How to Value a Small Business

What is your business worth? There are several ways to determine the market value of your small business.



3 Ways to Value Your Small Business

- Asset Value: Calculate the value of all of the assets and arrive at a price for assets only.
- Discounted inventory value: Assess the current value of inventory and discount it for quick sale.
- Income Value (most common): The adjusted net income (net profit + owner benefit (EBITDA) + value drivers) of a business is subject to an industry standard multiple to arrive at a selling price. This price includes the assets and inventory needed to run the business.

Which Valuation Method is Best for Your Business

- Asset values do not work for all businesses. You may have some underperforming assets that don't bring much value to the business and you may have an asset (like a license) that brings a lot of value to the business. So you will need to take all the assets into consideration and arrive at a fair value.
- Discounted inventory is simply discounting the amount you paid for inventory to see it quickly. If the business is closed this might be the only way to sell.
- The Income value is the most common method. Owners hear about selling for "x times earnings." However, this is more complicated than it sounds. This method is used for a functioning business to maximize value and is best determined by a seasoned professional business intermediary due to all the things that affect the value.

To arrive at owner benefit or SDE: take Pre-Tax Profit + Owner's Salary + Additional Owner benefits + Interest + Depreciation= SDE

- To arrive at an income value: you have to arrive at your Owner benefit (SDE). This is done by taking your net profit and

adding back the items that are a benefit to owning the business. Owner Benefit is not cash flow! It is often referred to as Seller's Discretionary Earnings (SDE).

- [ ] To arrive at SDE you take the business's profits plus the owner's salary and benefits and add back the non-cash expenses. History has shown that this method is the most effective way to establish the valuation basis of a small business. Then, a multiple, based upon a variety of factors, is applied to this number and a valuation is established.

To receive your free business valuation please contact us and we will set up a confidential meeting: https://fnbcflorida.com/contact

Created By Anthony Caliendo - http://www.thesalesassassin.com/