in superior gross margins.

Response: *We don't know what our gross margins are or how our margins compare to the industry's average.*

Proof of Differentiation
2

Product/Service Lifecycle
0

Financial Differentiation
0

Large Potential Market Gap: \$197,000

Goal: The market supports significant growth of the business.

Market Size

Goal: There exists a large market for your products or services, and your company has complete written documentation and up-to-date research to substantiate the size of your current market.

Response: *Our market is pretty small.*

Niche Clarity

Goal: You have research and documentation on your company's market niche by product or service line.

Response: *We don't have any documentation.*

Competitive Monitoring

Goal: You have a system or process in place to monitor significant competitors and new entrants into your market. **Response:** *We don't have a formal process, but we do monitor competitive entrants informally.*

Future Market Growth

Goal: You can document through research or other methods, growth trends in the market, and how the company will take advantage of those trends.

Response: *No, we don't have such documentation.*

Market Size
1

Niche Clarity
0

Competitive Monitoring
2

Future Market Growth
0

Margin Advantage Gap: \$168,000

Goal: Your company enjoys gross and net margins greater than the industry norm.

Quantifiable Advantage

Goal: Your company's gross and net margins are consistently above the industry norm and can clearly demonstrate:

Gross margin (percentage) advantage relative to its industry and direct competitors.
Net bottom line margin (percentage) advantage relative to its industry and direct competitors.

Response: *At least one of our margins is below par.*

Margin Trends

Goal: You can provide a history by quarter and trend analysis of both gross and net margins.

Response: *No, we don't have such documentation.*

Margin Improvement Process

Goal: You have a documented, rigorous process in place to constantly improve margins.

Response: *We have a process, but it's not well documented.*

Margin Advantage

Goal: You have projections of your company's future margin advantage, and can defend these projections.

Response: *No, we do not have projections.*

Quantifiable Advantage
3

Margin Trends
0

Margin Improvement Process
4

Margin Advantage
0

Operations Gap: \$156,000

Goal: Your company has the ability to deliver on the sales promises made to the marketplace and to do it in a systematic and process-driven manner.

Delivery Objectives

Objectives

Goal: You have operations objectives that are executable, measurable, and updated regularly

Response: *We have some objectives, and they could be better.*

Delivery Process

Goal: You have clear and documented operational processes such that an outsider could learn them quickly, easily jump in, and be effective.

Response: *We would have to spend some time teaching someone new.*

Performance Metrics

Goal: You regularly measure how well your company is meeting its operational objectives, driving its processes and making good on its commitment to customers.

Response: *We have some metrics that we use most of the time.*

Industry Standards

Goal: You follow or comply with industry standards ranging from government regulations, best practices and independent certifications.

Response: *We do our best to comply with everything.*

Suppliers and Contracts

Goal: You have written supplier contracts defining the relationships between your company and your suppliers.

Response: *Yes, we have contracts with most of our suppliers.*

Delivery
5

Delivery Process
3

Performance Metrics
6

Industry Standards
7

Suppliers and Contracts
10

Barriers to Entry Gap: \$107,000

Goal: There are significant obstacles facing a new entrant into your company's market.

Barriers to Entry Types

Goal: You have significant obstacles facing a new entrant into your company's market including legal, market, and/or capital barriers.

Response: *We have some barriers.*

Legal Barriers Documentation

Goal: Your company has well organized and documented agreements, licenses, and/or contracts, plus patents, trademarks and/or copyrights that clearly define the protection and the extent of your protection. This protection may include regulatory protection.

Response: *No, we haven't bothered with any formal paperwork, or anything that requires a lawyer.*

Market Barriers Documentation

Goal: Your company has market barrier documentation that includes how it created these market barriers and will protect them: examples include brands, licenses, trade secrets, exclusive agreements, location, etc.

Response: *We have some documentation, but it's not complete.*

Capital Barriers Documentation

Goal: Your company has documented all aspects of capital required for new entries into the marketplace.

Response: *Yes, we have documentation.*



Sales & Marketing Gap: \$97,200

Goal: Your company can 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.

