DATA POINTS WHEN SELLING YOUR BUSINESS AND HOW TO CALCULATE THEM

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PEOPLE CAPITAL

GROSS MARGIN

Gross margin is an important metric for buyers, as it helps them to understand how critical your products or services are to customers, how well your company manages variable and fixed costs, and macro-economic factors impacting your particular industry (such as rising material costs). It is also useful to break down gross margin by product or service line, to better understand profitability at a deeper level.

$$\frac{\text{REVENUE} - \text{COGS}}{\text{REVENUE}}$$

CUSTOMER CONCENTRATION

$$\frac{\text{CUSTOMER REVENUE}}{\text{TOTAL REVENUE}}$$

This data point demonstrates how diversified your revenue is and your reliance on any significant customers. Typically, a high customer concentration (generally considered above 25% for any single customer) is seen as a risk by buyers, as it creates significant uncertainty in a scenario where a top customer is lost and the company is left to replace the lost revenue with existing or potential new customers. For companies with high customer concentration, proving out longevity and depth of customer relationships and why those customers rely on your product or service compared to other potential vendors, is paramount during buyer discussions.

REVENUE BY END MARKET (INDUSTRY)

Similar to customer concentration, this data point gives buyers an understanding of how exposed your company is to any single end market or industry. This is particularly important when a company is heavily exposed to cyclical industries, such as oil and gas. To calculate, sort each customer by their end market, then add the revenue of all customers within each end market together. Divide each end market revenue total by total company revenue to reach the end market or industry concentration.

$$\frac{\text{ALL CUSTOMER REVENUE FOR END MARKET}}{\text{TOTAL REVENUE}}$$

CUSTOMER & REVENUE RETENTION

Customer retention provides visibility into how many of your customers remain as customers year after year as opposed to buying your product or service once and leaving. In any business, selling to an existing customer should be easier and less expensive than the customer acquisition cost associated with winning a new customer. Therefore, buyers are typically attracted to companies that keep customers for many years.

(# CUSTOMERS ON JANUARY 1)
−
(# CUSTOMERS LOST THROUGHOUT YEAR)
────────────
CUSTOMERS ON JANUARY 1

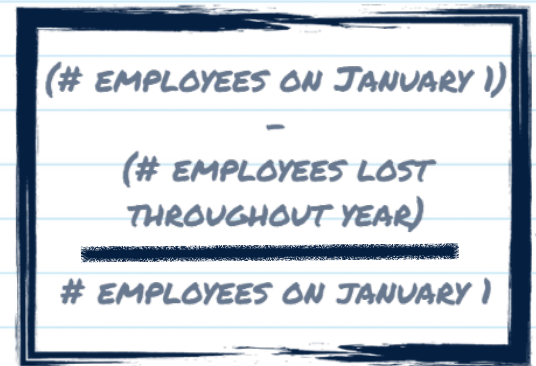
When calculating customer retention, we look at only the number of existing customers that remained customers, not any new customers that were won. As an example, if your company had 50 customers at the beginning of 2022 and lost 5 during the year (meaning those 5 completely went away), your company had a 90% customer retention for 2022. Even if your company added 10 customers (and ended the year with 55 customers), the retention for the year is 90%.

While customer retention is an important metric for buyers to observe, **revenue retention** is even more critical. Customer retention falls short in that it only accounts for customers who stay or go; it doesn't measure how much actual revenue stays or goes. A high customer retention doesn't always translate into a high revenue retention, and vice versa. For example, let's assume a company has a top customer that accounts for 25% of its revenue and many smaller customers. If the company loses its top customer but retains its other, smaller customers, it may display a high customer retention but low revenue retention.

LESSER OF:
I) 100%
AND
II) CURRENT YEAR REVENUE
────────────
PRIOR YEAR REVENUE

In terms of the calculation, revenue retention is measured by taking current year revenue for a customer divided by prior year revenue for the same customer. This calculation should only apply to existing customers (not new customers) and should never exceed 100% (this means year-over-year customer revenue declines are taken into account but not customer revenue gains).

EMPLOYEE RETENTION



Employee retention gives buyers an indication of the company's culture and provides some assurance that those responsible for the company's success to date will remain with the company to continue growth. High employee turnover results in additional time and resources to hire and train new employees (in addition to risks associated with key customer relationships held by certain employees). As with customer retention, new hires are not included in the calculation for employee retention.

WIN/LOSS RATE

This metric tells buyers how successful your company is in winning additional revenue. The goal is to collect all quotes, bids, requests for proposals, etc. that your company pursued and measure those that transpired into a win versus those that didn't. A high win-loss rate can indicate that your company is highly competitive in the industry and that time isn't wasted on pursuing opportunities that will never transpire into anything. In contrast, a low win-loss rate can signify that your company sets price incorrectly, is missing something in the value of its products or services compared to competitors, or is pursuing the wrong customers, among other potential factors.

Founded in 2004 and headquartered in Scottsdale, Arizona, Montage Partners is a people-first private equity firm dedicated to helping established businesses reach transformative growth. Montage Partners invests in companies headquartered in the U.S. or Canada with $1.5 million to $7 million in EBITDA across the business services, consumer, healthcare, industrial, and technology sectors. Above all other investment criteria, Montage Partners invests in exceptional people. Montage Partners has offices in Scottsdale, Arizona and Salt Lake City, Utah.

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