

How to value your business?

Part 2: Multiple of earnings valuation

In the previous edition we looked at the various valuation techniques and the types of buyer, financial and synergy. Now we will look at the first valuation method on the list.

The multiple of earnings valuation is the most universally used valuation method and is often the point of reference for other valuation techniques. It can be used for most industry sectors.

The valuation is based the earnings that a buyer will be able to extract from the business before interest, tax, depreciation and amortisation (EBITDA). The valuation of the business is therefore a function of the EBITDA and a multiplier.

The EBITDA is then adjusted as follows.

For a financial buyer the EBITDA is adjusted to reflect the owner's takings and benefits less the cost to the new buyer of employing a replacement general manager.

For a synergy buyer (i.e. a buyer with a similar existing business infrastructure) EBITDA is further adjusted to take account of the savings that a synergy buyer could reasonably benefit from. For example this can include costs of premises, insurance, industry membership subs, advertising, IT costs, staff, accounting and legal.

The multiplier used depends on both the industry sector and the size of the business, the larger the business turnover the higher the multiple. For more information on the multiple that would be used for your business, please contact Henry Campbell-Jones on 020 8090 9380.

In the next edition, we will look at the multiple of turnover valuation.

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.