



## **How much is my business worth?**

The truth is, it depends on a range of factors and any valuation is only useful as a guide. The ultimate value of a business is the price a willing buyer is 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. If you need a fast sale due to ill health, for instance, the value may be lower than if a sale was taking place under more favourable circumstances.

So, what are the most common methods of valuing a business?

### **Price to earnings ratio (P/E)**

This ratio may be an appropriate valuation method if you own a well-established business with a good track record of profits. 'Price' refers to the company's current share price, and 'earnings' to the earnings per share (EPS). The P/E ratio indicates the business' expected growth in EPS in the future.

### **Discounted cash flow**

This relies on estimating future cash flows for the company, and a residual business value, and may be suited to businesses with few assets.

### **Entry cost**

This 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.

### **Asset valuation**

This 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, then adjusted to take account of external factors such as depreciation and inflation.

### **Valuation based on industry**

Some businesses are valued based on the industry in which they operate. The retail industry is one such example, where the number of outlets is an important element for consideration.

### **Other considerations when valuing your business**

Intangible assets are 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.

If you need to value your business, your accountant will be able to assist you with the process.

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