

What are the Benefits of conducting a thorough Business Financial Analysis

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Benefits

The Business Financial Analysis Report provides business owners, managers and potential investors with a wealth of information on the financial performance and potential of a business.

The Business Financial Analysis Report is used by business owners and managers to track business performance improve decision making and business management. Investors and buyers/seller of a business benefit from an accurate, in-depth and quantifiable analysis of a business's market value (sales value or worth), its potential and underlying risk factors or weaknesses and its strengths.

The Business Financial Analysis Report provide sellers with a strong negotiating position to ensure that he/she obtains the best sales value for his/her business. Similarly, buyers can use the analysis to negotiate the lowest sales price.

Who should use it?

Business owners, executives, managing members and business and financial manager's benefit from the insight gained from the Business Financial Analysis Report. It provides business leaders with operational and strategic information to better manage their businesses and to make informed operational and strategic decisions.

How often should an analysis be conducted?

Business owners and managers use the Business Financial Analysis Report on a quarterly, bi-annual and annual basis to track business performance, adjust operational strategies and targets and assist in decision making. Buyers and seller of businesses use the Business Financial Analysis Report prior to buying or selling a business.

What does the Business Financial Analysis Report consist of?

The Business Financial Analysis Report uses linear regression forecasting methods and "what-if" scenarios for projecting future business performance. It uses internationally accepted ratios to assess business performance and determine underlying strengths and weaknesses. The model incorporate bankruptcy prediction model that are well accepted by investment firms and banks to determine a business's risk of experiencing financial distress or bankruptcy and quantitative methods to determine a business's market value (sales value or worth).

Forecasting

Linear regression is used to project future performance. Projections are based on historic sales, cost of goods sold, operating expenses, operating profit margins and net profit margins. This projection method assumes that micro and macro market conditions follow the recent historic trends.

Scenario planning

The "What-if" scenario are used to predict the business potential future performance based on historic result (as is mentioned above), but allows for non-linear regression micro and macro market conditions and economical situations. This projection allows for more freedom and verifications as compared to the linear regression projection method used above.

Ratio analysis

More than 30 universally accepted financial ratios are calculated over the period analysed (usually 4 periods) to assess the business's financial performance on its liquidity, profitability, efficiency (asset management, etc.), gearing/leverage, employee performance and growth. The results obtained are interpreted, benched marked with industry averages and graphically presented to increase the ease of understanding and to show business trends.

Bankruptcy prediction and financial distress

Altman's Z-score, Springate's financial risk analysis and the Logic tests are used to determine a business's probability of experiencing financial distress or the risk of insolvency over the 2 year post the analysis date. These methods used are well accepted by commercial banks, investment institutions and venture capitalist to assess businesses for granting loans or investing capital.

Business market value (sales value/worth)

A business market value (worth) is determined based on historic business performance (Income Statement, Balance Sheet and/or management accounts). The model incorporates sales values, cost of goods sold, operating expenses, operating profit margins, net profit margins, the company's asset base (current and non-current assets), debtors, creditors, long-term debt, current debt, expected future earnings, expected return on investment and payback period to calculate an average business market value (sales value/worth). The business market models comprise of different calculation methods (listed below).

Expected future earnings model

This model uses past sales results to determine the future profits likely to be achieved through the business. The model takes into account sales trends, historic profit margins, expenditure, capitalised value of the business, assets to be transferred in the sale and the business's build up "goodwill".

- **Asset based method**

This method is based on the appraised value of the assets to be transferred (in the sale of the business) at the time of negotiations. It assumes that these assets will be used in the business and that a fair market value would be achieved. This method does not take into account the future of the business or future profits generated from its use within the business.

- **Goodwill**

Goodwill arises from all the special advantages connected with a going concerns good name, capable staff and personnel, high standing, reputation for superior products and customer service and favourable location. A value is calculated for the goodwill associated with the business.

Return on Investment (ROI) & payback period

Again historic results are used to determine the expected return on investment and payback period from investing in this business. Given the calculated values of ROI and payback period the value/worth for the business is determined.

Average business market value and upper and lower limits for business worth

Different results are obtained depending on the calculation method used. An average business market value is calculated (based on these methods results) and a range is determined that could be used for negotiations in buy-sell transactions, shareholding and BBBEE transactions.