

Common Business Valuation Methods – Are They Right for You?



We talk a lot about business valuations and how important they are to your business. Whether you're still going strong, looking to sell or to pass your business on to the next generation, a professional business valuation will give you a solid idea of the actual financial worth of your business. Knowing this is one thing. Knowing how a valuation works is something else entirely.

When you hire a professional business valuator, they will take a look at a number of aspects of your business and will then combine them to arrive at the most accurate valuation of your business, top to bottom.

How does your business stack up against the rest?

One of the methods that your valuator will use is to compare your numbers (such as your past revenue, your profits and losses) with similar businesses that have already sold in the area. In this way it's similar to buying a house. You can justify the value on a house based on similar homes in the area. Once this base price has been put into place the valuator will then make any necessary adjustments either up or down to reflect your business specifically. If your business has higher sales volume because of your low price structure, your valuator will add an increase for competitive business practices.

What are your business assets?

If your business runs on a set of fixed assets, your valuator will be able to add a separate asset valuation to the potential price of your business. Within those guidelines, the appraiser can determine how best to value those assets, either by calculating the "cost of reproduction" or the "cost of replacement." The Cost of Reproduction means determining the value if, using the same materials as the original, you tried to recreate the assets from scratch. The Cost of Replacement is just that. What would it cost to repurchase those assets from another source? It is in your best interest, as the business owner, to be as honest as possible with your valuation appraiser and offer up as much detail as you can.

What is your Financial Performance?

This is the bottom line. This method takes a very bald look at what you made and what you lost. This is a tangible and numbers based valuation method. They compare what you made with what you spent and the difference is usually added in to the value of your business.

A professional business valuator's job is to be as honest as possible and to make sure that the fairest value is assigned to your business. They are not deliberately seeking to bad mouth your company, nor are they intentionally looking to build it up. That is the beauty of being objective. This is also why being 100% honest with your valuator is going to get you a better value for your business.

United Health Care Capital is committed to helping small business owners with valuations, business transition and exit plan strategy. If you are interested in learning more, [contact United HealthCare Capital](#) to see how we can assist with your business transition and exit planning.

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