R33 VENTURES

Helping entrepreneurs build, acquire and transition valuable businesses.

Enterprise Value Assessment Framework

A PRACTICAL GUIDE TO THE VALUE DRIVERS BUYERS, LENDERS, AND INVESTORS EVALUATE.

INSIDE THIS GUIDE

About This Framework

The R33 Enterprise Value Assessment Framework is designed to help business owners understand the factors that influence enterprise value, buyer attractiveness, financing readiness, and exit preparedness. The framework mirrors many of the areas evaluated by sophisticated buyers, lenders, and investors during a transaction process.

No business will score perfectly across all value drivers. The objective of this framework is to identify strengths, uncover opportunities for improvement, and provide a roadmap for enhancing enterprise value over time.

SEVEN CATEGORIES OF ENTERPRISE VALUE

Financial Health & Performance Category 01	20%
Customer & Revenue Quality Category 02	20%
Operations & Management Category 03	15%
Strategic Position Category 04	15%
Technology, Digital & AI Maturity Category 05	10%
Financial Reporting & Governance Category 06	10%
Risk Factors Category 07	10%
Total	**100%**

Enterprise value is rarely created during a transaction process — it is built over years through thoughtful decisions, disciplined execution, and continuous improvement.

The suggested weightings reflect R33 Ventures' experience advising Canadian lower mid-market businesses and represent our view of the relative influence each category may have on buyer interest, financing availability, and enterprise value. Actual valuation outcomes will vary depending on industry, business model, company size, and market conditions.

20% WEIGHTING

01

Financial Health & Performance

Financial performance is often the starting point for any business valuation. Buyers, lenders, and investors evaluate not only a company's profitability, but also its ability to generate consistent growth, convert earnings into cash flow, and efficiently manage working capital. Strong financial performance provides confidence that future earnings can be sustained and expanded.

VALUE DRIVER	ATTRACTIVE	NEUTRAL	CONCERNING
Historical Growth Rate	Consistent organic growth >10% annually	Stable revenue (0–5%)	Declining or volatile revenue
Gross Margin Profile	Above industry average and stable/improving	In line with industry average	Below industry average or declining
Operating Expense Structure	Well controlled and below industry benchmarks	Generally in line with industry benchmarks	Above industry benchmarks or growing faster than revenue
EBITDA Margin	Above industry average >10%	Average industry margins	Compressed or declining margins
Cash Flow Conversion	Strong cash generation and EBITDA conversion	Moderate conversion	Weak cash conversion
Working Capital Management	Predictable and manageable	Moderate fluctuations	Highly volatile

KEY TAKEAWAYS

As one of the highest weighted category, financial performance sets the tone for every other conversation with a buyer or lender. Consistent growth, healthy margins, and strong cash conversion are the clearest signals that future earnings can be trusted — and trust is what drives multiple expansion.

QUESTIONS SOPHISTICATED BUYERS WILL ASK

- Are the company's earnings sustainable and capable of supporting future growth?
- How consistently does the business convert EBITDA into operating cash flow?
- Would I be comfortable investing in this business based on its historical financial performance and future growth potential?

20% WEIGHTING

02

Customer & Revenue Quality

The quality and predictability of a company's revenue are key drivers of enterprise value. Businesses with diversified customers, products, and revenue streams are generally viewed as lower risk and more attractive to buyers. Recurring revenue, strong customer retention, and limited concentration can significantly enhance a company's marketability and valuation.

VALUE DRIVER	ATTRACTIVE	NEUTRAL	CONCERNING
Customer Concentration	Largest customer <10% of revenue	10%–20%	>20%
Product Concentration	No product >25% of revenue	Largest product 25%–50%	Largest product >50%
Recurring Revenue	>50% recurring revenue	10%–50% recurring	Little or no recurring revenue
Revenue Diversification	Multiple products, customers and markets	Moderately diversified	Highly concentrated
Customer Retention	High retention and long-term relationships	Average retention	High customer turnover or churn
Sales Pipeline Visibility	Well defined and actively managed sales pipeline	Sales pipeline is monitored but forecasting accuracy varies	No formal pipeline management process or forecasting

KEY TAKEAWAYS

Buyers pay a premium for predictability. Reducing customer and product concentration while growing the recurring-revenue base directly lowers perceived risk — often the fastest lever available to improve marketability and multiple expansion ahead of a transaction.

QUESTIONS SOPHISTICATED BUYERS WILL ASK

- What happens if the company's largest customer leaves tomorrow?
- How predictable are future revenues based on existing customer relationships and recurring business?
- Is revenue sufficiently diversified across customers, products, industries, and markets?

15% WEIGHTING

Operations & Management

03

A business that can operate effectively without heavy reliance on its owner is often more attractive to prospective buyers. Strong management teams, scalable processes, employee stability, and manageable capital requirements help reduce transition risk and support future growth. Buyers place a premium on businesses that can continue performing successfully after a change in ownership.

