



UNDERSTANDING SDCF

Value Your
Business
Like a **PRO**

ALISTAIR PLINT

Business Sales Guides



JUNE 2024

INDEX

Part One Understanding Market Analysis.

Part Two Understanding SDCF.

Part Three Why This Method?

Part Four Tips For Use.

"**Price** is what you **PAY**
Value is what you **GET**"

Warren Buffet

Repost



STARRING



The Investigator



The educator



The Entrepreneur



The Broker



The Marketeur



This

Repost





PART ONE

Understanding Market Analysis

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Business Valuations

Are an opinion of Value.

A guide to what a business could sell for in the current market, in a particular area, at a particular time.

The market value is different from the tax value or insurance value

This Guy...

Repost





A ***Multiple of earnings***
is derived from a thorough
Market Analysis

This takes...

Asset Value

Customer

Acquisition & Retention

Staff

Inventory

Type, Area, &

Intellectual Property

into account

This Guy...

Repost





This Guy...

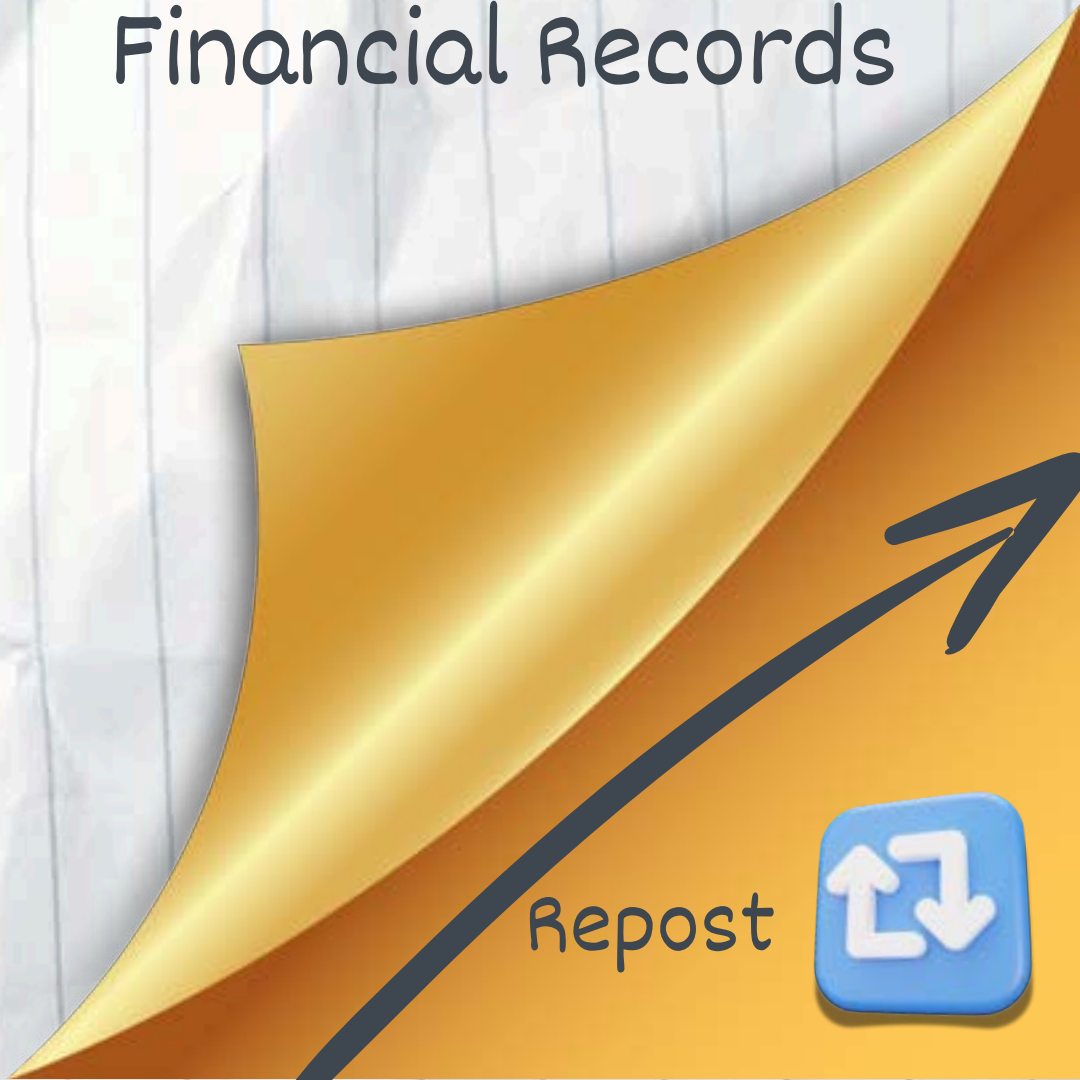
Multiple Of Earnings

can only be applied if

✓ The business is a
"Profitable Going Concern"

The business has a clean
✓ legal and tax record.

The business is properly
✓ Accounted and has
Financial Records



Repost



The Multiple of Earnings
is multiplied by
