

# Valuation and Selling Case Study

## Sale Price Reality Check

### Background

We recently completed a business valuation and value gap analysis for Sarah, a business owner operating a chain of four healthcare retail outlets. Sarah wants to sell her business in 2 years and retire. Sarah is not sure what her business is really worth and, more importantly, what it **needs** to be worth at the time of sale for her to achieve her desired retirement lifestyle.

Sarah approached Bstar with a “guesstimate” of the value of her business of **\$1.25m** but our bank accredited valuation determined a result of **\$750k**, a shortfall of **\$500k (40%)**. Bstar’s Value Gap Analysis also identified that Sarah’s business value needed to be \$1.05m at the time of sale for Sarah to achieve her desired retirement lifestyle. Based on Sarah’s current profit growth rates, it would take Sarah **7 years** to achieve this sale price.

This case study highlights how many business owners have **unrealistic sale price expectations** for their business. It also provides guidance on how advisers can develop strategies for value and profit improvement in their client’s businesses by completing a series of sensitivity analysis calculations. These improvement strategies can then be clearly communicated to business owners, like Sarah, in a manner they understand. In Sarah’s case the target for improvement was weekly sales.

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**Client Issues:** Accurate business value  
Growth in value is needed to ensure desired retirement lifestyle  
How to grow value?

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**How Resolved:**

1. Business Valuation

Sarah’s financial adviser completed a business valuation consultation using Bstar’s Business Capitalisation Rate Calculator. The result:

Sarah’s sale price expectation	\$1,250,000
BCRC Business Value for Sarah’s business	\$750,000

2. Value Gap Analysis

Once Sarah’s business value was calculated, her financial adviser completed a Value Gap Analysis to determine the business value. Sarah needs at time of sale to ensure her future retirement lifestyle.

Current business value	\$750,000 (3x Profit of \$0.25m)
Future business value needed	\$1,050,000 (3.5x Profit of \$0.3m)
Future profit target p.a	\$300,000
Growth in profit required p.a	\$50,000

3. Sensitivity Analysis

By completing Bstar’s valuation and profit sensitivity analysis calculations, Sarah identified, with the support from her financial adviser, that she would need an increase in annual sales of around \$500,000 whilst maintaining her current EBIT margin (10%) to generate the extra profit and thus achieve the value needed at time of sale.

4. Plan for Sale: Improve Weekly Sales!

Sarah’s plan for sale included a requirement that each of her four outlets grow their weekly sales by \$2,500. To achieve this Sarah implemented a simple but effective Bstar sales incentive plan with her retail staff focussing on growing high value profit lines and rewarding staff for above budget sales.

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**Process:** Financial (retirement) Planning, Business Valuation and Value Gap consultation, Business Planning to close the value gap and implementation of an effective Staff Value Program.

For more information contact >

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