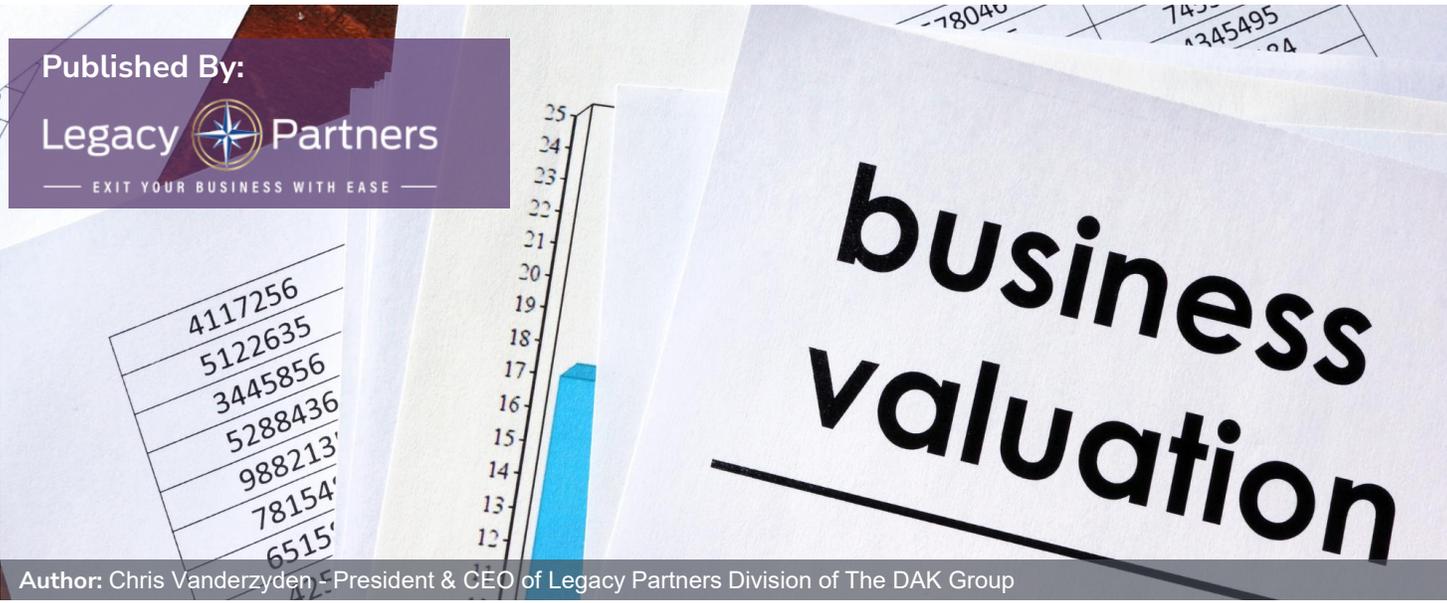


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— EXIT YOUR BUSINESS WITH EASE —



business valuation

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Why a Valuation Matters When Selling Your Business

One of the first questions clients ask before exiting their business is, “What do you think I can sell my business for?” Inevitably, this brings up a discussion about valuation and the use of multiples.

How Multiples Work in Valuation

The Multiple method of valuation uses a financial metric such as EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization), revenue, or seller’s discretionary earnings and multiplies it by a number (multiple), which is the average of other businesses in the same business sector that have sold.

Using a multiple is a down and dirty methodology, and by dirty, I mean this method can be downright wrong! Multiples can vary significantly by size, geographic region, or business model, even within the same sector. Two companies with the same EBITDA or revenue can have vastly different risk profiles, so using the same multiple can overvalue one company and undervalue the other.

This valuation method is imprecise because it focuses solely on past results and ignores future cash flow that a buyer will capitalize upon for their return on investment. It also ignores company-specific factors that drive the risk of a particular investment, such as growth potential driven by human capital, leadership, brand value, customer diversification and depth, technology, operational efficiency, capital intensity, and competitive advantage.

Quantitative and Qualitative Analyses Yield Better Business Valuations

At The DAK Group in partnership with Legacy Partners, we use a robust process that analyzes the business’s quantitative financial metrics and qualitative attributes to determine the value of the company. The qualitative analysis identifies strengths and weaknesses that contribute to the company’s risk profile. It also pinpoints opportunities to optimize and de-risk the business, which drives the selling price upward: **Lower Risk = Higher Price.**

This valuation method ensures we assign an accurate value to the business, which serves as the cornerstone of the owner’s exit planning.

Key Factors That Influence Business Valuation

The process of valuing a business is complex, influenced by several key factors. Understanding these variables will allow you to better prepare for the valuation process.

- **Financial Performance:** Your business’s financial performance is one of the most significant factors in determining its value. Potential buyers closely examine metrics such as revenue, profit margins, and cash flow. A history of consistent growth and strong financial health typically results in a higher valuation.

- **Assets and Liabilities:** The value of your business's tangible and intangible assets, including equipment, intellectual property, and customer lists, will impact its overall valuation. On the flip side, liabilities such as debt and pending legal obligations can reduce your business's value. It's essential the balance sheet is clean and accurate before you initiate the valuation process.
- **Market Conditions:** The broader market environment also plays a role in determining the value of your business. If your industry is thriving and demand is high for businesses like yours, the valuation can be influenced positively. Conversely, economic downturns or negative industry trends can lower your business's value.
- **Customer Base:** A loyal, diverse, and growing customer base is a significant asset for any business. Companies that rely heavily on one or two major clients may be considered high-risk by potential buyers, which could result in a lower valuation. A strong, diversified customer base is an attractive selling point.
- **Business Operations:** The strength and scalability of your internal operations can have a major impact on your business' value. Efficient processes, strong leadership, and a capable workforce are appealing to buyers and investors, as these attributes suggest stability and the potential for continued growth after the transition.



About Chris Vanderzyden

Chris Vanderzyden leads the Legacy Partners Worldwide Division of The DAK Group. She is a trusted advisor to clients and peers, an industry trailblazer in exit planning, and a mentor and leader to a team of top financial and M&A professionals. She can be reached at cvanderzyden@legacypartnersllp.com

Going through the valuation process serves as a pre-due diligence check, ensuring the business is well-positioned for a successful sale. Business owners who take the time to properly prepare their business for sale with a valuation experience a smoother transaction that results in securing the best price and terms.

Timing Your Valuation

Many business owners make the mistake of waiting until they are ready to exit before they obtain a valuation, or they don't get a valuation, are ill-prepared, and their attempt to sell fails. Initiating the valuation process well in advance of your exit allows you to identify areas for improvement and gives you time to increase your company's value.

Consider getting a valuation **two years before your planned exit** and update it regularly as market conditions change.

Valuation is the cornerstone of any exit planning strategy. By understanding the factors that influence your business' value and taking steps to improve them, you can ensure that your company is well positioned to attract multiple buyers.