Sellers Discretionary Cash Flow
(SDCF)

$$\text{SDCF} \times \text{Multiple} = \text{Estimated Value}$$

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"An effective business broker
will calculate two
market related multiples

one on the low side of the market
and one on the high side of the market."

The Entrepreneur

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PART TWO

How To Calculate SDCF

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"SDCF is Business money
used at the owner's discretion"

S = Sellers

D = Discretionary


C = Cash

F = Flow

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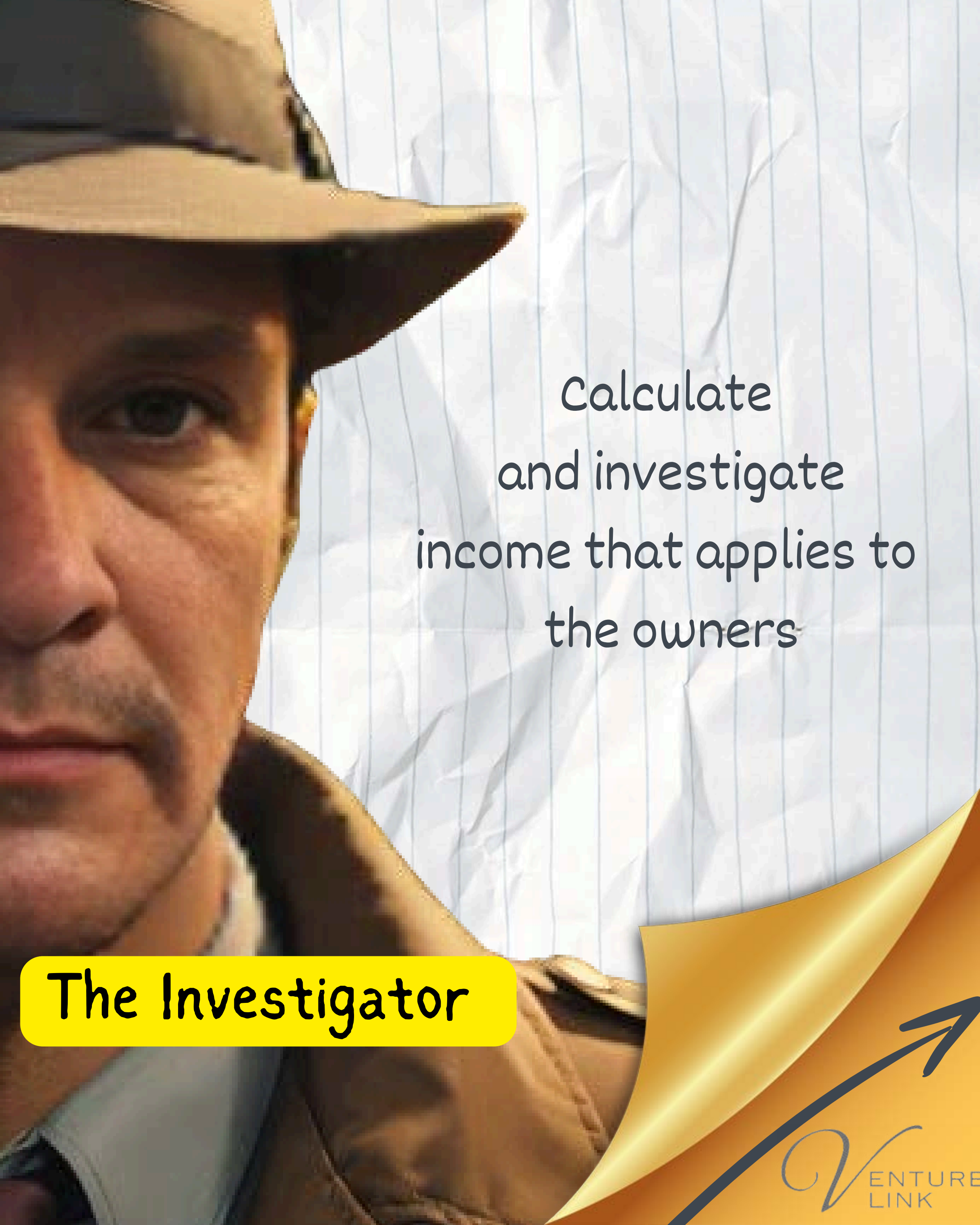




