Understanding the Value of a Business

There are many ways a company can determine what it's worth if an outside party wanted it to purchase it. What is most important in determining it's value is the earnings (profits) the company is producing. If a company is not profitable, then ultimately it's not worth anything to an outside party.

A business is usually worth a *multiple of it's earnings based on what industry you are in. Different industries have different multiples, which is essential based on the likelihood of the consistency of earnings from one owner the next. For instance, if you are an attorney and buy another attorney's practice, they most likely have a lot of close relationships with their clients, which might result in the loss of some clients from one owner to the next. This situation would be different when selling a local utility cable company where customers would not likely realize there is new ownership managing the company.

Determine the value of this company:

Sales	$ 100
COGS	- 60
Gross Profit	40
Other Costs	- 15
Owner's Wage (?)	_____
	$ 25 _____

This company's earnings multiple is 4 times the earnings x 4

The value of this company is: $ _____ $ _____

***Sometimes business people refer to the multiple as related to sales, not profit. In this company's case it would then be worth 1 times sales or 4 times it's profit. It usually depends on the way it is commonly referred to in your industry.**

© 2017 EWH University LLC

All rights reserved. No part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of the publisher.

Understanding the Value of a Business

There are many ways a company can determine what it's worth if an outside party wanted it to purchase it. What is most important in determining it's value is the earnings (profits) the company is producing. If a company is not profitable, then ultimately it's not worth anything to an outside party.

A business is usually worth a *multiple of it's earnings based on what industry you are in. Different industries have different multiples, which is essential based on the likelihood of the consistency of earnings from one owner the next. For instance, if you are an attorney and buy another attorney's practice, they most likely have a lot of close relationships with their clients, which might result in the loss of some clients from one owner to the next. This situation would be different when selling a local utility cable company where customers would not likely realize there is new ownership managing the company.

Determine the value of this company:

Sales	$ _____	
COGS	- _____	
Gross Profit	_____	
Other Costs	_____	
Owner's Wage (?)		_____
	$ _____	_____

This company's earnings multiple is 4 times the earnings x 4

The value of this company is: $ _____ $ _____

***Sometimes business people refer to the multiple as related to sales, not profit. In this company's case it would then be worth 1 times sales or 4 times it's profit. It usually depends on the way it is commonly referred to in your industry.**

© 2017 EWH University LLC

All rights reserved. No part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of the publisher.