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How to value your business?

Part 1: Valuation techniques

It is important to remember that the true value of a business is what someone will pay for it. The value of any one business will be different for each buyer and the type of buyer they are. By and large, buyers fall into three main categories,

1. Synergy buyer
2. Financial buyer
3. Asset stripper

The synergy buyer will be interested in the return on investment he can make from the business through the synergies he has with his current business, e.g. reduction of staff and overheads. This is the best type of buyer as he will value your business largely ignoring indirect costs.

The financial buyer will be interested in the return on investment he can make from the business if it were to run on the same basis as it is now. It should be noted that although the synergy buyer will be more flexible on the price he is prepared to offer, he may well negotiate on the same terms as a financial buyer in the absence of competition.

The asset stripper will be looking at the value of your business assets on an individual basis and will not be looking to the future other than at what price he can sell the individual assets. Clearly this is not the most desirable buyer, and they are normally only involved in distressed sales.

Whatever type of buyer they are, prospective buyers will use various valuation methods. These typically include the following techniques depending on the type of business being considered.

1. Profit / Earnings Ratio Value
2. Turnover / Earnings Ratio Value
3. Net Book Value
4. Forward Looking Business Model Value
5. Simplified Discounted Cash flow Value

In future editions, we will look at each of these valuation techniques in more detail.

For more information, call us on 020 8090 9380, email us on ask@hornblower-businesses.co.uk, or click here to visit our website, www.hornblower-businesses.co.uk.

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