The Investigator will request these things

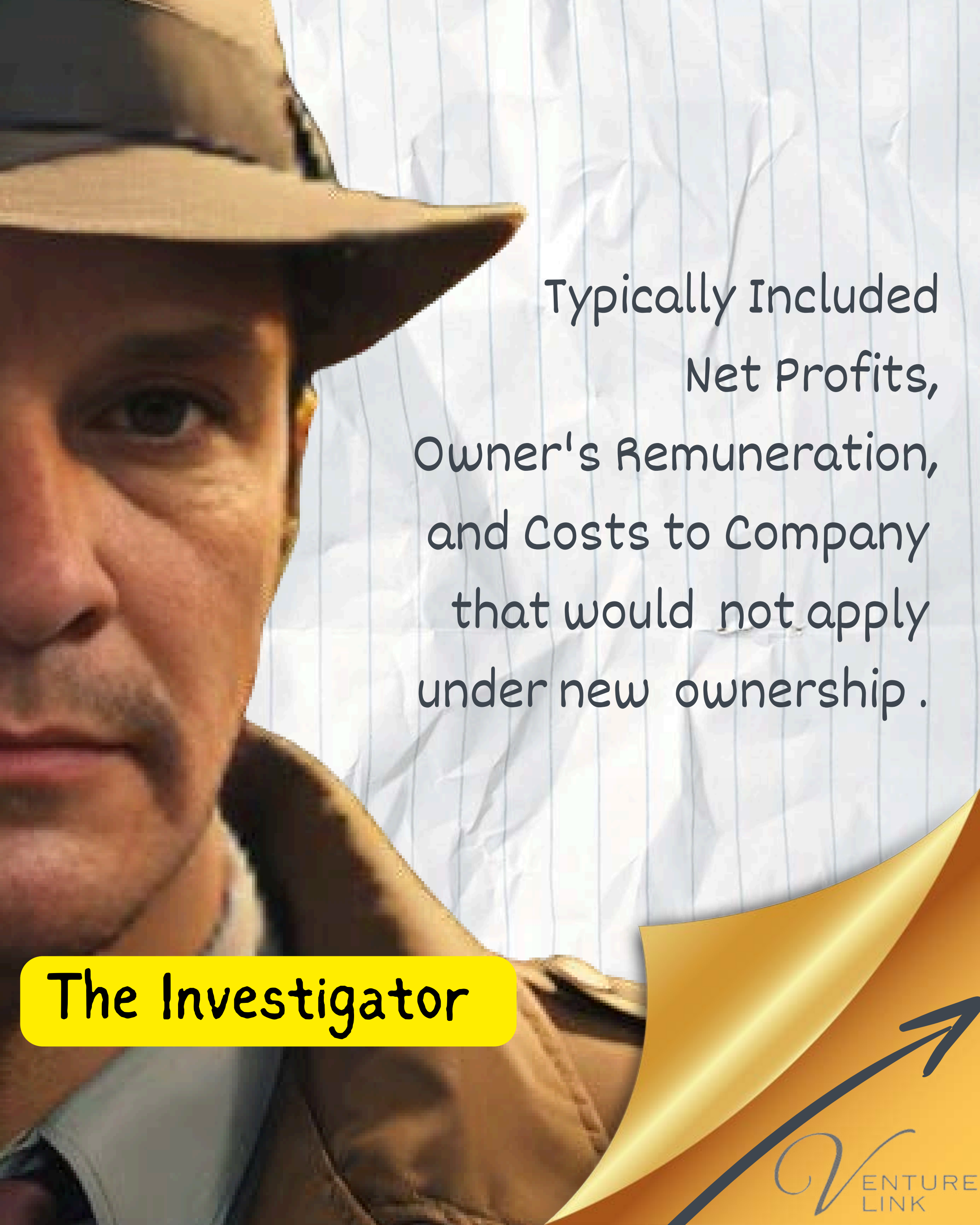
- 3 Years financial statements
- 12 months Income Statements
- Other docs based on industry.

