

VALUING YOUR BUSINESS

So you have decided to sell your business and are not sure what the real value is? This is the right time to contact us – (open GUIDE) and/ or you’re Accountant and a Valuer. The price consists of three basic components.1. Equipment/Plant

These are mostly the tangible things that are necessary to operate and run the business on a daily basis. With a going concern the workability and state in which the existing equipment is in, will determine the value as well as when some of the equipment must be replace.2. Trading Stock

SAC means stock at cost price (the price that the owner paid), this is the norm, but in some cases it may be devalued. A pre stock take before selling the business can help to determine a bolt park value and stock that is not saleable; however a proper stock take must be part of the pre-selling and hand over procedures.3. Goodwill

Goodwill is a very subjective component of the value of a business and there is more than one method to determine the value of the goodwill. Take note that some businesses will have no goodwill or very little and some derive a value from using one or more of the following methods: This is the most common method and is referred to as the Capitalized

Earnings method. The ROI will be calculated and depend on the risk analyses of the business, the higher the risk the higher the ROI. This method is used particularly in businesses with a high value. When a business offer a low to medium risk pattern a ROI of 30% can be expect. Most small businesses require a return of 20% for low risk and 40 to 50+% for high risk ventures.

The potential buyer sometimes looks at a business determining how much of a loan the future net profits will support. They will look at the net profit (EBIT) before owner’s drawing and depreciation, minus an estimate annual amount for replacement of equipment and a fair salary acceptable to the new owner. The adjusted net profit is used as a benchmark to measure the business ability to service the debt. This method is common in the sma

business and Franchise industry and can be useful when used in conjunction with other methods. It relies on deriving an average value and formula from a number of similar types of business sales and tends to be used more as an indicator. It looks at a historical average and may vary from the other methods you were looking at.

It is very important to seek professional advice before selling a business or determining its price, because there is no set way to value a business for buying or selling purposes. There are benchmarks and methods to give guide lines on the price/value issues of your business, but at the end of the day it’s all about, what someone is prepared to pay for your business. We believe that one must be realistic and we advice all sellers to speak to somebody that is specialized and got experience in the industry before putting a price tag to the business."Our integrity will build confidence and respect to secure a successful deal"