VALUE DRIVER	ATTRACTIVE	NEUTRAL	CONCERNING
Management Team	Management-led business	Some owner involvement	Owner dependent
Key Person Risk	No critical employee dependence	Some concentration of knowledge	Reliance on one or two key individuals
Employee Stability	Low turnover and strong culture	Average turnover	High turnover
Systems & Processes	Documented and scalable	Partially documented	Tribal knowledge
Capital Expenditure Requirements	Low/moderate capex requirements	Periodic capex	Significant ongoing capex
Supplier Concentration	Diversified supplier base	Moderate concentration	Reliance on key supplier

KEY TAKEAWAYS

Owner dependence is one of the most common deal-breakers in small and mid-market transactions. Building a management layer and documenting key processes well before a sale process begins materially reduces transition risk in the eyes of a buyer.

QUESTIONS SOPHISTICATED BUYERS WILL ASK

- Could this business continue operating successfully without the owner?
- Does the management team have the capability to execute the strategy after closing?
- Are key processes documented and scalable, or does critical knowledge reside with only a few individuals?

15% WEIGHTING

04

Strategic Position

Companies with a clear competitive advantage often command higher valuation multiples and attract greater buyer interest. Market leadership, pricing power, growth opportunities, and favorable industry dynamics contribute to a company's ability to generate sustainable long-term returns. Buyers seek businesses that possess defensible market positions and compelling growth prospects.

VALUE DRIVER	ATTRACTIVE	NEUTRAL	CONCERNING
Competitive Advantage	Strong differentiation and niche leadership	Some differentiation	Commodity offering
Pricing Power	Ability to increase prices without material customer loss	Limited pricing flexibility	Highly price-sensitive customer base
Industry Position	Market leader or strong niche position	Average position	Weak competitive position
Growth Opportunities	Clear and actionable growth initiatives	Limited opportunities	No obvious growth path
Industry Outlook	Favorable long-term outlook	Stable outlook	Challenging or declining market

KEY TAKEAWAYS

A defensible market position is what separates a good business from a great business. Demonstrated pricing power and a credible growth story are often the difference between paying the bottom and the top of a valuation range.

QUESTIONS SOPHISTICATED BUYERS WILL ASK

- What differentiates this business from its competitors?
- Can the company maintain or increase pricing without significantly affecting demand?
- Does the business have a credible path for continued growth over the next five years?

10% WEIGHTING

05

Technology, Digital & AI Maturity

Technology is no longer simply a support function—it has become a strategic driver of enterprise value. Buyers increasingly evaluate whether a company's technology infrastructure enhances productivity, improves decision-making, reduces operational risk, and supports scalable growth. Businesses that effectively leverage integrated systems, automation, and emerging technologies such as artificial intelligence are often viewed as better positioned for long-term success.

VALUE DRIVER	ATTRACTIVE	NEUTRAL	CONCERNING
Business Systems Integration	ERP, CRM and accounting systems are fully integrated	Core systems exist but are only partially integrated	Disconnected systems and heavy spreadsheet dependency
Data & Business Intelligence	KPI dashboards in place and used regularly by management	Basic reporting available with limited KPIs	Limited reporting capability
Automation & Process Efficiency	Technology in place to improve productivity and automate processes	Some automation implemented	Highly manual processes
Technology, AI and Innovation	Management continuously evaluates emerging technologies	Digital initiatives underway	Minimal technology adoption
Cybersecurity & IT Resilience	Strong cybersecurity controls with modern infrastructure	Basic measures in place	Weak cybersecurity practices with outdated infrastructure

KEY TAKEAWAYS

Technology is increasingly viewed as a competitive advantage rather than simply a cost of doing business. Businesses with integrated systems, data-driven decision-making, automation, and thoughtful adoption of emerging technologies often demonstrate greater scalability, operational resilience, and long-term value creation.

QUESTIONS SOPHISTICATED BUYERS WILL ASK

- Can the company's technology infrastructure support future growth without significant additional investment?
- Does management effectively use technology, automation, and data to improve productivity and decisions?
- Are there technology or cybersecurity risks that could disrupt operations or need major investment?

10% WEIGHTING

Financial Reporting & Governance

06

Reliable financial information and sound governance practices provide buyers and lenders with confidence in a company's operations and future performance. Timely reporting, forecasting capabilities, meaningful key performance indicators, and organized business documentation can streamline due diligence, reduce transaction risk, and support higher valuations.

VALUE DRIVER	ATTRACTIVE	NEUTRAL	CONCERNING
Financial Reporting Quality	Timely monthly reporting and KPI dashboard	Basic monthly reporting	Delayed or unreliable reporting
Forecasting & Budgeting	Robust budgeting and forecasting process	Annual budget only	No formal forecasting
Management Information	Strong operational and financial KPIs	Limited KPI tracking	Little management reporting
Governance Structure	Active board/advisory board and documented decisions	Informal governance	No governance framework
Transaction Readiness	Contracts, SOPs and documentation organized	Some documentation gaps	Significant documentation deficiencies

KEY TAKEAWAYS

Clean books and organized documentation don't just speed up diligence — they signal a well-run business before a buyer ever asks a question. Investing in reporting infrastructure ahead of time pays for itself in shorter timelines and fewer price reductions during negotiation.

