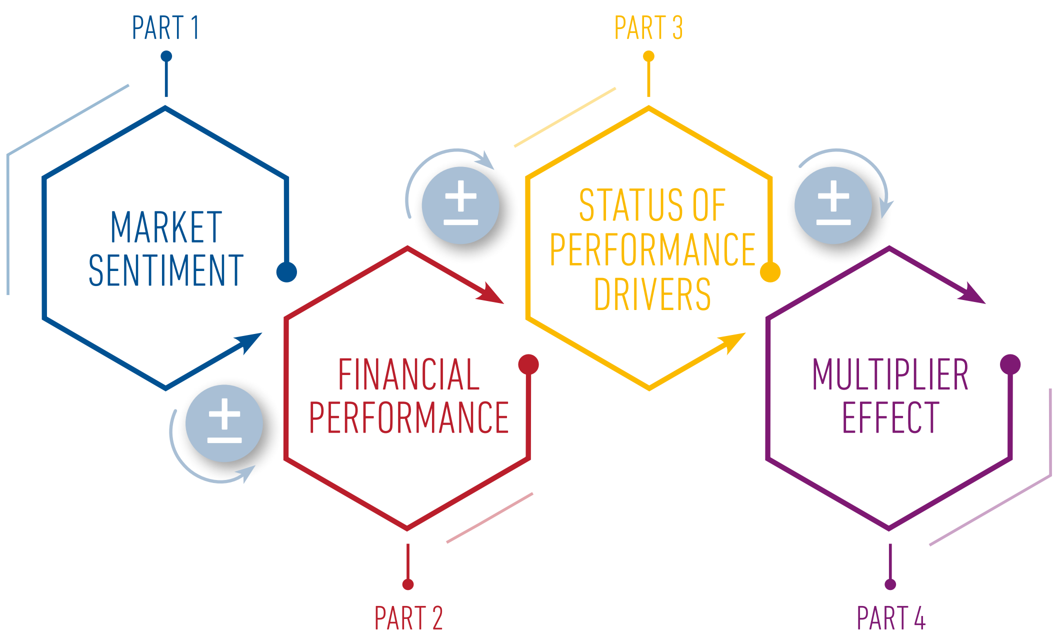
MAZARS CAPITAL VALUE EQUATION

Part two – Managing the equation

In ‘Part one – What is it?’, we introduced the concept of Capital Value, and explained how the Mazars Capital Value Equation is a critical tool for businesses.

As a reminder the Mazars Capital Value Equation is...



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This article is where it gets really exciting for a business owner, because there is a great deal a business can do to influence and improve many of these factors and multipliers. Even simple changes, such as strengthening the management team, can deliver significant gains and make a real difference to the capital value. What's more, every mid-market company can benefit from doing this, irrespective of where they sit within their peer group.

The worked example below demonstrates that when all parts of the Capital Value Equation are considered, the variance in the capital value calculated of similar sized companies, operating in similar industries can be significant. This 'capital value gap' can run into millions over the life of a business owner.

Large corporate businesses already understand the advantages of taking this approach; and every decision they make is determined by the effect on shareholder/capital value. If mid-market business leaders could adopt some of the principles of the large corporates then they could start to turn the dials on the capital value drivers on a daily basis.

But this message has yet to get through to many mid-market business leaders. Part of the problem is that they can be so immersed in the day to day running of the business that they find it hard to make the time to think 'on the business' rather than 'in the business'. More fundamentally they don't make enhancing their capital value part of the day job and so it gets side-lined and overlooked.

From our experience, being busy is not the same as being productive, and sales volumes alone are never going to make a company 'best in class'. If a business owner really wants to reap the rewards of their efforts, they need to start looking beyond the headline figures to how they can strengthen the fundamental elements that underpin their business. It is only then that they will be managing the capital value equation and realising their full value potential.

> "Strengthening the management team, can deliver significant gains and make a real difference to the capital value."

A worked example – Managing the Capital/Shareholder Value Equation

The example below shows the same business, with the same Turnover but under 3 scenarios – each with differing inputs into parts 2, 3 and 4 of the capital value equation. This demonstrates that the resultant capital value of a business can vary significantly and just how much there is to play for.

		SCENARIO 1	SCENARIO 2	SCENARIO 3
PART ONE	Market Sentiment Standard sector multiple today	5	5	5
PART TWO	Financial performance • Turnover • EBITDA	£25m £0.5m	£25m £1m	£25m £2m
PART THREE	Status of performance drivers			
PART FOUR	Multiplier effect The 'Big 5" driver effect • Management mindset • Market position, consumers and offering • Management team • Business operations • Business models, strength and risk profile of future revenue streams	BELOW AVG. -2	AVERAGE 0	ABOVE AVG. +2
	Resultant Valuation multiple	3	5	7
	Capital/Shareholder value *(EBITDA x Resultant valuation multiple)*	£1.5m *(0.5x3)*	£5m *(1x5)*	£14m *(2x7)*

THE CAPITAL VALUE GAP

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