

HOW MUCH IS MY BUSINESS REALLY WORTH?

**A MUST READ FOR ALL
BUSINESS OWNERS**

**WRITTEN BY
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EDITION**

HOW MUCH IS MY BUSINESS REALLY WORTH?

Now, you may have a figure in mind that's perhaps come from either your accountant or from your balance sheet.

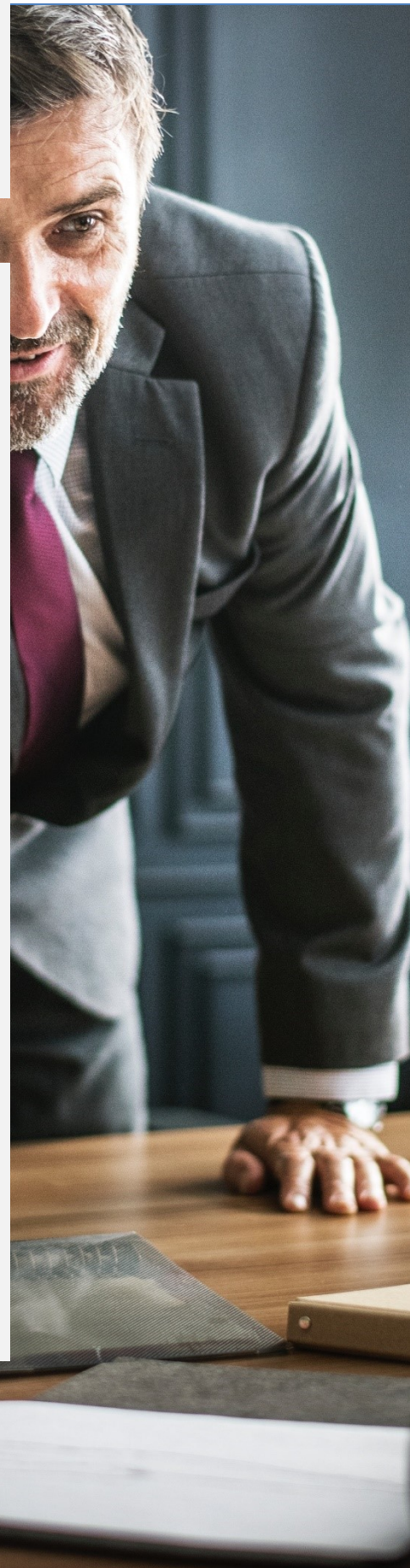
BUT.....

What is an independent buyer likely to pay you, when the time comes for you to sell your business?

There are many ways in which a business can be valued, but the one way that I have discovered to give you a consistent result is to use this simple formula shown below:

EBIT x Relevant Multiple

All right, the formula is simple, but it does need some significant explanation. So, let's start to unpack the various elements of this formula.



The graphic features the text 'EBIT' in large, bold, white letters, with 'Earnings Before Interest and Taxes' in smaller white letters below it. The background is a vibrant orange and yellow gradient with a grid pattern. Overlaid on this are several financial charts: a line graph on the left with a y-axis ranging from 0 to 100,000, and a bar chart on the right. The entire graphic is framed by a blue border with a jagged, mountain-like bottom edge.

EBIT

Earnings Before Interest and Taxes

In terms of small business, this means

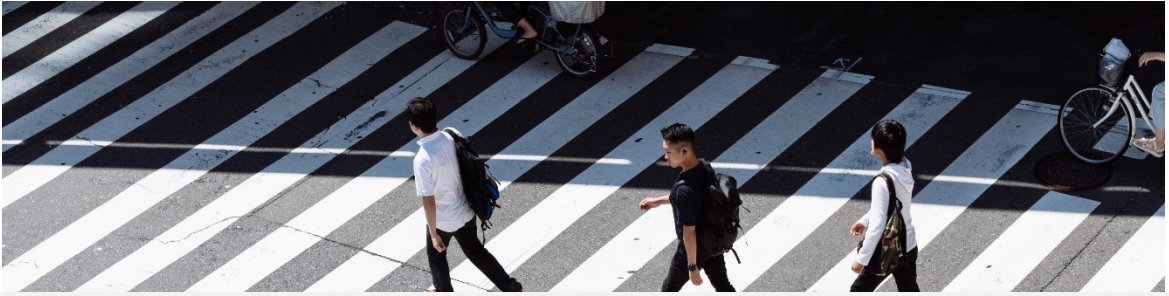
- what your profit was,
- plus interest payments,
- plus any personal expenses included in the businesses accounts and
- before any taxes are paid.

This part of the equation, given there are only two parts, is obviously very important.

