

Business Valuation & Industry Benchmark Report for Acme Plumbing Company

Industry Benchmarking

Benchmarking is the process of comparing your business to others or to the industry. This report is based on industry data. The primary sources are IBISWorld and BVR. Here is how Acme, Inc. compares to the industry:

	Company	Industry	Delta (+/-)
Top Line Revenue	\$1.4M	\$2.6M	\$1.2M
Cost of Goods Sold (COGS)	35%	32%	3%
Gross Margin	65%	68%	3%
Expenses	48%	63%	15%
Net Income %	16%	5.6%	10.4%
Revenue / Employee	\$241K	\$248K	\$7K
Profit / Employee	\$38.5K	\$11.2K	\$27.3K

Business Valuation

Business valuations, how much a business is worth, take numerous forms. Most commonly valuation is based on earnings and a multiple. Earnings are expressed as either Seller's Discretionary Earnings (SDE) or Earnings Before Interest Taxes Depreciation and Amortization (EBITDA). Both are similar. Typically when earnings are under \$1M, SDE is used. The multiple reflects the size and attractiveness of the business relative to the industry. Here are those numbers for Acme:

Seller's Discretionary Earnings

SDE Element	Amount
Pre-Tax Net Income	\$262K
Owner's Compensation	\$55K
Interest	\$18K
Depreciation & Amortization	\$30K
Seller's Discretionary Earnings (SDE)	\$365K

Multiple

Multiples have a range and are based on many factors; industry data, business health, specific risk factors, and buyer judgment. BVR lists the average multiple at 2.47. The key factors affecting a multiple are the amount of revenue and profitability. Acme is smaller than the industry average. However, it has a significantly higher percentage of net income to revenue. **A reasonable multiple is 3.5 which translates to a business sale value of \$1,275,000.**

Top Recommendations

- COGS compared to industry averages are higher by 3%. Look for opportunities to trim costs here.
- Congratulations! Profit dollars per employee exceeds the industry by a significant amount. Is performance because the team is just that good or are they overworked and at risk of jumping ship. Consider creating an incentive program to motivate and retain staff. **Be careful how this is structured – a poorly implemented incentive plan can do serious damage on top of being expensive. Get assistance to design this well.**
- Consider setting aside earnings to facilitate growth.
- Assess where there is excess capacity in the business to drive growth & profitability.

Key Industry Observations (From IBISWorld)

The Plumbing industry's performance is directly linked to building construction markets and consumer spending levels. The industry also benefits from stable demand from homes and businesses that need repair and maintenance of water delivery systems. Maintenance work accounts for a sizable share of demand and is a stable source of revenue when construction markets fluctuate. Consequently, increases in residential construction activity and private spending on home improvements have benefited industry operators. However, despite favorable interest rates, nonresidential construction projects were halted and postponed due to government mandated establishment closures and restrictions. Still, increased demand throughout the majority of the five years to 2021 has benefited plumbing franchises. Consequently, industry revenue is anticipated to rise an annualized 2.5% to \$1.4 billion during the five-year period, including a 2.4% increase in 2021 alone as the substantial rise in housing starts propel demand for new plumbing work.

Plumbing franchises are able to gain market share from independent plumbing operators due to higher advertising power and increased brand name recognition. Plumbing franchisees benefit from efficient operating systems, group buying power and vendor rebates that often enable them to compete more effectively than independent service operators. These competitive advantages also enable plumbing franchises to be more profitable than independent service operators, with industry profit, measured as earnings before interest and taxes, is anticipated to account for 5.6% of revenue in 2021, up from 5.3% in 2016.

The industry is expected to continue expanding over the five years to 2026, albeit at a decelerated rate. Nonresidential construction is anticipated to rebound and grow strongly as rising consumer spending encourages businesses to expand facilities. However, residential construction activity is anticipated to decline due to rising interest rates, muting industry growth. As a result, industry revenue is expected to rise an annualized 0.6% to \$1.4 billion over the five years to 2026.

Products & Services (IBIS)