The Investigator



Calculate
and investigate
income that applies to
the owners

The Investigator



Typically Included
Net Profits,
Owner's Remuneration,
and Costs to Company
that would not apply
under new ownership.

The Investigator

Let's use a real life example

Natasha owns a florist
The business shows a
Net profit at
R25000 per month
Natasha earns R30 000
per month

The Investigator





Let's use a real life example

Natasha uses her own Car, and claims the Petrol from the business at an average of R5000 per month.

She does the same with her phone at R2500 a month.

The Investigator

Let's use a real life example

The business makes a monthly charity donation that is close to Natasha's heart. The donation is R2500 a month

The Investigator

The Investigator's findings
are therefore

Net Profit = R25 000

Natasha Salary = R30 000

Natasha Petrol = R5000

Natasha Phone = R2500

Charitable Donation = R2500

Total monthly = R65 000

The Investigator

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To Arrive at the annual SDCF :
Multiply the monthly results by
12 months.

$$\begin{aligned} & R65000 \times 12 \\ & = R780\ 000 \\ & \text{Annual SDCF} \end{aligned}$$

The educator

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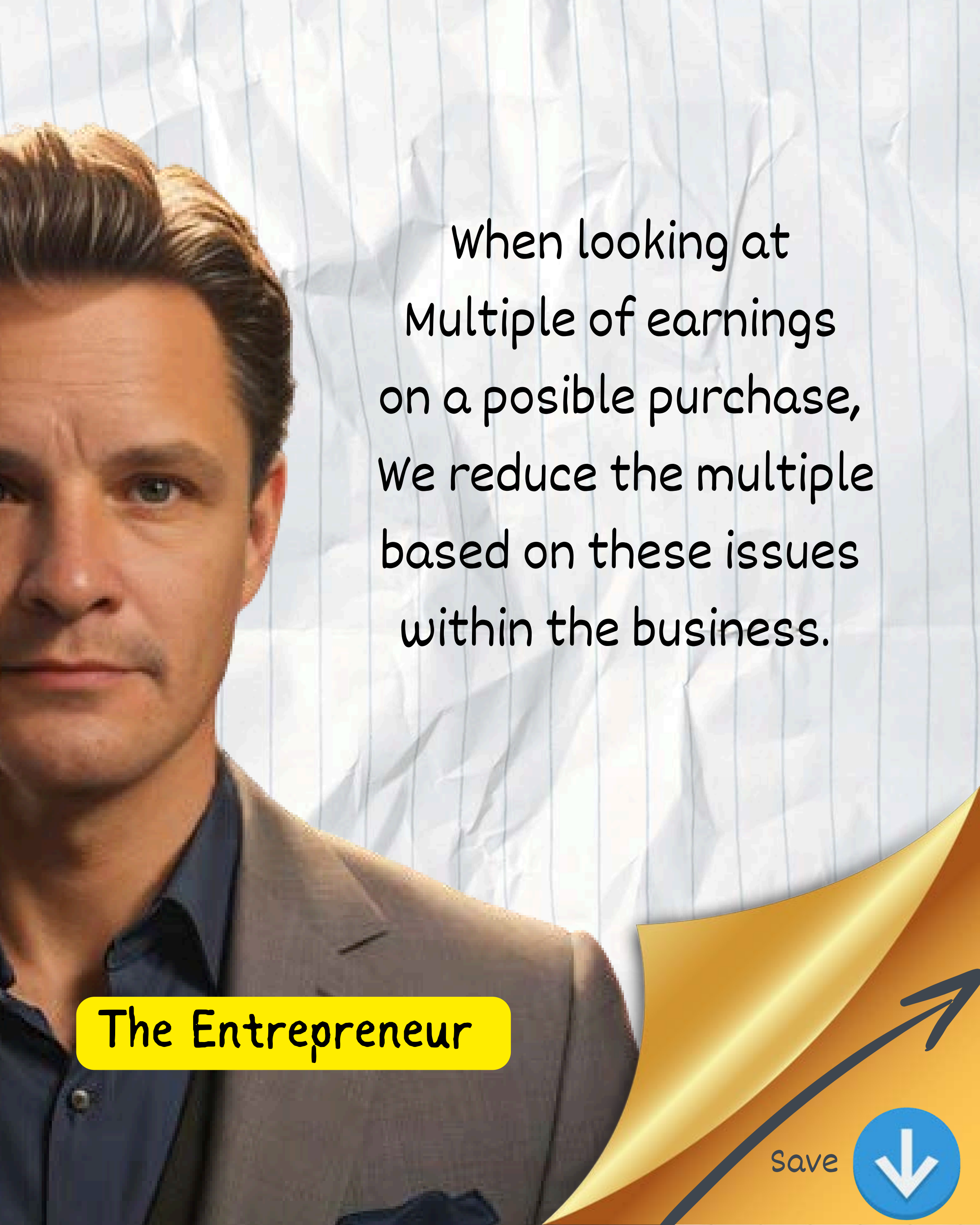
In our example of a florist
with SDCF of R780,000
and an average Multiple of
2.4.. Here's the maths

$$\begin{aligned} &R780,000 \times 2.4 \\ &= R1,8 \text{ Million} \\ &\text{Estimated Value} \end{aligned}$$

The educator

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When looking at
Multiple of earnings
on a possible purchase,
We reduce the multiple
based on these issues
within the business.

