



How Much Is Your Business Really Worth?

Proper Valuation of Your Business

Jesus Arce, MBA
FranAdvisors Inc.
(415) 864-7649

INSIDE THIS ISSUE

Valuation

The Methods

The Process

The Next Step

Setting Your Price and Terms

The most frequently asked questions in the Business Sales and Merger and Acquisitions Industry are; how sellable is my business, given my circumstances? How can I achieve the maximum selling price? What is the true and accurate value of my business? What terms will I have to consider and how do they affect my asking price?

*In God we trust, all others
bring data...*

Dr. W. Edwards Deming

I want to address the subject of valuation so you can be better prepared as your time to sell draws near. Although there are multiple methods to determine worth, there are three popular methods used to determine a selling price. Let's look at the three individually and remember that the final asking price will weigh all three of these and factors from several other methods.

| Multiple of Earnings | Market Based Comparison | Asset Valuation |
|---|---|---|
| Here a multiple of the cash flow of the business is used to calculate value. Generally using your EBITDA as a measure of profitability, you'll take that annual figure of profit and add back any discretionary expenditures. For instance factor your salary as the owner or a payment on a vehicle that you are driving back into the businesses profit. Your broker will then use this total discretionary cash flow as tool to gauge a selling price based on a multiplier for your industry. | Utilizing data from recent sales of a similar business that has sold, and adjusting for obvious differences. Businesses are as unique as their owners and often times your business model, location, or reputation will be difficult to match. The comparable market method will help provide a reality check as you take into account all data from the various valuation methods. | Assets of the business factor in to the determination of a final selling price. Tangible assets such as property, fixtures, equipment, inventory, etc. along with intangible assets like good will, brand, and position in the market and tenure in the market all combine to help build that final sales figure. |

These three methods along with nuances of Capitalized Earnings, Cost to Create, Debt Assumption and various other tools will all be used to set a value that you can be pleased with and sell within your time frame. Please feel free to call or email me to see what the multiplier is for your industry and some of the actual most recent sales prices.

Jesus Arce, MBA
 FranAdvisors Inc.
 380 10th Street Ste 2,
 San Francisco, CA 94103

(415) 864-7649

<http://www.franadvisors.com>
jarce@FranAdvisors.com