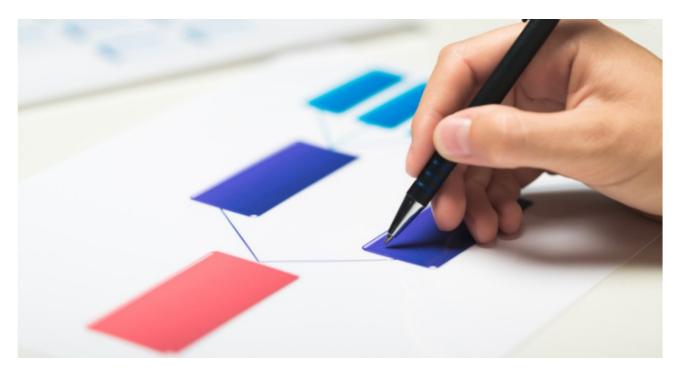
## How to Value a Small Business

What is your business worth? There are several ways to determine the market value of your small business.



#### **3 Ways to Value Your Small Business**

Asset Value: Calculate the value of all of the assets and arrive at a price for assets only.

Discounted inventory value: Assess the current value of inventory and discount it for quick sale.

Income Value (most common): The adjusted net income (net profit + owner benefit (EBITDA) + value drivers) of a business is subject to an industry standard multiple to arrive at a selling price. This price includes the assets and inventory needed to run the business.

#### Which Valuation Method is Best for Your Business

Asset values do not work for all businesses. You may have some underperforming assets that don't bring much value to the business and you may have an asset (like a license) that brings a lot of value to the business. So you will need to take all the assets into consideration and arrive at a fair value.

Discounted inventory is simply discounting the amount you paid for inventory to see it quickly. If the business is closed this might be the only way to sell.

The Income value is the most common method. Owners hear about selling for "x times earnings." However, this is more complicated than it sounds. This method is used for a functioning business to maximize value and is best determined by a seasoned professional business intermediary due to all the things that affect the value.

### To arrive at owner benefit or SDE: take Pre-Tax Profit + Owner's Salary + Additional Owner benefits + Interest + Depreciation= SDE

adding back the items that are a benefit to owning the business. Owner Benefit is not cash flow! It is often referred to as Seller's Discretionary Earnings (SDE).

To arrive at SDE you take the business's profits plus the owner's salary and benefits and add back the non-cash expenses. History has shown that this method is the most effective way to establish the valuation basis of a small business. Then, a multiple, based upon a variety of factors, is applied to this number and a valuation is established.

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