
Client Alert / Blog

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The 2 key things that can affect your business value

How can you make your business worth a larger amount when you want to sell it?

Before we answer this question, remember: your business will only be worth what someone else is willing to pay for it.

So, you may think it is worth \$1 million, but if your best offer is only \$500,000, then \$500,000 is realistically what your business is worth.

How can you attract a buyer and get them to pay the price you want?

A basic business value formula

Most small and medium sized businesses are valued using a business valuation method known as the “Capitalisation of Earnings” method.

This valuation technique works by taking the earnings (before interest and tax – referred to as EBIT) of a business and multiplying them by what is known as a multiple.

Business Value = Earnings before Interest and Tax (EBIT) x Multiple.

Working out the appropriate multiple is often the most difficult thing to agree on when valuing a business. For most of small and medium sized businesses, the multiple would be between 1 and 5.

For example: A business making an EBIT of \$200,000 is assessed by an accountant to have a multiple for sale purposes of 3.

Business value = \$200,000 x 3 = \$600,000.

How to increase business value

Using the above valuation technique, there are 2 ways to increase your business value.

1. Increase EBIT; and/or
2. Increase the multiple

Increasing EBIT is all about your business making higher profits by increasing revenue and possibly by decreasing expenses.

Increasing the multiple involves making your business less “risky” to the buyer.

Why?

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What the buyer is buying is a cashflow from your business into the future. If you can clearly demonstrate to the buyer that this cashflow is strong, is not expected to stop, and is expected to increase over time with business growth – then the multiple you can ask for will be higher.

Here's a few things that will lead to less risk for your business, and therefore should lead to a higher multiple when you sell your business:

- Proper systems so the business can work without the business owner having to be there.
- Prove to the buyer the future growth of the business
- A diverse, expansive customer base (so the business doesn't just rely on a few key customers)
- Contracts with key suppliers that will continue after the business is sold.

This information is just a general starting point to help you understand how to make your business worth more.

But...

It doesn't happen overnight. You need a 3 to 5 year plan to properly do everything needed to have your business sale ready.

Our expert accountants have had huge experience in this area. Contact us today for an initial meeting, and we will give you a plan to make your business worth a lot more when you decide to eventually sell it.

