



HOW TO EVALUATE A BUSINESS FOR SALE

LESSON TOPICS

1. Business Valuation Tips

In order to get a good business valuation, you should be in business at least two years. If the business is not at least two years old, there are no historical statements. The future of the industry affects the value of the business. If the business is in a growing industry, it will increase the value of the business.

After you have determined the value of the business, seek counsel from your local business attorney. A business attorney will have additional information that you may not have thought of.

2. Valuation Methods

There are four main valuation methods:
Earnings Multiple Method- This refers to the net earnings or income of the business times the multiple that is appropriate for its industry.

Asset Method- If you are an insurance agency or a consulting firm, you most likely do not have many assets; therefore, you would not rely heavily on this method. However, you do want to know the current market value of each asset is.

Sales Method- This is the sales of a like-kind business. This comparison would be to a business in the same region as yours that is in the same industry and is the same size as your business.

Hybrid Method- Once you have your earnings, asset, and sales methods, you will create a hybrid of these three and weight them appropriately. Depending on your business, you will determine which method is most valuable, and you will weight them accordingly.