

Increasing Firm Value

-Getting Your Financial House in Order-

Many engineering and architecture firms are encouraged by improved business activity and are catching their breath after the great recession. Firms are now taking a closer look at their financials as they try to improve profitability and consider long term succession issues. It's a great time to re-assess and take action.

You may have no intention of selling to an outsider. But consider this – you're going to be leaving sooner or later. Bringing in an outside buyer or the next generation is like telling a story. Financials are part of the story. Orderly records and financials make the story more compelling. Just like buying a used car, once a potential buyer finds out the air conditioning doesn't work they begin wondering what else might be wrong under the hood.

One never knows when an unsolicited opportunity may knock, or you find just the right person to be a vital part of a firm succession plan. If nothing else, consider the impact good financial information could have on operating your business.

Most interested parties are going to ask for five years of financials to assess the long term viability and trends of the business. It's also difficult to plan and make good business decisions if the checking account balance is your only reliable piece of information.

Where to start?

- Do you have monthly financials and do they make sense? Review every line item on the balance sheet and income statement. If you don't understand (or can't explain) chances are someone else would have questions as well.
- Get copies of the latest detail schedules for receivables, payables, and work in process.
- Look over the detail – are there old uncollectible receivables on the schedule? What is the balance over 60 days? Industry average collection period is approximately 75 days.

- Does the payables schedule have balances you thought were paid or do not owe? Is the work in process current or does it show balances for closed jobs?
- Take a closer look at the income statement. What is the operating profit on net revenue? Calculated by dividing pre-tax profit by net revenue (total revenue minus sub-consultants and reimbursable expenses). The industry average is 8-12%.
- Can you locate copies of Federal, state, and payroll tax returns for the last five years. Do the financials agree with the returns?

If you can't find or produce the financial information, you've got some work to do. Start internally, task your office manager or whoever is responsible for financial reporting. Get help from your accountant or someone if you have unresolved questions or issues.