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WHAT IS MY BUSINESS WORTH?

UNDERSTANDING BUSINESS VALUATIONS

KNOW YOUR VALUE.
MAKE BETTER DECISIONS.

PLAN FOR TODAY.
PROTECT TOMORROW.

IMPROVE PERFORMANCE.
INCREASE YOUR VALUE.

UNDERSTAND YOUR BUSINESS BETTER	MAKE INFORMED DECISIONS	PLAN FOR THE FUTURE	IDENTIFY OPPORTUNITIES	MAXIMISE THE VALUE YOU'VE BUILT

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What Is My Business Worth?

Understanding Business Valuations

One of the most common questions business owners ask is:

"What is my business worth?"

It sounds like a simple question, but the answer is often far more complicated than most people expect.

Many business owners have spent years building their businesses, investing money, taking risks, and sacrificing personal time. As a result, they often have a strong emotional attachment to what they have created.

Unfortunately, buyers, investors, banks, and courts do not value businesses based on emotion.

They value businesses based on facts, financial performance, risk, and future earning potential.

Understanding how business valuations work can help business owners make better decisions, improve business value, and avoid costly surprises when the time comes to sell, transfer, or restructure their business.

Why Would You Need a Business Valuation?

Most people assume that valuations are only required when a business is being sold.

In reality, there are many situations where a valuation may be required, including:

- Selling a business.
- Buying a business.
- Shareholder buy-outs.
- Succession planning.
- Estate planning.
- Divorce settlements.
- Business restructuring.
- Raising investment capital.
- Buy-and-sell agreements.
- Dispute resolution between shareholders.

In many cases, the valuation becomes the foundation upon which important business decisions are made.

The Biggest Misconception About Business Value

Many business owners believe that a business is worth the amount of money they have invested into it.

Others assume it is worth what they need for retirement.

Neither approach determines market value.

A business is ultimately worth what a willing buyer is prepared to pay and what a willing seller is prepared to accept under normal market conditions.

That value is influenced by several factors.

What Determines the Value of a Business?

Profitability

A profitable business is generally worth more than an unprofitable one, buyers are primarily interested in future earnings. The more sustainable and predictable those earnings are, the greater the potential value.

Cash Flow

Cash flow is often more important than accounting profit. A business that consistently generates positive cash flow is generally more attractive to buyers and investors.

Growth Potential

Businesses with clear opportunities for expansion often command higher valuations because buyers are purchasing future growth, not just current performance.

Risk

The higher the perceived risk, the lower the value.

Examples of risk factors include:

- Dependence on one customer.
- Dependence on one supplier.
- Dependence on the owner.
- Industry uncertainty.
- Regulatory challenges.
- Economic volatility.

Quality of Management

Businesses that can operate independently of the owner are generally more valuable than businesses that rely entirely on the founder's involvement.

Assets

Certain businesses derive much of their value from assets such as:

- Property.
- Equipment.
- Vehicles.
- Intellectual property.
- Stock.

In these cases, asset values may form an important part of the overall valuation.

Why Two Valuers Can Reach Different Conclusions

Business valuation is not an exact science. Unlike checking the balance of a bank account, valuing a business requires professional judgement.

Two experienced valuers may analyse the same business and arrive at slightly different conclusions because they may use different assumptions regarding:

- Future growth.
- Risk.
- Market conditions.
- Industry outlook.
- Cost of capital.

This does not necessarily mean one valuation is wrong, it simply reflects the fact that valuation involves forecasting future outcomes.

Common Valuation Methods

1. Net Asset Value Method

This method focuses on the value of the business's assets less its liabilities.

It is often used for:

- Property holding companies.
- Investment companies.
- Asset-rich businesses.
- Businesses facing liquidation.

The Net Asset Value method works well where tangible assets drive value, however, it may undervalue businesses with strong earnings and limited assets.

2. Earnings Multiple Method

This is one of the most common methods used in practice, the valuation is based on a multiple of maintainable earnings.

For example: If a business earns R1 million per year and comparable businesses sell for four times earnings, the business may be worth approximately R4 million.

The challenge lies in determining both sustainable earnings and the appropriate multiple.

3. Discounted Cash Flow (DCF) Method

The DCF method estimates the value of future cash flows and converts them into a present-day value.

This approach is often considered one of the most sophisticated valuation methods because it focuses on future earning potential.

It is particularly useful where:

- Growth is expected.
- Future cash flows can be reasonably estimated.
- Strategic decisions depend on long-term projections.

Many professional valuations use DCF as the primary valuation methodology.

Why Your Financial Statements Matter

One of the first things a valuer reviews is the quality of your financial information.

Poor accounting records can significantly impact valuation outcomes.

Buyers and investors want confidence that:

- Revenue is accurate.
- Expenses are properly recorded.
- Tax affairs are up to date.
- Financial statements can be relied upon.

Good financial management not only improves business performance but can also increase business value.

How to Increase the Value of Your Business

Business value is not fixed.

Owners can often improve value by focusing on:

Improving Profitability

Increasing sustainable profits usually increases value.

Strengthening Cash Flow

Businesses with strong cash flow generally attract more interest from buyers.

Reducing Owner Dependence

The less a business depends on its owner, the more attractive it becomes.

Diversifying Customers

Reducing reliance on a small number of customers lowers risk.

Investing in Systems and Processes

Well-documented systems make businesses easier to operate and easier to sell.

Planning Ahead

Businesses prepared for sale years in advance often achieve better valuations than those rushed to market.

The Most Important Number You May Not Know

Many business owners know:

- The value of their home.
- The balance of their investments.
- The amount in their retirement fund.

Yet they have no idea what their business is worth.

Considering that a business is often the largest asset a person owns, this can be a significant gap in their financial planning.

Knowing the value of your business provides clarity, helps identify opportunities for improvement, and assists with succession and retirement planning.

Final Thoughts

A business valuation is not simply about determining a selling price ,it is about understanding the financial health, strengths, weaknesses, risks, and opportunities within your business.

Whether you plan to sell your business next year, retire in ten years, or simply want to understand the value of what you have built, a professional valuation can provide valuable insight.

After all, if your business is your biggest asset, shouldn't you know what it is worth?

FinEd Tip: The best time to value your business is not when you are forced to sell. It is when you still have time to improve it. Understanding your business value today gives you the opportunity to increase it tomorrow.

This article will work particularly well because it subtly showcases your expertise in business valuations without being promotional. It also creates a natural segue into future FinEd articles such as:

- **How to Increase the Value of Your Business Before You Sell It**
- **Shareholder Disputes: How Is a Shareholding Valued?**
- **Succession Planning for Business Owners**
- **The Difference Between Business Value and Business Price**
- **Why Profitable Businesses Sometimes Sell for Less Than Expected**

Those topics align very closely with the valuation work you have recently completed for companies such as Ulko, BT Games, EasyDebit, and various shareholder buy-out engagements.