# Choosing how to value your business to prepare it for sale

Knowing the value of your business is vital should an unexpected buyer come along, and the timing is right for you to sell. You'll want to get the best price you can so make sure you have an accurate idea of your business's worth.

A business's value is taken from both tangible and intangible factors, with tangible assets a lot easier to assess. Your business is worth what someone is prepared to pay for it – and what you'd be prepared to sell it for. Based on this fact, the only way to really value your business would be to put it on the market to see what a buyer may offer.

However, you'll want a ballpark figure of how much your business is worth, so you can be sure you're asking for and receiving, a fair price when you sell.

## Choose your method of valuation

There are a few common methods used to value a business. They can give you a general idea of how much your business is worth plus a starting figure for negotiations.

### Earning valuation method

An earning valuation method assumes that your business's true value is in its ability to create wealth in the future. You may find that using only one method isn't enough to come to a fair selling price – consider using a combination of the following methods.

### Capitalizing past earning

Here, a valuator uses your business's past earnings to determine an expected level of cash flow. Unusual revenue and expenses are considered then a capitalization factor is multiplied against the expected normal cash flows.

The capitalization factor reflects the rate of return an average buyer would expect, plus it measures the risk of expected earnings not being achieved.

### Discounted future earnings

The only difference with discounted future earnings is that an average of the trend of predicted future earnings is used rather than your business's past earnings.

## Asset-based valuation

An asset-based valuation considers all the investments in your business. There are two approaches you can use to value your business using this method:

### Going concern

A going concern asset-based valuation will list your business's net balance sheet value of all its assets, subtracting the value of all its liabilities.

## Liquidation

A liquidation asset-based valuation establishes the net cash that will be obtained if all your business's assets are sold and its liabilities paid.

## Market value approach

A market value approach aims to compare your business to comparable businesses that have sold lately. For this method to work there will have to be other businesses like yours to compare with.

It's possible to reach different results with these valuation methods, so ideally get your business valued by more than one valuator.

# Calculate your business's goodwill

Goodwill is a combination of all those intangibles that give your business greater value, such as:

- Relationships with customers and suppliers. A future owner has an advantage if a loyal client and supply base has already been built up.
- Intellectual property (IP). Human creativity and innovation like a patent or a copyright.
- Location. One of the keys to having a successful business is having a great location.
- Liquidity. How quickly can your business get hold of cash to meet its obligations?

# Determine your assets' resale value

Calculate the resale value of your business's fixed assets such as property, vehicles, office equipment and machinery. For some of these assets such as property, the value of them may increase over time. For others, like work vehicles, the value of them will decrease as time passes.

To ensure the values of your fixed assets are accurate, use depreciation to reduce their values annually.

# Examine the market

Valuing your business accurately is critical if you don't want to risk leaving money on the table or losing potential buyers.

You'll have to take a good look at your market to get a clear idea of how similar businesses are performing and the prices they're selling for when put up for sale.

## Who do you want to sell to?

Have an idea of what kind of buyer you want to sell to. It's important to understand where the value lies in your business, so you can try to maximize its worth.

Take into consideration your method of valuation, the goodwill in your business, the resale value of your fixed assets and the current state of similar businesses selling on the market, to come to a fair value for the sale of your business.