A Strategic Approach to Enhancing Shareholder Value

Optimizing capital structure is the main valuation maximization criteria, a company who can and know how and when to use equity or debt to finance its assets, will have a premium of value compared to other peers in the market.

Understanding Capital Structure

Capital structure simple refers how much I use from owner's equity, or financing institutions (debt) to finance the business. For example a company may go 50 - 50. A lot of factors affect the decision, however we need to understand and calculate the structure with an expert to identify how to reach the ideal scenario that doesn't affect company risk as well.

Not to spend much time on capital structure, let's go directly to understand how businesses are being valued, and why company A, may have higher value compared to company B in the same industry. So let's understand how business valuators approach a company valuation process:

1. Financial Performance

- **What they look at**: Historical financial statements (3 years), including income statements, balance sheets, and cash flow statements.
- **Why it matters**: The company’s revenue growth in percentage, time, and speed, profitability, and cash flow generation provide insight into its ability to generate returns. Strong financial performance often translates to higher valuations.

2. Market Conditions

- **What they look at**: Is the market itself growing? Current and future market trends, competition, and industry dynamics.
- **Why it matters**: A growing market or favorable industry conditions can increase the business's potential, while a declining or highly competitive market may reduce its value. The same apply on the broader economy of the country, that plays a significant role in the valuation, consider valuing a company in Egypt, with the same size in Saudi market! The foreign currency alone, has dramatic impact on value.

3. Business Model and Revenue Streams

- **What they look at**: The strength and sustainability (so it's not occasional, like the growth of healthcare startups as well as labs during Covid 19) of the business model, diversity of revenue streams, and customer base.
- **Why it matters**: A diversified and recurring revenue stream (e.g., subscription models in the case of education platforms) reduces risk, making the business more valuable. Over-reliance on a few

customers or products could lower the valuation (mainly avoid concentration risk whether on the supply or demand dimensions).

4. Assets and Liabilities

- **What they look at**: Tangible and intangible assets (e.g., property, equipment, intellectual property, brand value) and the company's liabilities (e.g., debts, obligations).
- **Why it matters**: A company with valuable assets and manageable liabilities is generally worth more. Intangible assets like patents, trademarks, and customer relationships as well as customer data, like demographics can add significant value.

5. Cash Flow

- **What they look at**: "Cash is King", Free cash flow generation, cash flow stability, and the ability to reinvest in growth or pay dividends.
- **Why it matters**: Strong and predictable cash flows are critical to a company's value, as they determine its ability to meet obligations, reinvest in growth, and distribute profits to shareholders.

6. Growth Potential

- **What they look at**: It's often asked, what is the size of the market, and what size of that market can you address?! So what are the future growth opportunities, expansion into new markets, and product innovation?
- **Why it matters**: High-growth potential can significantly boost a business's value. Investors and buyers often pay a premium for businesses that demonstrate strong future growth prospects.

7. Risk Factors

- **What they look at**: Business risks, such as market volatility or seasonality, operational risks, regulatory risks, and competitive threats. Ability to manage risk and return, will definitely improve company perceived value.
- **Why it matters**: High-risk factors can decrease the value of a business. Valuators will adjust the discount rate to account for the business's perceived risk, impacting the valuation negatively, for instance businesses who are working in the digital currencies, are more vulnerable to high risk.

Additional Consideration: Management Team and Leadership

- **What they look at**: What experience, and track record of the management team, how cohesive they are together as a team, and their leadership style.
- **Why it matters**: A strong, capable leadership team can enhance a company's value, while poor management can be a red flag for potential buyers or investors.