



4 Tech Company Business Valuation Methods you should know about

Multiple of Earnings - Most mature companies are valued on a multiple of EBITDA and this is largely based on a company's trailing 12-month financial performance. Valuations can range anywhere from 3X to 8X of EBITDA with a median for most companies of about 5X.

The multiple is generally dictated by valuations for comparable companies in the same industry but can also be impacted greatly by other company or industry specific factors including:

- Percentage of revenues that are recurring or to a lesser extent re-occurring (i.e. renewable annually)
- The profitability of the company measured both as a percentage of EBITDA relative to revenues and absolute dollars (many private equity firms won't acquire companies with less than \$3 million in EBITDA)
- The level of customer concentration risk (i.e. no single customer accounts for greater than about 20% of revenues or the top 3 – 5 customers don't account for over 50% of total revenues)
- Whether the company has demonstrated a history of year over year growth or have its revenues plateaued?
- Clearly identifiable market and industry growth rates (i.e. is this a growing market segment or is it declining?)
- Caliber of management team and dependency on founders (i.e. can the company operate and scale without the founders?)
- Future revenue growth potential in the form of new products, technologies, geographic markets or distribution channels

Other valuation methodologies that are used less frequently include:

Asset value – The value of assets on a company's Balance Sheet less liabilities (usually used for very mature businesses that carry a lot of inventory and capital equipment and have lower margins)

Multiple of Revenue – This method is generally used for early-stage technology companies and sometimes for tech enabled service businesses with a proprietary service offering or high component of recurring revenues.

Discounted Cash Flow (DCF) – This is sometimes used by financial investors as a measure of determining what a company's terminal or exit value might be in the future. A discounted cash flow is typically based on a 5-year forecast of a businesses' cash flow which is discounted to determine a net present value.