

What's your business worth?

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Value of your business is the same as
any other investment...

If you buy Publicly Traded stocks:

$$10\% \text{ return} = \frac{\$500 \text{ earned}}{\$5000 \text{ value of investment}}$$

That is.....

$$\text{Value} = \frac{\text{Benefit Stream}}{\text{Rate of Return (Risk)}}$$

What is the Benefit Stream?

- **How much money the business makes!**
- **Financial statements & tax returns rarely reflect TRUE cash flow available for distribution to owners....**

Normalize income

Start with reported income for the last few years

Adjust for:

- 1-time and non-recurring Revenue & Expenses
- Add back discretionary expenses
- Adjust necessary expenses to market rates where appropriate

What is the Rate of Return, or Risk Rate?

- What is the Rate of Return required by an investor to invest in this business?
- Key considerations:
 - Liquidity- can't get my money out in 3 days
 - Historical/Future Performance
 - Reliability of Financial Information
 - Replaceability of current Ownership
 - Scale-ability – Growth Opportunities

Current Risk Rate (approximations)

- Current Equity Risk Rate 21.5% (smallest public co decile)
- Company Specific Prem 5-25+%
26-50+%

Example

- Normalized Net Income \$500,000
- Required Rate of Return 30%

$$\text{VALUE} = \frac{\$500,000}{30\%} = \$1,700,000$$

3 KEYS TO MAXIMIZE VALUE

- 1. Make as Much Money as Possible!!** (or make it easy for buyers to see the money the business DOES make!)
- 2. Replace yourself and other family members** – (make it easy for Buyer to step in, and easy to see market cost of necessary labor)
- 3. Clean up!** - Physically, but also with respect to obsolete parts, equipment, etc (fewer issues to haggle over)

Bonus: Sell before you are too tired!!

Maximize your Value...

- Your business is worth more if it runs if it runs like a Swiss watch, than....

