Good morning, everybody. Dennis Engelbrecht with The Family Business Institute. Thanks for tuning in today.

Today I want to talk about company value. I think it kind of goes without saying that every leader and owner out there wants to maximize the value of your company, right? You hope your company's worth as much as it can be. And it's not because you need your company to be worth X amount of money, it's because value is really a sum, if you will, of the profitability of the company and the excellence that your company puts forth. So, if you have more excellence and more profitability, you'll have a higher value, and we all want to run excellent, profitable companies.

So, in thinking about this, I sort of created in my mind a pyramid, whereas at the top of the pyramid is the value of the company, and that's the goal. The goal is to have a valuable company. And I thought, well how is that value actually determined? And really the value is determined by financial results. I mean, you can read a book on valuation or go online or whatever, and you'll find your three primary valuation methods, and all of them are really based on profitability, right? One is a discounted cashflow of your profits. One is a comparison with public companies in your industry. And the other is a comparison of like companies, all right? But all of those comparisons are based on profitability.

So, your profitability also has an element which is maybe that next layer down from the top of the pyramid. And there are some other factors there, which is growth. If your profit's growing, your company's more valuable than if your profits are level or certainly if they're headed downward, because the value of your company is actually based on future results, not your past results. Of course, they oftentimes use the past results to predict the future.

The other aspect that makes your company more valuable is consistency, consistency of performance, all right? And the reliability of your revenues, the repeatability of your revenues. And construction is an interesting industry because we operate off of a backlog of work into the future, but we're constantly having to recreate our future work and our backlog into the future. It's not like a manufacturer of a specific product, where we're stamping them out and there's an inherent demand that might go up and down a little bit. We actually have to win all of our future work, it is not guaranteed to us in construction, right?

So, growth, consistency, consistency both of your profitability and your growth, and the reliability of your ability to produce that growth are sort of the building blocks of that ultimate value. And now what are the building blocks of those financial parameters? And this is really the point today.

In building this pyramid, you're not going to have the financial results and you're not going to have the basis of those results without the platform for results, which is across the bottom. And I would argue that the platform for the value of your business, the base of the pyramid, is your organization, your culture, your leadership, the talent you have. It's very hard to sell a company if all of the leadership and all of the talent is going to go away and if you don't have a strong organization. Again, this is construction. That person who is buying you, they could go out and start their own company if you don't have the people, right? Why would they want yours?

Number two on that base, process and procedure. Now this might sound kind of boring and rote and hard to define, but what I'm talking about here is sort of the flywheel effect that's talked about in the book, Good to Great. You have a way of doing things that create the reliability, the consistency, and forms even a platform for growth and success, right? You don't let the profit leak away when you land it. You have a process and procedure that creates that consistent performance, and performance is key to profitability and growth, right?

And then there's also the BD and marketing engine, the work acquisition engine, if you will, that can create future growth or sustain that growth or create the reliability of revenue into the future. So, what is your work acquisition engine look like? Is your estimating solid? Do you have business development and marketing? Do you have a strong reputation? Because if your reputation is flawed, that can hurt your future business. If your reputation is strong, obviously it enhances it. And then behind that reputation, what is your differentiation as a company. Do you add value through the process that again allows you acquire work in the future, compete for work more favorably?

So, think about this. If you want your company to be worth more, it isn't just about the profits. It isn't even about how those profits get produced and recognized. But it's really about the base that you create to create those profits in the future, and that's how you'll build value in your company.

Dennis Engelbrecht, Digging Deeper.