
Small Business Tip of the Month:

"While there is no single, silver-bullet method for determining what the market will (or might) bear, considering buyers' two basic questions will give you a reasonable gauge..."

--Charles Burckmyer, Managing Director, Knob Hill Partners

Determining Your Company's Valuation

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Whether you're an owner-operator among the 12 million baby boomers poised for retirement or a young entrepreneur considering net worth, getting a read on your business' valuation can be a pivotal piece of info.

At a fundamental level, buyers are interested in two basic questions: How much money is the company making now, and how much money can be made with it in the future? Some of the common parameters affecting those questions are:

- 1. Your company's current and historic financial metrics.** Trailing twelve month (TTM) revenue, gross margin, earnings before interest, taxes, depreciation, and amortization (EBITDA), and debt obligations are some of the most common bases for evaluating smaller, private companies.
- 2. The growth of your business.** If you're like many small businesses in today's bearish marketplace, you may view simply maintaining market share and staying in the game as success. The good news is that many buyers see it the same way. Clearly, however, historic growth of your operation coupled with a plausible map to future expansion increases your valuation.
- 3. Those fabled synergies.** Depending on the kind of buyer you're most comfortable selling to (a larger player in your industry? a well-funded entrepreneur? a private equity group? your management team?), there may be impacts to your business' cost, revenue, and growth, which will be reflected in what that buyer can offer.

There are myriad ways to combine and digest these factors, ranging from discounted cash flows to public comparable analyses and asset-based valuations. But while there is no single, silver-bullet method for determining what the market will (or might) bear, considering the question from this approach will give you a reasonable gauge.

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