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How to Value Your Business ©

By

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As a member of the Small Business Appraisers Association, there is a nationally accepted valuation methodology. And, only in very special circumstances can there be some local or regional considerations, i.e. northeast vs. southwest really doesn't figure into the formulae.

Having sold businesses that I have owned, using a broker is not recommended as a first option for representation. There can be a bias that may influence the entire process and relationship with both the seller and buyer.

Economic uncertainty should not play a decisive role in valuation, performance is the key, and therefore it is possible to value a business in a way that transcends any economic climate?

This method excludes any real estate, cash, investments, accounts receivable, and any other non-operating liabilities, except in the event of a stock sale, in which the aforementioned assets and liabilities would be added and deducted on the day of closing to determine total fair market value.

There are essentially three methodologies for value determination:

1. Asset method (used for cursory due diligence)
2. Income method (we never use this)
3. Market Valuation method (most accepted)

The Market Valuation is the most commonly consistent and objective method, relying only upon comparable market data. In this profession, as well as the rest of the financial community, the market valuation has become the standard.

Multiples of earnings are the best way to determine the value of a business. And the only proper calculation of earnings is 'Seller Discretionary Earnings' (SDE). Hence, the Fair Market Value method of the SDE multiple is the most appropriate calculation to value a privately held business.

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