Miller Construction Completes its 2021 business valuation for $6.5M, with plans to reach $9.4M in 2024.

ASSET VALUE RANGE

$6,538,000–$7,226,000

Asset Value = "the business" everything to generate your income and profits, and the value that is normally used in its transaction

The key success factors in the construction industry are:

1. Ability to quickly adopt new technology

It's required to adopt new technology in equipment and training to successfully compete in some industry segments. This includes using water jetters, rodder machines and drum machines to clear drains.

2. Having a good reputation

Much of the work in the domestic installation and repair market is based on word of mouth. Therefore, establishing a good reputation for quality work and value-for-money quoting is essential for plumbers.

3. Ability to change which market the firm operates in

Construction contractors who can switch between slower and faster growing markets are better placed for long-term success,as they can reduce revenue volatility and optimise resource allocation.

4. Ability to expand and curtail operations rapidly in line with market demand

The ability of construction contractors to read construction cycles and adapt their work accordingly is important for industry success. Contractors can adjust their cost structure and marketing to meet projected changes in demand.

5. Ability to compete on tender

Much of the work undertaken for commercial and industrial clients is allocated through a competitive tender process. Contractors must ensure a sufficient supply of work (cashflow) while maintaining adequate profit margins.

Company value is largely determined by:

1. The profits (*the cash flow to the owner*) and
2. The associated risk of those cash flows actually happening, and hence the required return from your investment.

Historical Financial Performance

	2018	2019	2020
Gross revenue	$1,329,127	$5,004,527	$8,688,407
Gross profit from trading	$1,078,795	$4,334,671	$7,705,554
Gross margin	81.17%	86.62%	88.69%
Net profit from activities before income tax expense	$183,514	$995,286	$1,444,246
Margin	13.81%	19.89%	16.62%

How We Value A Company Using Normalized Earnings And Risk Multiple

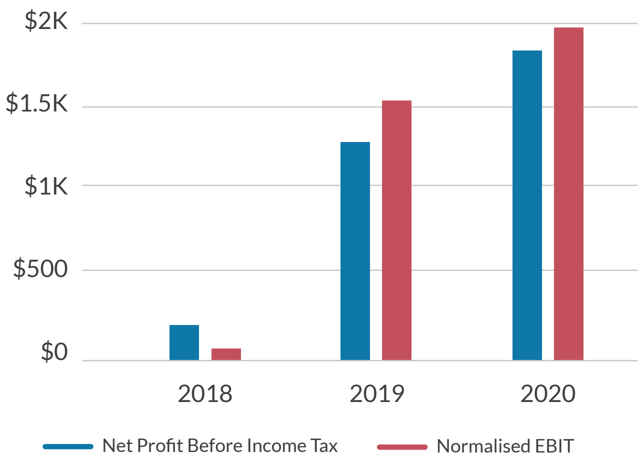
STEP 1

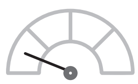
Normalising Cash Flows

STEP 2

Establish what is the risk premium investors require

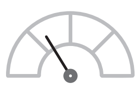
Accounting Profits vs Normalised Profits





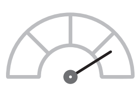
LOW RISK

GOVERNMENT BOND
Risk/return = 1.25%



LOW–MID RISK

STOCK MARKET
Risk/Return = 6.67%



HIGHER RISK

SMALL PRIVATE COMPANY
Risk/Return = 20.52%

Normalising Cash Flows = removing any non-core business income or personal expenses, meaning what the average owner would spend operating your business and income from its activities

Weighted Normalised Earnings of Miller Construction is $1,340,189

These risks factors are then quantified to find an overall risk level as to how volatile your Normalised Profits are.

Lower overall risk = higher multiple. Meaning when you apply a higher multipleto your normalised earnings, your company is valued higher.

In comparison to investing in other assets, see examples to the left.

Total risk/return required of Miller Construction is 20.52% = A Multiple of 4.87

Miller Construction Value = $1,340,189 x 4.87 = $6,881,750

How Can I Improve My Company's Value?

ACTION	% CHANGE	2021 EARNINGS	2021 VALUATION
Increase sales	10%	$1,500,000	$7,268,492
Grow Gross Margin	10%	$1,620,000	$7,936,553
Increase Operating Profit	5%	$1,840,000	$8,999,355

Miller Construction Has a Four Year Plan, to Eliminate Risk and Boost its Value to $9 Million.

INCREASING YOUR MULTIPLE

4.87x to 5.5x

Lowering these risks could result in an improvement of multiple from 4.87 to 5.5

1. High leverage: Consider using a fraction of surplus assets to pay for the whole debt or a part of it so that leverage decreases. By decreasing leverage your enterprise will be perceived as less risky and getting close to the optimal capital structure.

2. Key person risk and owner's goodwill: Consider redistributing responsibilities between your employees so that all key functions are not executed by the same person.

3. Client Concentration: Having 90% of your business/revenue funnel from the referrals of effectively one client has large risk elements to it. Client concentration risk needs to be reduced, for your industry a achievable scenario would beno one client to provide more than 40% of revenue and the top 3 clients more that 70% of revenue.

Your company value is able to grow by focusing on cost efficiences, sales growth, and reduced risk, which can exponentially increase your company's value.

	2020
Normalised Profits	$1,340,189
EBIT Multiple	4.87x
Valuation	$6,881,750

	2024
Normalised Profits	$1,750,000
EBIT Multiple	5.56x
Valuation	$9,730,000

How We Can Help?

We tailor the scope of each business valuation to our client's specific needs and purpose of the engagement. Tax valuations and related consulting are in accordance with the regulations established by the Internal Revenue Service.

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