Sales & Marketing Objectives

Goal: Your company has clear sales and marketing objectives.

Response: *We have objectives for the important stuff.*

Marketing Plan & Process

Goal: You have a clear marketing plan and routinely engage in specific and organized actions to interest potential customers in your products or services.

Response: *Yes, we have a complete marketing plan and we execute against it.*

Market Research

Goal: You have access to, and regularly use, market research to make informed marketing, sales, and operational decisions.

Response: *We use data for the big decisions.*

Sales Plan & Process

Goal: You have a sales plan and repeatable sales process to deliver your company's revenue goals that are well-developed, managed, and executed.

Response: *We have some elements of a sales plan and process.*

Customer Contracts

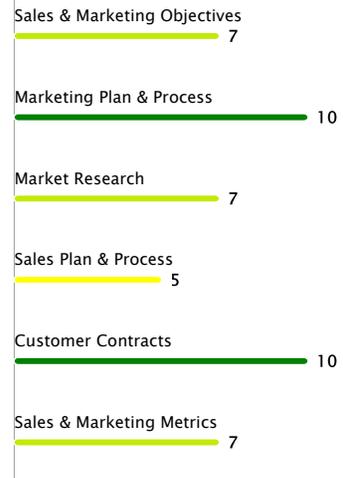
Goal: You execute contracts between your company and your customers where possible, or have documented payment and delivery terms.

Response: *Yes, we routinely execute customer contracts, have documented payment and delivery terms, or receive payment at time of purchase (i.e. retail businesses).*

Sales & Marketing Metrics

Goal: You regularly measure how well your company is meeting its sales and marketing objectives.

Response: *We track our progress and sometimes take action.*



Dominant Market Share Gap: \$95,900

Goal: Your company owns the highest percentage of the available market relative to its competitors.

Market Definition

Goal: You can clearly define and quantify your market by product/service, region, or other factors.

Response: *Yes, we can define our market, but don't have the data to quantify it.*

Dominant Market Position

Goal: Your company is the dominant competitor in the market and can quantify its position in the market relative to all significant competitors.

Response: *We're pretty sure we're one of the top players, but don't have all the data.*

Market Communication

Goal: You can clearly communicate why your company will either retain its dominant market share, or communicate how it will attain a dominant market share.

Response: *Yes, but only for 2 reasons.*



Customer Diversification Gap: \$95,900

Goal: Your company has a well-diversified customer base.

Customer Concentration

Goal: You have complete customer records and analysis that shows a well diversified customer base where no one customer represents more than 20% of the company's revenue.

Response: *Most of our company's revenue is concentrated in 3-5 customers.*

Trend Analysis

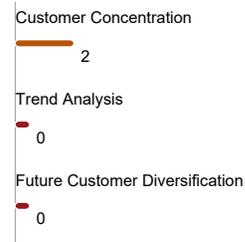
Goal: You can show historical data and trends to prove continuing diversification.

Response: *No, we don't have such documentation.*

Future Customer Diversification

Goal: You have documented and can defend future projections, by customer or product/ service line, of continued or growing diversification.

Response: *No, we don't have such documentation.*



Legal Gap: \$81,000

Goal: You have all legal matters in order, documented, and your company follows best practices.

Litigation

Goal: There are no claims for or against your company, or its employees, resulting in formal proceedings. **Response:** *We have pending or active litigation that's a real doozie.*

Process

Goal: You have a process to handle potential liability issues. **Response:** *Yes, we have a process to handle all sticky legal issues.*

Contracts

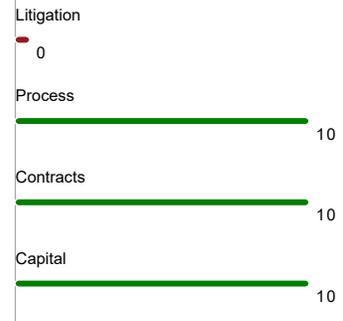
Goal: You have well-organized and documented contracts with key customers, suppliers, advisors, contractors, and employees

Response: *Yes, all of our contracts are organized and within arm's reach.*

Capital

Goal: You have well-organized and documented agreements with all investors/parties (both internal and external), who have provided capital to the company in any form.