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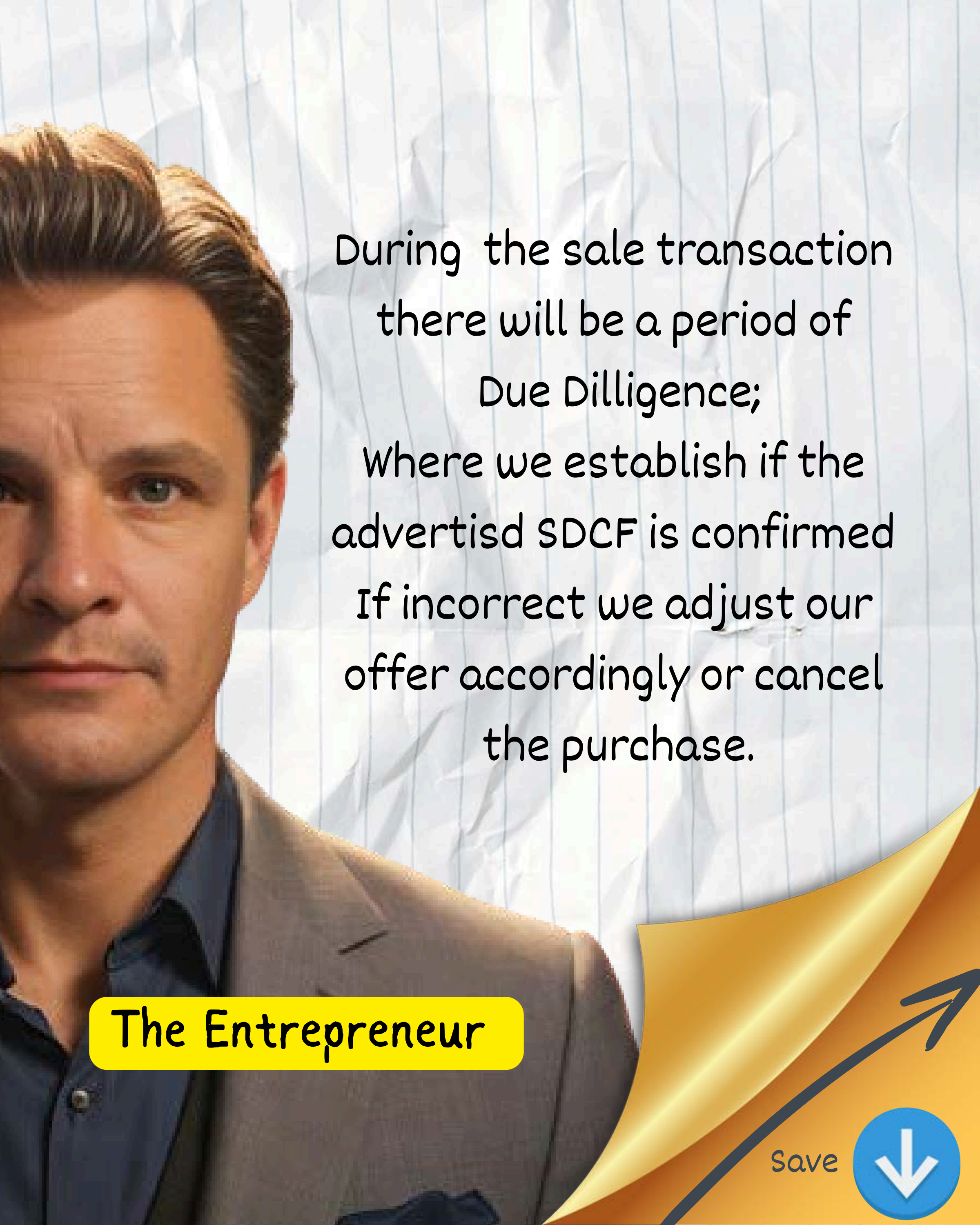


- 
- Low recurring income
 - High Owner dependency
 - Low Client Retention
 - Bad safety & security
 - Low Financial insecurity
 - Low Market Relevance
 - Low Potential Longevity

The Entrepreneur

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During the sale transaction
there will be a period of
Due Dilligence;
Where we establish if the
advertisd SDCF is confirmed
If incorrect we adjust our
offer accordingly or cancel
the purchase.

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PART **THREE**

**Why
Use
SDCF
?**

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SDCF is a recognized method of valuation for micro & small businesses.



A measurement of available income if business continues as normal



SDCF compares company's profitability accross the market at the current time



@business-adventures

#businessbrokers

The logo for Venture Link, featuring a stylized 'V' followed by the words 'ENTURE LINK' in a sans-serif font.



