

BUSINESS VALUE CALCULATION

This business value calculator will give you a quick approximate value and is a great place to start before seeking professional help.

Net assets

Add up all the cash, equipment, stock, and things you could sell, and subtract any liabilities such as debts, invoices owed, or repayments.

The balance is the cash equivalent realized if the business was discontinued and sold.

True Net Profit

The 'true' net profit is the net profit generated by the business as far as the buyer is concerned. For example possibly the owner has paid themselves a low or nil salary to 'boost' the net profit before selling.

The buyer should add a market value salary (which will reduce the reported net profit. There may be expenses not required on takeover, so a buyer could remove these (which would increase the net profit).

Years it will last

The multiplier is based on how many years you believe the business will generate a profit without change. Select 5 if the business is well run, set on-going revenue or contracts in place, key staff are happy and locked in, protected intellectual property, great location and lease, the industry is growing, reliable suppliers and a great reputation. Select 0 if these are poor. Select in between based on your intuition.

**Potential
business value**

BUSINESS VALUE CALCULATION

Our 'net profit multiplier' business value calculator gives you a quick approximate value of a business, whether you are buying or selling. There are other ways to value a business such as future cash flow, comparing to market sales examples, and earnings before interest, depreciation and tax. But this calculator is a great place to start.

Factors that impact a business's valuation include its financial performance, growth potential, market trends, competitive landscape, and industry regulations. It's important to consider all these factors when valuing a business and to work with a professional, such as a business broker or accountant, to ensure that the valuation is accurate and reliable.

Definitions

Net Assets

You may want to revalue assets, for example, obsolete inventory should be lower than cost (maybe even \$0), while equipment could have a low book value but high replacement cost.

Adjusted Net Profit

Adjusted net profit amends the profit from the buyer's point of view. For example, the current owner could have paid themselves a very low salary (or even \$0) over the last few years to artificially inflate the net profit. In this case, you'd want to lower the net profit expectation by your estimate of a fair market owner/ operator salary.

Similarly, the business may have expenses or overhead a new owner doesn't intend to carry over such as lease or employee costs. In these circumstances, you'd increase the net profit by any expense you can strip out, to better determine what they business is worth to you as the buyer.

Years net profit will last

In effect, this multiplier is a 'goodwill' factor. Enter a high number if the business is well run, has on-going revenue or contracts in place, key staff are happy and locked in, protected intellectual property, great location and lease, the industry is growing, reliable suppliers and a great reputation. Select 0 if these are poor.

A business with \$500,000 net assets and an adjusted net profit of \$100,000, could be worth \$500,000 at a 0 multiplier, \$600,000 with a 1 multiplier, and \$1m with a 5 multiplier.

Alternate valuation methods

- › Asset valuation. Sometimes the only value of a business may be the net assets if there is no goodwill, or the business has voluntarily closed.
- › Entry cost valuation. This value reflects what it would cost someone to start the business from scratch. Calculate the cost of purchasing assets from new, the time to develop the products or services, recruiting and training employees, building up a customer base, generating repeat business and the knowledge of networks, suppliers, competitors and processes.
- › Industry rules of thumb. In some sectors there are industry-wide rules of thumb (such as 2x revenue or 5x profit). Tech companies often are sold for large multipliers. Other factors include monthly recurring revenue for a subscription business.

To assist in the process of valuing your business it's recommended to get professional advice with a business broker, accountant or expert with experience in your industry.