T7 Inc. Business Valuation Overview

In order to valuate a business, there are many things to consider and not all of them are financial numbers. This overview is intended to introduce you to the concept of valuation, provide some structure and insight, and allow you with the worksheet below, to come to a general understanding of value. It's important to speak with your attorney as well as your accountant and perhaps a professional business valuator in order to come to a true, specific and precise value. This page is designed to give you some solid information, principles and strategies to at least get a value range as a solid starting point.

Owner's Cash Flow:
This is an important starting point for your valuation. All other things set aside, the cash flow or profitability to the owner is what the new owner can expect the company to provide in terms of profit. To get to this number, you'll need to add things like owner salary, add in any perks that the owner receives (car payments, etc.) that are befitting them but not necessarily part of running the business. Once you have this number, this is the most important aspect of the businesses value. So, let's say the cash flow to the owner is $250,000 per year. This then is the number we use to ***multiply by*** in order to *start* to assess value.

What is a "multiple?"
In the most simplistic terms, a multiple is the number you use to multiply your cash flow amount. In the broadest of terms, the multiple ranges from 1x - 4x. Can it be higher than this? Of course but we can safely say that most businesses are valued in this range. There are a number of factors that impact what this number is that we will cover below.

Business Type:
Business type means do you have a retail store, a service business, a nail salon, a manufacturing company? Different types of business have varying appeal to buyers so this impacts value. For example, a manufacturing company that is creating highly complex devices is very different from a barbershop. Yet both require specific skill sets to make the acquisition doable. The best way to ascertain your specific business value is to visit a business sale website where you can search by business type.

Go to these various websites (BizBuySell.com, BusinessBroker.net, Businessesforsale.com, etc.) and initiate your search by selecting your location state. We do this because location can have in impact on sale price so be specific. Then select your business sector as closely as you can (some sites allow for key word searches, others have pre-selected categories). Hopefully you will see some matches to your query. If not, visit neighboring states or do a nationwide search to at least find some comparables. Once you have a list of comparable companies, note two key numbers on a good number of them - 1) sale price and 2) cash flow. Now, divide the sale price by the cash flow of each individual company to determine the multiple each company is using for their valuation. Finally average all the multiples to come up with your specific industry multiple.

Multiple Modification:

Record Keeping:
We need to adjust the multiple by moderate amounts depending on certain positives or negatives that exist in your specific business. For example, if you don't have great record keeping or if a lot of your business is done in cash, that's a negative because numbers are in this case not easy to document and prove. On the other hand, if you have great records this would support your multiple number. If you have a very robust customer list complete with purchase history, email and contact information, and the ability to communicate with them easily, this is a clear positive and boosts your multiple number by perhaps 0.1 to 0.3. We will provide specific multiple adjustments on the worksheet below.

Employee Value:
It's not an easy thing to assess - but employees are critical to the running of an effective and profitable business. If things are running smoothly and you have a solid team in place, your multiple won't be affected. If you have a significant amount of turnover, difficulty keeping good people, and or challenges with theft, poor attendance and such - this is a multiple demerit. If, on the other hand you have amazing employees, great punctuality and responsibility and you don't have to do much and things run smoothly, this would be a multiplier booster.

Assets of the business:
While your business assets will be accounted for in your comparative multiple, you can make a multiple adjustment if you have unusually good quality inventory (sellable), or if all your fixed assets like machinery and vehicles are newer and in good or very good condition.

Transition Ease:
If you are a barber and you do 40% of all the hair cutting in your business - this would be a serious multiple demerit. The reason being - it will be very difficult for the new owner, even if they are better at cutting hair than you are - is because the business is very connected to you as an individual. There will be fall out and customer losses just because you are gone and there's not great way to get around that unless you stay on for a solid transition but even then, it's difficult. On the other hand if you own an on-line business and no one knows who you are and cannot tell the business has sold - all the better - this is a multiple boost. Some businesses have elements, controls, and people in place to run virtually every aspect of the business.

Location:
For a retail operation, you might find your location is particularly good for business and you have a great long term lease in place. This helps sell the business and is a bonus. If your location is run-down, poorly located, in an unsafe community, or can't secure a good long term lease, this is a demerit.

Training Procedures and Documentation:
Every business has a method of training new people. Once again, you can benefit or be hurt by how you do this. Do yo have good training procedures in place, proper documentation, and ways of assessing performance that are objectively based - this is all a bonus to your multiple.

Sales History and Trajectory:
It's always difficult to sell a business with its best years in the past and recent years showing lackluster numbers. Showing at least stable numbers, sales, and profitability is key to maintaining that multiple number. Dropping sales, especially for a few years, will depress that while sales that are steadily gaining and improving will boost the multiple.

T7 Inc. Business Valuation Worksheet:

Annual Cash Flow of Your Business: $______________________

Add owners salary, business profitability, add-back items like perks, non-business expenses, etc.

Business Comparable's: *(from BizBuySell.com, BusinessBroker.net, Businessesforsale.com)*

Feel free to use more than 5 samples in your calculations - toss out the highest and lowest.

Business	Sale Price	Cash Flow	Sale Price/Cash Flow (Multiple)
Sample #1	$	$	
Sample #2	$	$	
Sample #3	$	$	
Sample #4	$	$	
Sample #5	$	$	

Calculate the average multiple from the chart above: **Multiple Average** = __________

Multiple Modifiers: Add or subtract these modifiers to your multiple from above. If you fall between "exceptional" and "sub-par" leave it alone and neither add nor subtract.

Positives	Exceptional Item	Negatives	Sub-par Item
+ 0.2	Exceptional record keeping	-0.2	Sub-par records, lots of cash
+ 0.1	Exceptional employees	-0.1	Heavy turn over, difficulty hiring
+ 0.2	Assets are in great shape, no waste	-0.2	Assets need work, some unsellable
+ 0.1	Transition ease, no impact	-0.1	Owner heavily involved in day to day
+ 0.1	Location and lease are great	-0.1	Location a challenge, poor lease
+ 0.1	Excellent employee training & doc.	-0.1	No real training or support docs.
+ 0.2	+ Sale History, Profitability rising	-0.2	Sales falling, Profitability falling
	= **"+" Total**		= **"-" Total**

Now combine the "+" total and "-" totals to Multiple Average from above = _________

Final Approximate Valuation: Cash Flow x Final Multiple = $ _____________________