

# GET YOUR HOUSE IN ORDER

8 Areas to Focus on Before Exploring M&A

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# INTRODUCTION

- This is **NOT** a valuation seminar but a session that helps you eventually improve the value of your agency
- **Beauty is in the eye of the beholder. Some of you may think you're gorgeous but in reality ...**
- **Huge thought. THINK what would happen IF you had to sell the agency tomorrow**



# ACCOUNTING PRINCIPLES



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- Follow generally accepted accounting principles for our industry
- Accrual basis not cash
- Be consistent in your bookkeeping practices
- Review statements regularly and understand what affects them
- Have a formal close each year with CPA sign-off



# INCOME STATEMENT



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- Industry formatting
- Billings minus direct costs = AGI
- Descriptive billings categories
- Matching costs categories
- Detailed expenses, listed high to low
- Alignment from year to year
- 50\30\20



# BALANCE SHEET



# BALANCE SHEET

- Why does the balance sheet matter
- Working capital - health of the company
- Too much excess cash
- Hidden expenses
- Owner draws



# BALANCE SHEET

- **Processes are key to a healthy balance sheet**
- **Are bank reconciliations current**
- **WIP**
- **Accounts payable**
- **Advance billing/Deferred sales**
- **Accrued media or liability**
- **No redundant assets**



# VALUATION



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- Typically is based on a multiple of net normalized earnings
- The better run, the more profitable, the higher the multiple
- Conduct one every 24 months to create a history of value
- Understand what helps or hinders value
- Make changes if needed
- In M&A, size does matter



**KNOW YOUR CORE VALUES**



# KNOW YOUR CORE VALUES

- What does the agency stand for?
- Who do we desire to work with; clients and employees?
- What are our non-negotiables?
- Can the agency maintain these values if purchased?
- Does it matter to us or our clients?



# CLIENT ANALYSIS



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- **Keep your client list in tip-top shape**
- **Analyze profitability by client**
- **Who are our best clients?**
- **Who is dragging us down?**
- **Client/AGI mix: watch out for clients that comprise too much of AGI**
- **Make changes over time to polish client list and amortize billings**



# OPERATIONS & SYSTEMS





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- **Do we have appropriate systems in place?**
  - **Workflow**
  - **Estimating**
  - **Financial**
- **Are these processes documented?**
- **Does our team follow these systems?**
- **Can we show efficiency and utilization?**



# PEOPLE



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- **As with clients, take a hard look at your team**
- **Who is a star performer?**
- **Who is not pulling their weight?**
- **Trim or add staff for optimum performance and growth potential**
- **Build in key management layer and delegate responsibility**
- **Reduce principal's role**

# RECAP



to do list  
• Sketch  
• drawing  
• 3d model  
• material  
• call  
• product  
1-3 sketch  
or 3 sketch  
- free drawing  
- pay for electric  
- pay for drawing  
only with electric  
- 3d mark - pay  
- sketch up - free  
- blender - free  
• 3.2 render = corona render

how I came up with corona render in all world I can't great which



# 8 THINGS TO CONSIDER

- Accounting Principles
- Income Statement
- Balance Sheet
- Valuation
- Core Values
- Client Analysis
- Operations & System
- People

# 8 THINGS TO CONSIDER

**WHEN** is the appropriate time to get your house in order? What day are you going to have the courage to wake up and say to yourself...the next X years will be about...me.

**We are happy to have that chat with you.**



**THANK YOU**