

How much is my business worth?

The value of a business depends on a range of factors, but the ultimate value is the price a buyer is actually prepared to pay for it.

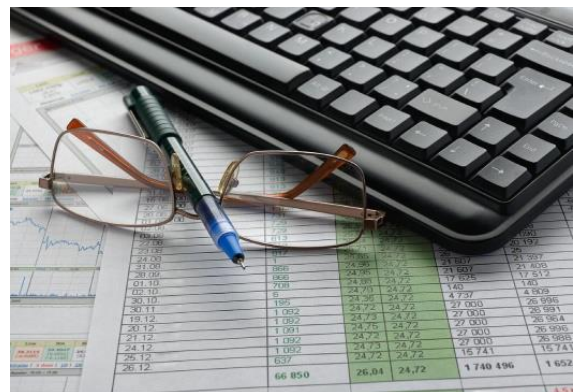
The prevailing economic climate and state of the business' sector can affect company valuation for better or worse, as can your reasons for selling. For instance, if you need a fast sale due to ill health, the value may be lower than if a sale was taking place under more favourable circumstances.

The most common methods of valuing a business are:

- The **price to earnings ratio** which uses multiples of profit, so this may be an appropriate valuation method if you own a well-established business with a good track record of profits. The P/E ratio indicates the business' expected growth in earnings per share in the future.
- **Discounted cash flow** which relies on estimating future cash flows and a residual business value and may be suited to businesses with few assets.
- **Entry cost valuation** which involves calculating how much it would cost to build your business to the stage that it's reached now, including start-up and recruitment costs, marketing, and the value of assets. Any savings that could have been made should then be deducted to arrive at the valuation.

- The **asset valuation method** may be suitable if your business is well established and owns high levels of tangible assets. The 'Net Book Value' of assets is calculated and then adjusted to account for external factors such as depreciation and inflation.
- Some businesses are **valued based on the industry** in which they operate. The retail industry is one example, where the number of outlets is an important element for consideration. Industry 'rules of thumb' use factors specific to an industry and can provide a more accurate calculation in some cases.

Intangible assets are also a key factor when valuing a business. Intellectual property, goodwill, business reputation, and even a premium business location can all add considerable value in the eyes of potential purchasers.



Valuing a business can be a complex procedure – your accountant will be able to help you through the process.

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