Response: *Yes, we have documented agreements with all investors.*



Customer Satisfaction Gap: \$78,500

Goal: Your company tracks and uses key measures to meet customer expectations at all levels.

Satisfaction Objectives

Goal: You have customer satisfaction goals and objectives, and you communicate them both internally and externally.

Response: *We don't have customer satisfaction goals.*

Satisfaction Plan & Process

Goal: You have developed and executed a plan to meet customer satisfaction objectives.

Response: *Our plan is pretty informal.*

Customer Satisfaction Metrics

Goal: You routinely and continuously measure customer satisfaction.

Response: *We sometimes measure customer satisfaction.*



Senior Management Gap: \$74,900

Goal: Your company has a leadership team/individual in place to realize the company's vision and mission while helping the owner achieve his/her objectives.

Roles & Responsibilities

Goal: Throughout your company, there are clear and understood roles and responsibilities for senior managers that support the company's objectives.

Response: *Our senior managers tend to just do their own thing.*

Reporting Relationships

Goal: The company can run effectively without you.

Response: *No, the business needs me on a daily basis.*

Team Functionality

Goal: The senior management team effectively works together to deliver company goals and objectives.

Response: *Our senior management team could do a better job working together.*

Compensation

Goal: Senior management compensation is competitive and tied to individual performance against company goals and objectives.

Response: *Compensation is based more on what we can afford and not specifically tied to anything.*

Succession Plan

Goal: You have a personnel plan in place for each senior manager that ensures a smooth continuation of the business in case a change in senior management occurs.

Response: *We don't have plans for any of our senior managers.*

Roles & Responsibilities



Reporting Relationships



Team Functionality



Compensation



Succession Plan



Company Overview Gap: \$67,500

Goal: An outsider can easily obtain a holistic understanding of your company including your company's performance, practices, culture, discipline, and mission.

Business Profile

Goal: You have a well-organized and documented profile of your company that includes an industry description, high level year-over-year sales and gross margin reports, company history, location of operations, employee count and make-up, corporate and legal structure, and the accountants or lawyers advising the company.

Response: *We have some information gathered in one place.*

Company Story

Goal: If asked, your employees could succinctly communicate (verbally and in writing), what the company does, why, and how.

Response: *The company story is sort of defined, but only a few people know it.*

Web Presence

Goal: Your company has a professional web presence that supports your company's goals and objectives and easily communicates important information about your company (contact information, operating hours, location, key personnel, company overview, etc.).

Response: *Our web presence is basic but adequate.*

Defined Market

Goal: You have a comprehensive understanding of your company's current market niche, your company's place in that market, and a process to keep informed of market changes.

Response: *We have a solid understanding, but we could be better informed.*

Competitive Information

Goal: You have a comprehensive understanding of the competition in your market.

Response: *We have a solid understanding, but we could be better informed.*

Strategic Direction

Goal: You have a strategic plan that supports the owner's personal goals. This plan includes a vision and mission, business model, business goals, objectives, and an executable plan (tactics).

Response: *We have at least some components of a strategic plan but are not sure if they mesh with the owner's goals.*

Trusted Advisor

Goal: You have a trusted, high-level advisor who reviews, advises and provides feedback to the owner/CEO. **Response:** *No, we don't have a trusted advisor.*

Company Culture

Goal: Your company has a positive and adaptive culture that is aligned with and supports your company's goals. **Response:** *Our company is an OK place to work.*

Business Profile



Company Story



Web Presence



Defined Market



Competitive Information



Strategic Direction



Trusted Advisor



Company Culture



Human Resources Gap: \$50,600

Goal: Your company has the ability to find, develop, and retain quality individuals that enables success in all aspects of your business.

Roles & Responsibilities

Goal: Throughout the company there are clear and understood roles and responsibilities for each employee that supports the company's goals and objectives.

