WHAT GIVES A BUSINESS VALUE

VALUATION

***val•u•a•tion** / val-yoo-**ey**-shuh n*

is the process of determining value. In a business valuation, the value of a company in the marketplace is estimated. Factors that influence the value of a business enterprise are:

POSITIVE & INCREASING CASH FLOW

The more cash flow a business generates, and the better the prospects of **increased cash flow** in the future, the higher the value of the business.

CUSTOMER DIVERSITY

A broad base of customers where no single client accounts for more than **5-10%** of sales lowers risk and increases value.

HUMAN CAPITAL

The quality of the current workforce, including experience, expertise, and **long-term commitment**, is key.

GROWTH POTENTIAL

Indications that the business can develop new products/services, acquire new customers, and **grow** in size, increase its value.

FACILITY CONDITION

If the location is desirable and the buildings and equipment are **well-maintained**, that supports value.

GOODWILL

If the business has strong customer awareness, history, and a **strong reputation**, it will all contribute to a higher value.

BARRIERS TO COMPETITIVE ENTRY

What about this business gives it an **advantage over competitors**? Such barriers will help protect the business position and enhance value in the marketplace.

PRODUCT DIVERSITY

A **healthy mix** of products and services can increase value. A diverse revenue source decreases risk and therefore offers a higher value.

INTANGIBLE ASSETS

Value is derived from assets such as **customer relationships**, trademarks, patents, copyrights, proprietary technology, and other intellectual property.

TANGIBLE ASSETS

More often applicable when selling products rather than services, but the better the **condition of assets** such as buildings, equipment, and inventory, the higher the value of the business.

VALUATION METHODS INCLUDE:

Asset Valuation: Values the company as the total cost of replacing its tangible and intangible assets
Market Valuation: Based on industry multiples of sales, earnings, cash flow
Income: Based on projecting cash flow and reducing it to present value using an appropriate rate of return.

*WHAT GIVES YOUR BUSINESS **VALUE**?*

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