Five Steps to Selling Your Business
Step 3: Value Your Business Objectively

In the third step of the Five Steps to Selling Your Business, you identify those physical, financial and intangible assets and put an objective, supportable purchase price on them to ensure you're getting maximum value for those assets you've been able to build.

The optimal sale price for your business reflects all of the components that helped your business secure its marketplace position. In Step 3 in the Five Steps to Selling Your Business, you identify those physical, financial and intangible assets and put an objective, supportable purchase price on them to ensure you're getting maximum value for those assets you've been able to build.

Consider Your Buyers When You Select Your Approach

Valuing your business can take many forms, and management will need to consider which approach it wants to use. A typical business valuation uses discounted future cash flows as the basis of its estimation.

Though a good starting point, discounted cash flows might not present a full picture of what your business could be worth to the right buyer. A competitor, for example, might pay more to combine your operations with theirs. Companies in related industries might consider your manufacturing process to be highly valuable to their operations or the acquisition of your clients provides the greatest value.

Service industry businesses often use a valuation formula that is a multiple of their sales. Non-service businesses commonly use a normalized Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) by accounting for addbacks and determining normalized earnings

Determining which formula works best for your business and protecting your value early in the process is critical to the success of a transaction.

Price Your Company Brick-by-Brick

Machinery and equipment, transportation, land holdings or retail spaces all play a role in determining the ultimate purchase price for your operations.

It is recommended that you conduct a property valuation if you anticipate physical property will be involved in

the sale. Going off property tax basis alone might not be sufficient, as many property tax analyses rely on computer-generated information that might not reflect the unique circumstances or environment in which you operate. A property valuation review might reveal that depreciation or useful life schedules need to be adjusted.

Quantifying the Intangible

Intangible assets such as client lists, trademarks and intellectual property should not be neglected in preparing for sale.

Clients- Identify your key clients and customers by looking the amount a client spends on your products or services and the frequency with which it makes purchases. Use that figure and extrapolate the frequency and purchase amounts across the lifespan of your business to get an estimate of what that client might be worth to your company.

Branding- Market data might be available for the sale/use of brand names of comparable companies, which can give you a good start to assessing the value of your branded materials.

Comparing how the profits of entities with strong brands compare to similar entities with lesser-known names could also support the valuation of your brand name. Smaller companies or buyers that do not have your name recognition might put a higher value on the name you've worked to create.

Intellectual Property, Patents & Trademarks- Intellectual property and licensing of patents or patented processes can make a significant difference to your bottom line. These "trade secrets" are frequently used to carve out a space in your marketplace or as tools to distinguish your business from its competitors.

If you have licenses or contracts with third parties for the use of your intellectual property, the price for these arrangements will provide a strong estimate for the actual value of these assets. Valuation specialists can also assist and should be consulted if your company has a significant amount of intellectual property. These values are more subject to change than other asset types.

Putting it All Together

Take some time at the end of the valuation process to evaluate how the price point for your business matches up to your objectives for the sale. The value determined might indicate that you need to readjust your priorities for the timing or type of sale in which you engage.

If using discounted cash flows doesn't produce your ideal figure, you might need to focus on identifying the right strategic buyer. Your sale strategy would then need to consider the elements of your business in which that buyer might take a particular interest.

The results of your valuation might also indicate that you need to make your business more profitable and efficient before you try to sell, in which case your management team would have to refocus efforts on where improvements could be made.

If you have any specific questions, comments or concerns about your company's sale plan, please contact:

CBIZ Transaction Advisory Services
tas@cbiz.com