Response: *The majority of employees have a good understanding.*

Recruitment

Goal: You have a standardized, efficient, and effective process to staff the company including internal job postings, appropriate testing, multiple interviews with multiple staff, and reference checks.

Response: *We sometimes use different methods to staff our company.*

Employee Contracts

Goal: You have written employee contracts defining the legal relationship and responsibilities between the company and its employees.

Response: *We don't have employee contracts.*

Policies and Process

Goal: You have documentation and processes to ensure effective administration and employee relations.

Response: *Yes, we have documented processes.*

Compensation and Benefits

Goal: You understand and follow compensation best practices for your industry, and utilize a combination of fixed, variable, and non-wage forms of compensation.

Response: *We probably follow some best practices.*



Brand Gap: \$42,600

Goal: Your company has a recognizable brand that reinforces the business' presence in the marketplace and supports the company's objectives.

Brand Awareness

Goal: Your company enjoys high brand awareness that resonates with target customers, and has clear documentation that supports the strength and multiple aspects of the brand.

Response: *We have some documentation on the strength of our brand.*

Brand Advantage

Goal: Your company can articulate and quantify its brand advantage in the marketplace with a pricing model and financial measures that demonstrate the value of its brand.

Response: *We have a pricing model/financial measures that show our brand gives us a huge competitive edge.*

Brand Protection

Goal: Your company has protected its brand including logos and trademarks, and has a documented process to ensure that all aspects of the brand are represented in the marketplace in a consistent manner.

Response: *We're pretty good about protecting our brand and policing how it's used.*



Innovation Gap: \$8,100

Goal: Your company understands that innovation is invaluable to creating an ongoing competitive advantage; it has a proven and systematic way to drive and capture innovation at all levels and encourages innovation in every area of the business.

Culture and Rewards

Goal: Your company's culture encourages and rewards innovation at all levels of the organization. **Response:** *Yes, we are all about innovation, and we reward employees for innovations at all levels.*

Process

Goal: Your company has a well defined process to encourage, capture, and protect innovation among your employees.

Response: *Yes, we have a well-defined and documented process.*

Collaboration

Goal: Your company has tapped multiple constituents in its professional network (such as customers, suppliers, universities, consumers, advisors, or others), to keep abreast of new innovations and test your own innovations. **Response:** *We are completely tapped into multiple professional networks.*

Metrics

Goal: Your company can quantify the benefits of innovations through various means such as patents, copyrights, revenue growth, work flow efficiencies, and financial improvements.

Response: *We have quantified the benefits of some innovations.*



Suggested Tasks for Recapturing Value Gap

Suggested Tasks are identified actions you can take to grow and improve the value of your business. The CoreValue Task List is a complete list of suggestions we offer to improve your Value Gap. We list them below in descending order sorted by value gap.

Some tasks will be quick to accomplish, inexpensive, less disruptive, and have a high ROI — we believe you should do those first. They get you moving quickly, drive momentum, and provide you and your team real measurable improvements.