QUESTIONS SOPHISTICATED BUYERS WILL ASK

- Can I rely on the company's financial information to make an investment decision?
- Does management monitor the business using meaningful financial and operational KPIs?
- Will the due diligence process be efficient because documentation, reporting, and governance are well organized?

10% WEIGHTING

Risk Factors

07

Every business faces risks that may impact future performance and enterprise value. Buyers carefully evaluate factors such as trade exposure, regulatory compliance, transition risks, and market dependence. Understanding and proactively addressing these risks can improve a company's attractiveness and increase the likelihood of a successful transaction.

VALUE DRIVER	ATTRACTIVE	NEUTRAL	CONCERNING
Exposure to Tariffs / Trade Risk	Minimal exposure or pass-through capability	Moderate exposure	Significant exposure
Legal / Regulatory Risk	No material issues	Manageable issues	Significant concerns
Owner Transition Risk	Owner can transition smoothly	Some transition risk	Business heavily tied to owner
End-Market Concentration	Diversified end markets	Moderate concentration	Heavy dependence on a single market
Employee/Customer/Supplier Dependence	Diversified	Moderate dependence	Strong dependence

KEY TAKEAWAYS

Unmitigated risk shows up in the deal terms, not just the price — through earnouts, holdbacks, or walked-away offers. Identifying and addressing concentration and transition risks early gives owners more control over how a transaction is ultimately structured.

QUESTIONS SOPHISTICATED BUYERS WILL ASK

- What are the greatest risks that could materially impact future earnings?
- How diversified is the business across suppliers, markets, customers, and regulatory exposure?
- Are these risks understood, actively managed, and acceptable relative to the purchase price?

Potential Impact on Enterprise Value

Companies that proactively address potential weaknesses often experience greater buyer interest, improved financing options, and stronger valuation outcomes.

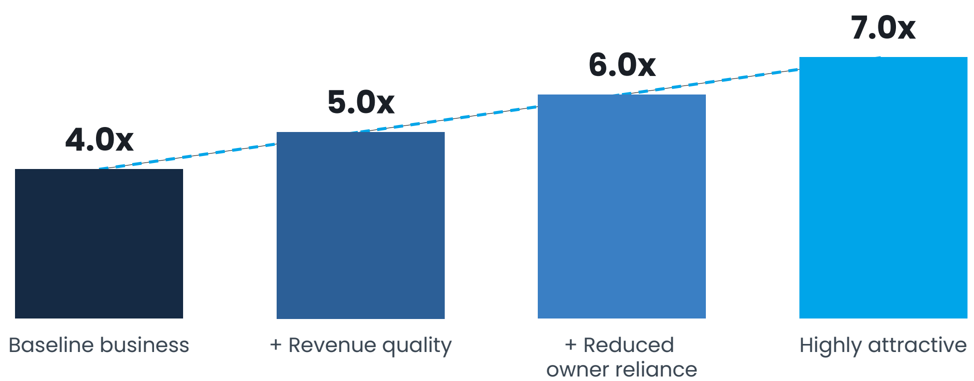
Small improvements in the underlying drivers of value can have a meaningful impact on enterprise value. For illustrative purposes only, a company generating $1,000,000 of EBITDA may command significantly different valuation multiples depending on its overall attractiveness to buyers.

ILLUSTRATIVE EBITDA MULTIPLES

Significant Value Creation Required	**3.5x – 4.5x**
Moderate Risk / Preparation Recommended	**4.5x – 5.5x**
Attractive with Value Enhancement Opportunities	**5.5x – 7.0x**
Highly Attractive	**7.0x+**

Valuation multiples vary by industry, company size, growth prospects, market conditions and transaction structure. The ranges above are provided for illustrative purposes only.

THE VALUE-CREATION EFFECT



Illustrative progression of EBITDA multiples as value drivers are strengthened — not a projection.

NEXT STEPS

Build Value First. Exit on Your Terms.

Whether you are contemplating a sale in the near term, preparing for a future ownership transition or acquisition, or simply seeking to build a stronger business, understanding the factors that influence enterprise value is an important first step.

> *Enterprise value is rarely created during a transaction process — it is built over years through thoughtful decisions, disciplined execution, and continuous improvement.*

At R33 Ventures, we work alongside entrepreneurs to identify opportunities for value creation, improve transaction readiness, and help position businesses to achieve their full potential.

HOW R33 CAN HELP

- ✓ Establish a baseline value and demystify the key drivers of long-term value
- ✓ Translate value levers into a prioritized, actionable roadmap
- ✓ Improve transaction readiness ahead of a sale, financing or acquisition
- ✓ Guide you through the steps of a transaction – when the time is right

Need information?

For a complimentary discussion regarding your business and its value drivers:

Call us 514 973.3147 **mdeegan@r33ventures.com** r33ventures.com