So, if you are in the habit of pocketing any cash payments, I suggest you stop this immediately and put all the figures through the books.

I know, I know... You like to keep your tax bill down, but, if you deal with much cash, the failure to put it through your books will have a significant impact on the price you get for your business.

Now, let's go and have a look at all of the other aspects of the business that will give you the Relevant Multiple.



WHAT IS THE RELEVANT MULTIPLE?





The Relevant Multiple

Every industry has what is known as a relevant multiple. The relevant multiple is generally expressed as a range, for example, between two and four.

So, using our formula above if we were making \$100,000 profit, the two extremes you could expect to receive for your business would be \$200,000 at the lower end and \$400,000 at the upper end.

That's a big difference, so we next need to look at what is giving rise to the difference.

Essentially, there are four distinct drivers that will affect whether somebody pays the lower amount or the higher amount: **Revenue, Net Profit, Revenue Growth and Risk.**

BUSINESS EVALUATION DRIVERS



REVENUE

A buyer will pay more for a business with a high turnover, than for one that has only a low turnover.

The reason being, the lower the turnover the greater the risk. If you have a high turnover, you can afford to lose some business, before you lose the business. With a business with only a low turnover you don't get much wiggle room, before you have to close the doors.

So, if we are looking to sell a business, we should be looking to do everything we can to boost revenue, but, beware, remember that profit is a key component of the equation.



BUSINESS EVALUATION DRIVERS

● NET PROFIT

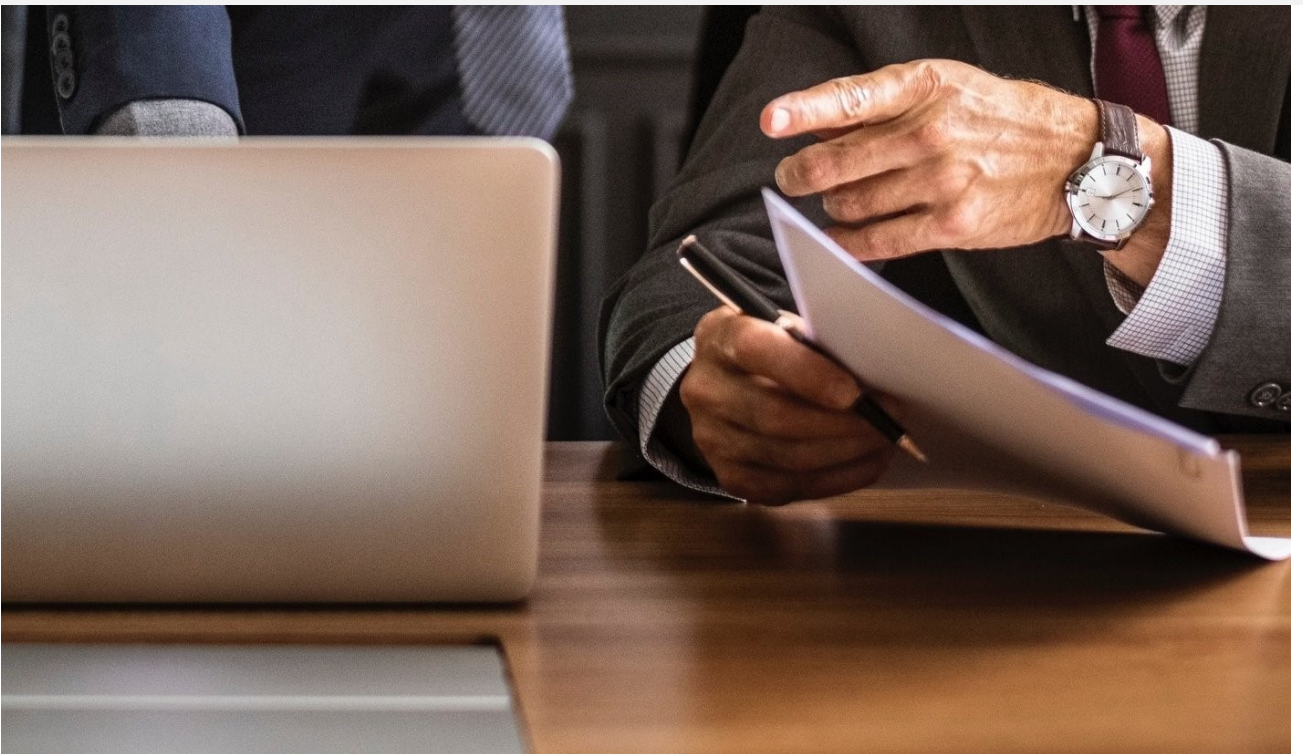
Now I've already mentioned EBIT, but here we are looking at what is a true net profit. Some may say a normalised profit, which means that the buyer will go through, and, if they find costs that they believe are unrealistically low, they will adjust them.

