Business Valuation Quick Tips

Tip	Detail
1.	**When valuing a profitable business you only need two things**
	The accurate profit of the business and a number to multiply that profit by
	It is as simple as that
	For all tips go here valueabusiness.com.au/quicktips
2.	**Asset Valuation - Use one of these methods when valuing a business on its assets**
	Liquidation value - what you could sell the assets for immediately
	Going concern value - value of the assets installed, in situ, attracting greater value for the fact that they are installed, operational, and in many cases utilities connected.
	Depreciated value- value of assets after allowance for legal depreciation under local tax laws
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3.	**When valuing a business using the income method, you are valuing future profits**
	Historical profits are a good guide, but only a guide
	How far back you should consider history in determining value here depends on the circumstances of the valuation
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4.	**When valuing a business using one of the income methods, don't value goodwill separately**
	Goodwill is just the difference between the value of

	the assets and the value of the business
	Business Value = Goodwill + Asset Value. It’s a simple equation
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5.	**Valuing a business according to the Market Method**
	This method pays attention to other sales in the marketplace of comparable businesses
	The more data you have about comparable sales, the more valuable is this method
	No two businesses are alike, however
	The Market Method is at its most reliable when providing you with a range of values from which you may choose one
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6.	**Valuing a business according to the Cost to Create method**
	This method values a business according to what it would cost to start the business and bring it to its current stage
	The costs you bring in include establishment, by materials and equipment, leasing, staff recruitment, marketing and other costs
	This is a useful method since many people look at the alternative of creating their own business instead of buying someone else's
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7.	**When valuing a business that is not profitable it is worth asset-value only**
	There are many asset valuation methods
	See tip#3 for a list of those methods
	For all tips go here valueabusiness.com.au/quicktips
	If there are cash flow surpluses in the future, the value of those surpluses are valued in today's dollars to give us today's valuation figure

	It takes into account all future costs, including capital costs
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8.	**When using the Income/Profit method, be careful when trying to arrive at what the income is**
	There are many definitions of income
	You either work with profit including owners wage or profit after owners wage has been deducted
	The multiplier changes according to which income you are working with
	If you are using the profit after owners wage has been deducted, the multiple will be larger
	This is where many people go wrong
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9.	**The three main things that affect business value are profitability, maintainability of profit and transferability of profit.**
	Unless you have all of these, you won't have much value in the business
	See other tips for definitions of these key terms
	For all tips go here valueabusiness.com.au/quicktips
10.	**Key to business value – profitability**
	When valuing a business according to its income, there needs to be at least some profitability
	If the business has no profit, it only has asset value.
	The profit must be visible and provable, not just arguable
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11.	**Key to business value - maintainability**
	A business has some value if the income is likely to be maintained into the future
	It doesn't matter that the business made a lot of money last year, if the prospects for the future are bleak
	Maintainability takes into account threat from

	disruption, fashions and trends and other threats
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12.	**Key to business value - transferability**
	A business has no value if the income of the business can't be transferred to another person
	If the income is tied to the current owner there is no value to be transferred
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13.	**When valuing a business using the income/profit method, arrive at the adjusted net profit of the business**
	This is the profit that a new owner should be able to expect to receive from the business
	It is the profit before interest and tax
	It is the profit adjusted for one-off, abnormal or personal items
14.	**Valuing a business is not a static thing.**
	Business value changes from month to month and quarter to quarter
	Fortunes of the business fluctuate along with changes in the industry and the economy
	Usually the most up-to-date information is the most reliable when it comes to evidence upon which you are going to base a business valuation
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15.	**Business valuation - how many methods can you use at the one time?**
	You can use any method in combination with any other method as long as they are relevant.
	You will often see the income method combined with the market method and compared to the rule of thumb method. This is valid
	It is allowable to average the results found by the different methods or to weight one method over the

	other if that is appropriate
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16.	**Valuing a business according to the Rule of Thumb Method**
	This method values a business according to recognised metrics other than the profit metric
	You might see a real estate agency valued on its property management total revenue
	You might see a mortgage broking business valued as a multiple of its income trail
	It is often seen as a quick and ready way of valuing a business and for this reason is sometimes discredited
	You won't see business valuers totally relying on the Rule of Thumb method
	It could be used as a cross check against one of the other more scientific methods
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