PART **FOUR**

TIPS
For *Using*
SDCF
Valuations

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Use all factors
especially
Net Profit
Owner's Salary
Personal Costs



Follow trends over time
to establish
increases & decreases



Only compare businesses
in the same industries
and markets.



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Howsit , I'm Alistair
a business broker in the Micro &
small business space in
South Africa with
Venture Link Business Brokers



I hope this guide is helpful
to you, feel free to
download & save it for
future use or to circulate it
with your network!



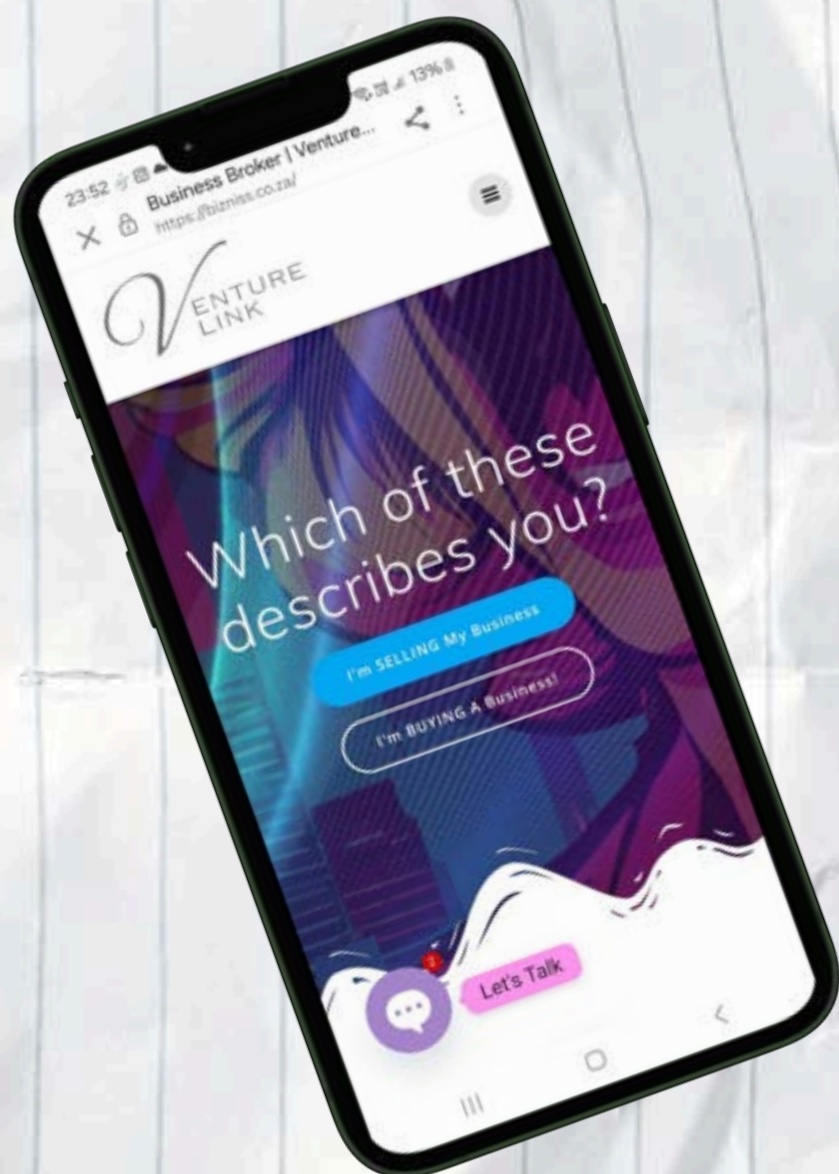
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One Last Thing...



Need help with a business
**Market Analysis and
Valuation?**

Swing by our website
or **scan my code**
for more information



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