

# 5 KEY VALUE LEVERS

What business owners need to know to maximize cash flow now and value in the future



ALFA Advisory helps entrepreneurs, business owners and executives protect their personal wealth, optimize the growth and value of their business, and create a meaningful and lasting legacy.

**With more confidence, options, and resources, you will scale your wealth and impact faster.**

The 5 value levers are contained in the **value equation**, which is the simplified math of how an outside party assesses your business and determines value. **These value levers are not just for “someday, when you think about selling”;** they are for right now **to improve cash flow, expand resources, and free up your time.**

## **VALUE EQUATION: EBITDA x MARKET MULTIPLE = BUSINESS VALUE**

It's no shock that operating profit, or **EBITDA** (Earnings Before Interest, Taxes, Depreciation & Amortization) is a driver of value, but what is surprising is that **EBITDA is only responsible for approximately 20% of your business' value.** If you only focus on profit, you overlook 80% of income and value creation opportunities.

The **Market Multiple** contains **4 Value Drivers**: **Team Strength; Operational Excellence; Revenue/ Customer Base; Culture & Brand.** These are known as “transferable intangibles” and are 100% within your control.

Owners often don't take interest in this number until they are selling, but Market Multiple is a proxy for how well your business is run and the quality of earnings you are generating. Premier businesses generate stronger revenues and profits by recruiting the best talent, reducing owner dependency, and efficiently and consistently delivering for diverse, reoccurring customers at a premium price. An example to illustrate the potential impact:

<b>Company</b>	<b>Earnings</b>	<b>Multiple</b>	<i>2 Deep</i>	<i>Documented</i>	<i>Integrated</i>	<i>Unique</i>	<b>Value</b>
Best-in-Class	\$10M	8X	<i>Strong</i>	<i>Repeatable</i>	<i>Diversified</i>	<i>Differentiated</i>	\$80M
Average	\$5M	4X	<b>TEAM</b>	<b>STRUCTURE</b>	<b>RELATIONSHIPS</b>	<b>CULTURE &amp;</b>	\$20M
Below Average	\$2.5M	2X	<i>Weak</i>	<i>Inconsistent</i>	<i>Concentrated</i>	<b>BRAND</b>	\$10M
			<i>Key Ppl Risk</i>	<i>Ad-Hoc</i>	<i>Shallow</i>	<i>Generic</i>	
<b>20% of value = size, balance sheet</b>			<b>80% of value = “transferable intangibles”</b>				<b>Exponential</b>

Increases in EBITDA produce a linear increase in value; Increases in Multiple produce an exponential increase.  
**Increases in both maximize a business' impact, value and wealth creation.**

The Multiple a buyer assigns (e.g. 5x EBITDA) can be influenced by things outside your control, such as the buyer's needs (they may pay more if they have a strategic reason), interest rates (they may pay less if capital is expensive), and what similar companies are being bought and sold for (comps, which are influenced by your industry and/or broader economic cycles). **But these factors are secondary to quality of earnings.**

[continued >](#)

All 5 value levers are intuitive; you probably think about aspects of these topics daily, or perhaps they are what keeps you up at night. But the most profitable and valuable companies focus **intentionally** and **relentlessly** on improving these factors. They can be worked on in any order, but in our experience, this sequence works best:

### **VALUE LEVER 1: EBITDA** (*Earnings Before Interest, Taxes, Depreciation and Amortization*)

Most owners are familiar with this number, or they track a similar metric of operating profit or pre-tax profit. For example, you invest in marketing, new products or new projects → which grow revenue → then you backout the added delivery costs = more profit / income. In a vacuum, a singular focus only on profit becomes one dimensional.

### **VALUE LEVER 2: STRENGTH OF YOUR TEAM & INDEPENDENCE**

A key distinction between a lifestyle business and a saleable enterprise is the dependency on the owner. Buyers will penalize the multiple, and thus value, if you have not built a robust team with distributed expertise. A deep bench derisks your business; cross-training and succession planning critical roles ensures continuity and minimal disruption when a key person falls ill, retires or resigns. Even if you never plan to sell, a more autonomous company with stronger cash flow frees you to contribute only in ways that bring you maximum joy and impact.

### **VALUE LEVER 3: OPERATIONAL EXCELLENCE & STRUCTURE**

Documented, repeatable processes enable your talented team to consistently execute at a high level. Strong operations drive greater customer loyalty, efficiency and innovation into your business, all of which will reduce risk for you as the owner now (or to a buyer someday) while improving cash flow and profitability. Managing supplier concentration risk is also a consideration; what would happen to your cash flow if your single supplier shut down?

### **VALUE LEVER 4: QUALITY OF REVENUE & CUSTOMER RELATIONSHIPS**

A premium is given to more predictable cash flow, which you want today, and would also be more valuable to a buyer down the road. All else equal, recurring revenue is more desirable than one-time or event-driven sales, and a diversified customer base is better than a concentrated one (no more than 5-10% revenue from a single customer).

### **VALUE LEVER 5: CULTURE (INTERNAL) & BRAND (EXTERNAL)**

A strong company culture keeps your team rowing together and executing on your vision. A strong external brand commands pricing power and customer loyalty. These both take time to develop and reinforce through consistent interactions. Things that take time and are difficult deserve a premium, and often mark a best-in-class company.

### **EXAMPLE: VALUE LEVERS' IMPACT ON CASH FLOW & BUSINESS VALUE**

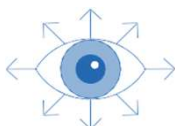
- \$1M EBITDA x (avg. multiple; each value factor is 1.0 + 1.0 + 1.0 + 1.0) = **\$1M x 4.0 = \$4M baseline**
- **+25% profit: \$1.25M EBITDA x 4.0 = \$5.0M; +\$1M or 25% value increase w/ 25% more earnings; linear result**
- **Same profit, best-in-class multiple: \$1M EBITDA x 8.0 = \$8M; +\$4M or 100% value increase; exponential result**
- **25% increase in profit + BIC multiple: \$1.25M EBITDA x 8.0 = \$10M; + \$250k & \$6M or 250% increase; exponential**

*Want to know the value of your business, and the levers driving it?*

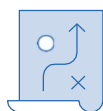
**[Click here for a business valuation in only 15 minutes](#)**

You only need your last 2 yrs. business tax returns; our software will direct you to specific lines & boxes. We will email your preliminary value report, benchmarked against your industry, regional and national databases. We also offer a **confidential** 45-minute call to review it **at no cost to you. We do not share your information.**

## **ALFA EFFECT: Unlock More Freedom in Your Life and Business by**



CLARIFYING YOUR VISION,  
DREAMS AND GOALS



OPTIMIZING YOUR PLAN  
AND PATH FORWARD



ALIGNING SPECIFIC,  
CURATED EXPERTS



GAINING ACCESS TO  
ALFA'S COMMUNITY