

Welcome! *Don't Just Think.
Know the Value of
Your Business.*

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Business Valuation



*"The process of determining the
economic value of a business."*



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Economic Value



Economic value should not be confused
with market value.




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Economic Value

If you were dying of thirst, how much would you pay for a bottle of water?

\$2?
\$5?
\$10?
\$20?




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Economic Value

Economic Value is the value a person places on something based on the benefit they will obtain from it.




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Economic Value

Economic Value is subjective.




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Economic Value

Economic Value takes into account intangible factors such as:

- brand name,
- goodwill, and
- sentiment.




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Economic Value

Economic Value depends on a person's intentions.




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Reasons for Valuation

Sale, Merger, Acquisition,
Buy-Sell Agreement,
Bank Requirement, etc.




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Economic Value

Economic Value is difficult to measure.




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Valuation Methods

Market Capitalization.




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Valuation Methods

Market Capitalization.

- Great for publicly-traded businesses.
- Share price x number of shares outstanding
- Example: ABC Corp's stock price as of yesterday was \$100. There are 1 million shares outstanding. The market cap value is \$100 million.
- Market cap value fluctuates daily.




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Valuation Methods

Times Revenue.




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Valuation Methods

Times Revenue.

- Annual revenue x multiplier.
- Multiplier based on a number of factors, including the industry and economic environment.
- Multiplier may be greater or less than 1.0, depending on the industry and specifics.




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Valuation Methods

Earnings Multiplier.




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Valuation Methods

Earnings Multiplier.

- Annual profit x multiplier.
- Profit is EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization).
- Multiplier is based on a number of factors, including the industry and economic environment.




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Valuation Methods

Discounted Cash Flow.




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Valuation Methods

Discounted Cash Flow.

- Based on projections of future cash flows.
- Uses discounted cash flow financial modeling to determine present value, taking into account inflation.
- Similar to Earnings Multiplier method but with a factor built in to adjust for projected inflation.




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Other Values Defined

Fair Market Value.




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Other Values Defined

Fair Market Value.

The price that a willing buyer and willing seller would agree on if neither were under any compulsion to buy or sell and both had reasonable knowledge of the facts.




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Other Values Defined

Book Value.




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Other Values Defined

Book Value.
 The value of an asset as shown on a company's balance sheet.
 Buy asset for \$10,000
 Depreciation of \$5,000
 Book Value is \$5,000




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Other Values Defined

Liquidation Value.




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Other Values Defined

Liquidation Value.
 Net cash received if assets are sold and liabilities are paid off immediately.



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Simple Valuation Method


Step 1

Determine EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization).

Consider earnings trend over 3-5 years and extraordinary items.



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Simple Valuation Method


Step 2

Determine the owner's benefit.

Consider any expense paid by the business for the benefit of the owner and that will not be present after the sale.



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Simple Valuation Method


Step 3

Add EBITDA and owner's benefit.

This is the anticipated profit after the sale.



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Simple Valuation Method

Step 4

Determine the applicable Earnings Multiplier.


Consider industry-specific multipliers, premiums, and discounts.




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Simple Valuation Method

Enterprise Value	Up to \$500,000	\$500,000 to \$1,000,000	\$1,000,000 to \$2,000,000	\$2,000,000 to \$5,000,000	\$5,000,000 to \$50,000,000
Multiplier Range	2.0 to 2.5	2.5 to 3.0	3.0 to 4.0	4.0 to 5.0	5.0 to 6.0




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Simple Valuation Method

Step 5

Multiply Adjusted Earnings (EBITDA + Owner's Benefit) by Earnings Multiplier.




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Simple Valuation Method

1. EBITDA = \$250,000
2. Owner's Benefit = \$150,000
3. EBITDA + OB = \$400,000
4. Earnings Multiplier = 3.0
5. \$400,000 x 3.0 = \$1,200,000




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Value Drivers




Financial Performance

Your history of producing revenue and profit combined with the professionalism of your record keeping.




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Value Drivers




Growth Potential

Your likelihood to grow your business in the future and at what rate.




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Value Drivers




Switzerland Structure

How dependent your business is on any one employee, customer or supplier.




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Value Drivers




Valuation Teeter Totter

Whether your business is a cash suck or a cash spigot.




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Value Drivers




Recurring Revenue

The proportion and quality of automatic, annuity-based revenue you collect each month.




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Value Drivers




Monopoly Control

How well differentiated your business is from competitors in your industry.




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Value Drivers




Customer Satisfaction

The likelihood that your customers will re-purchase and also refer you.




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Value Drivers




Hub & Spoke

How your business would perform if you were unexpectedly unable to work for a period of three months.




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Protecting Your Legacy

Two-thirds of all businesses today are owned by Baby Boomers, born before 1964, but...

- Exit Planning Institute




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Protecting Your Legacy

Fewer than 30% of these businesses will make it to the next generation or be sold.

- Exit Planning Institute




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Protecting Your Legacy

80% of business owners intend for the succeeding generation to take over, but...

- Family-Owned Business Institute




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Protecting Your Legacy

Fewer than 20% have begun
planning for succession.

- Family-Owned Business Institute



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