Approaches to Business Valuation

Here's what you need to know.

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In the third quarter of 2019, more than 2,400 small businesses were sold. The median sale price was roughly $278,000, up 3.3% from 2018.[1]

As a business owner, ascertaining the value of your business is essential for a variety of reasons, including business succession, estate tax estimates, or qualifying for a loan.

There are several valuation techniques, ranging from the simple to the very complex. Outlined below are three different approaches to valuing a business.

Comparable-Company Analysis. One approach to determine the value of your business is to use a comparable-company analysis. Look at the numbers for a business that is similar to yours in industry, size, and growth. By using the metrics from one or more companies that are most like yours, you can create a ballpark estimate as to the value of your business.

EBITDA Model. Using your business data is another method to help put a price tag on your enterprise. Using the EBITDA (Earnings Before Interest, Tax, Depreciation, and Amortization) model can give a more detailed picture of your financials. EBITDA takes the business debt into account, which can be an important factor when considering selling your business. Your business may be more attractive to potential buyers if all the assets aren't already leveraged against existing debt.[2]

Asset-Based Valuation. The asset-based valuation method calculates the value of all tangible and intangible assets held by the business. This approach ignores the future earnings potential of the company. Thus, a pure asset-based valuation model is often used for companies that are bankrupt or looking to liquidate.[3]

The economy and other factors in the market may also determine the saleability of your business. Before moving forward with a business valuation, consider working with legal and tax professionals who are familiar with the process. Also, a qualified business appraiser may be able to offer some valuable insight.

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Citations.

1 - bizbuysell.com/insight-report/https://www.bizbuysell.com/insight-report/ [2019]
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