

Top 9 Things To Consider: Business Valuation Factors



EBITDA

The calculation of a company's value based on earnings before interest, taxes, depreciation, and amortization functions as a stand-in for the company's enterprise value. This value eliminates the non-operating effects unique to each business and measures its financial performance. EBITDA values include common shares and equity, short-term and long-term debts, minority interest, and preferred equity. The company's EBITDA is an important factor in cases involving the purchase or sale of the business (in part or whole) or in a stock investment, as it is a measure of company profitability. EBITDA is inconsequential in tax situations or cases where tangible or intangible assets are being sold or purchased.

Competitive advantages

The value of a company's competitive advantages is important primarily in the context of investment or purchase/sale of the business. It may also come into play if the valuation is for the purpose of the sale of certain tangible assets or IP, insofar as those assets confer competitive advantage. For example, a business location in a high-traffic area may give the company a competitive advantage; this location will be of greater value in a sale than a business location in a lower-traffic area. The same holds true for valuable intellectual property when it constitutes the primary competitive advantage of the business.

Growth prospects

The company's prospects for future growth are of great interest to investors or potential purchasers, but immaterial for tax purposes or the current value of assets.

Staff and management

The value of staff and management will be of importance only in the valuation of going concerns; for businesses in liquidation, the value of this intangible is immaterial. Therefore, as a business valuation factor, staff and management are only of value in investment or purchase/sale contexts.

Size

The size of the company has an impact on value and is one factor in determining its EBITDA multiple. Company size matters in the purchase or sale of the enterprise, an operating unit of the company, or stock. It is not useful in figuring value for tax purposes or for the sale or purchase of assets (other than complete operating units).

Revenue trends

The company's revenue trends will be of interest to potential investors or prospective purchasers, but again, are immaterial for tax purposes or for the sale of physical assets. Revenue trends might be important when valuing IP, depending on the specific situation.

Earning history

Again, earning history will be of interest to investors or potential buyers, but is of no value for appraisals conducted for tax purposes or valuing assets.

Location

The location of the company or its assets may affect its enterprise value or the value of various assets, but in most cases, it will be of most interest for tax purposes, since different jurisdictions have different tax rates.

Reputation

Another intangible asset that only has value in a going concern context is reputation. The reputation of the business (if it is good) will have value to investors or potential buyers.



Follow Me For Premium Finance Content

