CavanaghKelly

BUSINESS VALUATIONS - HOW WE CAN HELP YOU

The topic of business valuation always stirs up interest especially for owners assessing their own businesses. While there are no set rules for determining a business's value, there are some commonly used methods and principles that can give a rough estimate of its worth.

This article aims to provide a basic overview of these methods. However, it's important to note that for a more accurate valuation, it's highly recommended to seek professional advice tailored to your specific business circumstances.

Valuations & Future Maintainable Profits (FMP)

There are various situations where a valuation might be needed, such as preparing to sell a business, evaluating offers, considering acquisitions, securing financing, or dealing with legal matters like litigation or estate planning.

One key thing to remember is that any valuation is essentially an estimate, and the true value of a business depends on what someone is willing to pay for it in the market.

That said, one commonly used method is the Future Maintainable Profits (FMP) approach. This method looks at a business's expected future profits and applies a suitable multiple to determine its value.

To calculate FMP, you'd typically review the company's past and projected profits, making adjustments for any one-off or unusual items. The idea is to focus on the business's future cash flows when determining its value.

While there are other metrics like Earnings Before Interest and Tax (EBIT) and Earnings Before Interest, Tax, Depreciation, and Amortization (EBITDA), they may not always be suitable for every business, especially those with significant capital expenditure requirements.

At CavanaghKelly, we prefer to tailor our approach to each business's specific circumstances. This involves considering factors like the company's financial performance, industry outlook, management quality, and market position to arrive at a fair valuation.

Establishing the Multiple

The multiple used in the valuation reflects the return a buyer would expect given the business's growth potential and risk profile. Generally, lower-risk businesses command higher multiples.

To determine the multiple, we assess various factors like the company's financial history, market position, competition, and economic conditions. It's a balancing act between growth expectations and risk considerations.

Additionally, we may look at comparable transactions, stock market data, or industry benchmarks to validate our valuation estimates.

Ultimately, the valuation process involves careful consideration of all these factors to arrive at a reasonable estimate of a business's worth. It's a complex process that requires expertise and experience to get right.

If you're considering a valuation for your business or have any questions about the process, we're here to help. Please don't hesitate to reach out to our Advisory team for personalised advice and assistance.