The classic example of this is the owner who pays himself less than the going rate for someone filling that role in any other business; the buyer will adjust the payroll accordingly, which in turn will reduce the net profit. So, make sure that your net profit will stand up to scrutiny.





"The classic example of this is the owner who pays himself less than the going rate for someone filling that role in any other business..."
— John Strange



BUSINESS EVALUATION DRIVERS



REVENUE GROWTH

Here, the buyer will be looking to see whether the business is growing or shrinking.

If it is shrinking, it could mean one of two things.

1. The business is being poorly run. Now this does not necessarily mean that the buyer wouldn't still be interested, but it does mean that they are going to hammer you on price.
2. The industry itself is in decline, which, in all likelihood, will kill the deal. This means that you need to find new markets before you put the business up for sale. Either that or look for a mug buyer and get out quickly.



BUSINESS EVALUATION DRIVERS

RISK

This is the biggie. Probably more so than any of the others, this will determine where, in the spectrum of the relevant multiple, your business will sit.

If the business revolves around you, then you will unquestionably sit at the low end of the spectrum. If all the policies and procedures exist only in your head, you will sit at the low end of the spectrum.

Conversely, if you run the sort of business where you can take a month or so off, without it damaging the business, expect to get the high end of the multiple.



If you have all your accounts up-to-date, if you have all your policies and procedures recorded, if you can provide all of this information very quickly for the buyer, if you have a stable and well-trained workforce, then expect to sit at the top end of the multiple range.



**"If the business revolves around you, you will unquestionably sit at the low end of the spectrum"
– John Strange**



BUSINESS VALUATION



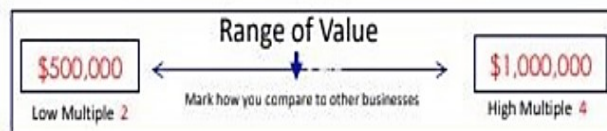
A WORKBOOK EXAMPLE OF A BUSINESS EVALUATION

example of a valuation...

NOW

What is your Profit Now?

\$250,000



Your approx. Business Value

750,000

FUTURE

PROFIT: - How will you increase your profit?

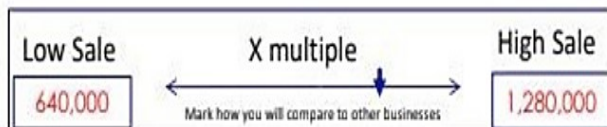
1. Expense Reduction. Supplier purchasing
2. Price Rise
3. Bundle Packages
4. Commission on sales
5. More sales campaigns Easter/Christmas specials

RISK: How do you make your business look more attractive and less risky?

1. Less reliance on business owner
2. Recurring revenue – replicatable business model
3. Clean, reliable books
4. Policies & Procedures

What is your Future Profit?

320,000



Your approx. Future Value

1,120,000

A VIDEO EXAMPLE OF A BUSINESS EVALUATION



If you are interested in seeing a real, live-worked example of the valuation above, click on the link below to see a video of me talking a group through how I do these valuations:

<https://yourbusinessfreedomau.lpages.co/value-gap-analysis/>



MORE ADVANCED STUFF

Although the industry may have a clear multiple range, you can improve upon the maximum multiple by targeting the right sort of buyer.

This is a whole new area of study which we are not covering in this document, but, if you do want further information about this, contact us at:

admin@yourbusinessfreedom.com.au

You also need to determine what sort of seller you are because, again, this will determine the type a buyer you should be seeking.

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admin@yourbusinessfreedom.com.au



A SPECIAL OFFER

if all this seems too hard and you would like some assistance in determining the value of your business, then contact us at admin@yourbusinessfreedom.com.au, and we will send you an information request sheet.

Your information will be processed through our special business valuation software, and we will send you back the estimated valuation.

Please Note: We are not Business Valuers.

This is just a tool to help you get an indication of the possible value of your business.

If you do this on a regular basis, you can check on the progress of the business towards the valuation you are hoping to achieve.

John Strange

Founder: YourBusinessFreedom



ABOUT THE AUTHOR

Having worked with small businesses for more than 40 years, one of John's greatest frustrations has been watching people giving their lives to their business, supporting their communities and providing employment, only to find that when it comes time to sell, either they are unable to, or unable to sell for what they hoped, and so their dreams get shattered.

John firmly believes that there are answers out there, and has made it his life's mission to help as many small businesses as possible to find these answers, taking back control of their businesses and finally achieve the freedom and the financial stability that they dreamt of.

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