<u>Category</u>	<u>Value Gap</u>	<u>Suggested Task</u>
Financial Differentiation	\$107,000 5.2%	Improve Your Gross Margins Demonstrate that you have quantitative proof of differentiation, by product or service, and make sure that you can show a pricing and/or cost advantage over its competition.
Litigation	\$81,000 3.9%	Resolve All Legal Matters As Soon As Possible There's nothing like legal problems to distract you and potentially keep you awake at night. Make sure you have good legal representation, settle when you can, and take action to prevent these types of issues arising in the first place.
Future Market Growth	\$53,300 2.6%	Document Your Market's Future Document where you think the market will be in the next 1, 5, and 10 years. Ideally, you are in a growing market, providing substantial opportunity for your company to grow and make tons of money.
Niche Clarity	\$53,300 2.6%	Define And Document Your Market Niche Document your market niche by product line or service type.
Proof of Differentiation	\$51,200 2.5%	Differentiate! Create a meaningful point of difference, or uniqueness for your product or service, something that will attract new customers and ensure your current customers keep buying from you.
Margin Advantage	\$42,600 2.1%	Project Your Future Gross/Net Margins Create projections showing improving gross and net margins, and be able to support your assumptions behind these rosy projections.
Customer Concentration	\$42,600 2.1%	Diversify Your Customer Base Customer concentration equals risk. Expand your customer base to avoid having "all your eggs in one basket."
Competitive Monitoring	\$42,600 2.1%	Document How You Monitor Competition Take the time to document how your company monitors competition.
Margin Trends	\$32,000 1.6%	Document Your Margin Trend Chart your gross and net margins by quarter for at least the past 3 years (assuming you've been in business that long). Calculate and graph your margin trend.
Future Customer Diversification	\$32,000 1.6%	Document A Plan To Diversify Your Customer Base Even if you have revenue concentration with just a few customers now, document a plan on how you will add new customers over time and reduce your reliance on just a few customers.
Market Definition	\$29,800 1.5%	Quantify The Size Of Your Market Determine how big your market is (\$). If you don't have the data on hand, there are many on-line resources you can tap. You can even extrapolate the market size, as long as you document your assumptions.
Legal Barriers Documentation	\$21,300 1.0%	Document Legal Barriers Document and organize your legal barriers to entry: licenses, and/or contracts, plus patents, trademarks and/or copyrights that clearly define the protection and the extent of the protection (this protection may include regulatory protection).
Trend Analysis	\$21,300 1.0%	Document And Diversify Your Customer Base Diversify your customer base, and make sure to document your progress over time. Showing growing diversification, even if you still have significant customer concentration now, will at least show you're moving in the right direction.
Intellectual Property	\$20,300 1.0%	Identify Your Intellectual Property Intellectual property can be the most valuable asset in your company, but the one most overlooked, unprotected, and difficult to value. First, determine what IP your company has, and then determine how to best protect it. Examples of legal protection include copyrights, trademarks, and patents.
Margin Improvement Process	\$19,200 0.9%	Document Your Process To Improve Margins Document your process for improving margins. Make sure your process includes a way to continually track and measure progress.
Succession Plan	\$18,200 0.9%	Create Succession Plans For All Senior Managers Create a personnel plan for each senior manager that ensures a smooth continuation of the business in case a change in senior management occurs.

Company Story	\$15,900	0.8%	<p>Communicate Your Company's Story</p> <p>First, make sure you can succinctly give an "elevator pitch" or a 1 minute topline summary on your company (what it does, the history, why it is successful, etc). Then, make sure everyone in your company understands your company's story and can communicate it clearly (both written and orally) as well. Having everyone aligned around the basic information about your company is essential; it's the glue that holds a company together and ensures that there is a consistent message to the outside world.</p>
Trusted Advisor	\$12,000	0.6%	<p>Identify A Trusted Advisor For Your Company</p> <p>Identify a trusted, C-level advisor, who reviews, advises, and provides feedback to the owner/CEO. A trusted advisor (versus a business expert) typically helps build the business as a whole and is a confidant to the owner. This advisor should have broad business experience, be able to share both good and bad news, have access to all financial and operating information, and show up regularly to play an active role as part of the fabric of the business.</p>
Market Barriers Documentation	\$10,700	0.5%	<p>Document Market Barriers</p> <p>Document and organize your market barriers to entry. Make sure to include how you created these market barriers and how you will protect them. Examples include brands, licenses, trade secrets, exclusive agreements, location, etc.</p>
Strategic Direction	\$8,400	0.4%	<p>Create A Strategic Plan For Your Company</p> <p>Create a strategic plan that supports the owner's personal goals. This plan should include a vision and mission, business model, business goals, objectives, and an executable plan (tactics).</p>
Business Profile	\$5,000	0.2%	<p>Create A Company Binder</p> <p>Create a profile of your company that includes an industry description, high level year-over-year sales and gross margin reports, company history, location of operations, employee count and make-up, corporate and legal structure, and the accountants or lawyers advising the company.</p>

