

# What is my business really worth and how can I improve it?



This is a question that every business owner should know the answer to but most have no idea. Or they have a figure based on what they would like it to be worth, not what the market or a buyer would pay, to be entitled to the future profits of the business.

Value has many points of view. Some things have more value to the owner that they do to the market.

Most business values are based around the future profit the business will be able to generate after the current owner has sold. To come up with this figure, mostly historical numbers are used and then adjustments are made for items like depreciation, interest, working owner's wages, discretionary expenditure, etc.

The **multiple** is a term often referred to, and this is basically the multiple of operating profit that the value or sales price represents. For example, a business making \$100K per year, that has a value multiple of 2 times would be worth \$200K.

There are many key factors that impact on a business's multiple and therefore its value. Although this is a complex area, we have tried to give a straightforward guide that highlights the most common variables that impact on value.

## Find your score

Use the table in the “*key factors that make a business valuable*” document provided to score your business from 1-10, based on how you feel the business is performing, with 1 being a very poor performer in that area, through to 10 being the leader in the market.

Businesses that score **high** on the scale (70 or above) would be more likely to command a higher business value or multiples.

Businesses who score **low** would be looking at lower multiples – perhaps 1 to 2 times profit.

Businesses in the **middle** score would perhaps fall in the 2 to 3 times profit multiple levels.

## ‘Back of the coaster’ indicator

Now you can have a go at a ‘back of the coaster’ indicator of what your business might be worth.

In the “*key factors that make a business valuable*” document, you will find an equation you can use to quantify the value of your business.

## Are you happy with the valuation?

If not, what do you think your business could be worth and when? (if it was performing better)

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Remember, if something isn't working and you're not getting what you want from your business, you have the power and ability to change that, but you must be prepared to invest, risk and sacrifice to get the outcomes you want.

Ask yourself:

- What could be done to bridge the gap between current value and desired value?
- What are your possible exit / sale options?
- How long do you intend to run the business?
- What will make it worth more?
- Do you actually have a plan in place to increase the value of your business? Is this on track?

## How can Walsh Accountants help you?

We have helped many business owners work through a **business value indicator** process and then worked with them on strategies to help them raise the value, and also prepare for sale.

Some of the services we offer to clients to help them with their valuation or increase their business value include:

- ✓ Future options for sale | Early exit business planning | Exit strategies
- ✓ Identify value drivers | Identify gaps and desired value | Identification of KPIs
- ✓ Forecast change required to achieve/improve business value | Monthly reporting packs
- ✓ Structure review | Structuring for asset protection | Capacity and growth modelling
- ✓ Forward looking budget and cash flow | Global 10 year budget planning
- ✓ One page strategic plan (OPSP) – to help keep everyone focused on goals

Should you have any questions or require assistance, contact our **Business Sales Specialists division** today.

Here's how you can contact us:

Contact us on 5592 3644 or email [info@walshaccountants.com](mailto:info@walshaccountants.com)

