

What is the Value of Your Business?

Only 30% of all businesses put on the market for sale are actually sold, according to the National Federation of Independent Business.¹

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

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

- 1. Asset Based:** Calculates the value of all tangible and intangible assets held by the business. This approach ignores the future earning potential of the company. Thus, a pure asset-based valuation model is often used for companies that are bankrupt or looking to liquidate.
- 2. Earnings Based:** Seeks to arrive at a business's value by applying a multiple to normalized earnings, in other words, earnings adjusted to subtract owner's compensation and related expenses. The multiplier can vary substantially, depending upon the industry and the outlook for the business.
- 3. Market Based:** Compares the business to recent sales of similar companies.

Business valuation is not a just a formulaic exercise. For instance, there is a value to the business of being a "going concern" as opposed to the start-up alternative. Ownership percentage will also matter; purchasing a minority share that has limited control may result in a discount to the actual value. The prospects for the business impact value. A greater premium will likely apply to a company engaged in a leading-edge technology than to one involved in a mature market.

Valuing a small business is not an exact science. Some aspect of the valuation may be debatable (for example, the remaining life expectancy of a machine), while other aspects may be positively subjective (for example, the value of the company's reputation).

Willing Seller & Buyer

The true value of anything can only be determined when a willing seller and a willing buyer agree on a price of exchange. As a consequence, any valuation exercise may yield only a rough estimate.

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.

¹National Federation of Independent Business

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