What's Your Health Care Business Really Worth?

What's your company really worth?

Are you a business owner contemplating selling your company? Before you embark on a major business decision like this, make sure you've done your homework. Determining business value is a critical first step in the sale process. As a business owner looking to sell your company, you have to be able to answer the very crucial question – "How much is your company really worth?"

Book value is NOT Sale Value

One of the easiest ways to determine a company's worth is by gauging book value. Simply put, book value is the company's assets minus liabilities. If you want to sell your business, book value would be the amount left after you've sold all assets and paid off outstanding obligations. A thriving and growing business is worth more than book value because of its capacity to earn and grow. But while straightforward and widely-used, book value is considered ***one of the least accurate tools*** for gauging a company's worth. Why? Book value does not provide an accurate economic perspective of the entire business and its operations. Most experts use it more for accounting and tax purposes.

LTM, NTM, EBITDA

Another way of determining is company's worth is by doing a comparative analysis of revenue over the last twelve months (or LTM), projected revenue in the next twelve months (NTM), and Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA). Compared to book value, this method gives a better look at the value of a business.

Discounted cash flow

Another approach, which experts call the discounted cash flow method, gives potential buyers a look at the projected performance of the business in the long term – as opposed to book value and comparables which look at a company from a historical point of view. Most business valuation experts consider the cash flow method as the single greatest determinant of business value. It is the simplest yet most concrete way of knowing what a company is worth -the more consistent and predictable the cash flow is, the higher the value of a business.

Intangible assets

Aside from these methods, there is another way to determine the value of a business, and that is by looking at intangible assets. While intangibles often are best valued in the eyes of the buyer, it is important to consider and promote the value of intangible assets as well as tangible assets such as machinery and equipment when selling a business. In general, intangible assets include intellectual property, copyrights and trademark, brand reputation and customer awareness.

Intellectual properties, copyrights and trademarks

Businesses that have intellectual property, copyrights and trademarks are often seen with greater value because these assets can be leveraged for market dominance and continued profitability. A company that has plenty of intangible assets can command a premium price for their products and services. Over the years, numerous companies, both public and privately-held, were acquired solely because of their copyright and intellectual properties.

Take for example Facebook's purchase of Instagram last year for $1 billion in stocks and cash. The acquisition shocked and awed many Silicon Valley experts, as it was the first time Facebook opened up its check book, and it was to buy a three year old company with nine employees. At the time of its purchase, Instagram was valued at $500 million. It had close to 30 million iPhone users, even before its Android app launched. A skyrocketing number of users turbocharged Instagram's value and made Facebook pay up twice its value.

Goodwill

Brand reputation and customer awareness, collectively known as goodwill, is perhaps the most complex intangible asset. Goodwill plays a more vital role in publicly-held companies than in private firms since they are more subjected to public scrutiny and more likely to have a global reach.

Unlike intellectual property or trademarks, a company's goodwill is subjective because it deals with people's opinions and perceptions towards a company or brand. But while subjective, goodwill can be quantified with various valuation methods.

Online reputation is important as well. Be certain to review your company's brand reputation online frequently and address issues when they arise.

Customer awareness and loyalty

A company's customer awareness and loyalty levels can be gauged by applying the 80/20 rule of thumb – 20 percent of customers will most likely produce 80 percent of profits. The goal is to calculate the average profit per purchase from a customer multiplied by their purchase frequency and their length of relationship. This will yield a projected income which is crucial in selling a business.

The importance of proper business valuation before selling your business

Proper business valuation is crucial in determining how much you can sell your business. Doing it wrong will leave you undervalued, short changed, and unable to get the most out of selling your business.

United Health Care Capital is here to help you find the correct and perfect value for your business. You can start with The United Complete Wealth Report – a comprehensive review of your company and includes key items for your exit plan strategy needs.

Know how much your company is really worth. Don't hesitate to contact us and begin your exit planning today.

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