

Valuation certainly is one of the major concerns of sellers as they approach the decision to sell their business. However, valuation is an art, not a science and in reality the real value of your business comes from the market or what a buyer is willing to pay. However, generally, there are three generally accepted approaches to valuing a business.

1. The Asset Approach. The value of the assets in your business minus the liabilities. Using accounting terminology, one could label this as Book Value. For the most part, this approach does not represent the true value of a business.
2. The Market Approach. Simply speaking this compares to the Real Estate comparables. Like businesses in size and industry sell for similar valuations.
3. The Income Approach. This approach values your business as the present value of all of its future income streams—normally Free Cash Flow discounted at a weighted average cost of capital applicable to that business and or based on the level of debt/equity required.

And then, there are multiples. Multiples of EBITDA, Owners Benefit—net income plus depreciation, interest, and the owners' salary and fringe benefits. And here again, multiples vary depending on many factors: earning potential, the strength of financial records, potential growth of the company, etc. However, for most businesses in this market, a multiple of 2-3 applied to Owners Benefit would value your business.

What if no earnings or little earning? Well, then your business is worth its asset value (goodwill, inventories, receivables, equipment, etc.). Sorry.

Confusing? Yes, it is. An art NOT a science.

Should you want to know more about selling or buying a business, please contact me, Fernando Simo, at 407-361-8886 and/or visit my webpage at www.bizbuyorsellflorida.com