Business Valuation:

Tips, Hints, and Things You Should Know

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- JCCC September 5, 2025

Goals for this session

- Provide frameworks for thinking about business value.
- Discuss some things that impact value.
- Thoughts about how this fits in with your plan.

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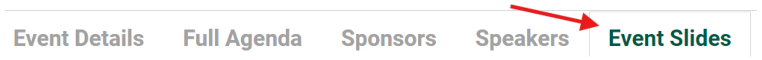
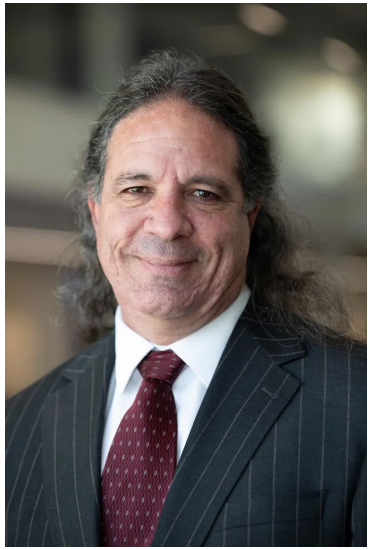


Blue Owl Valuation



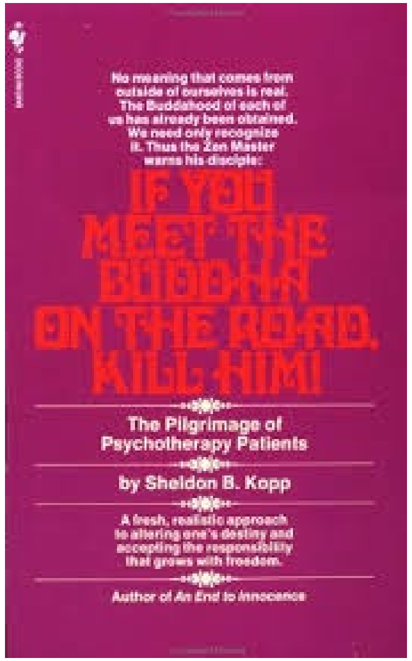
blueowl valuation

- Long-time SBDC Advisor…2004 through 2021
- CVA since 2014
- CVAs not CPAs

What is a business worth?

Important question, right? For many business owners, the business is their most important financial asset.

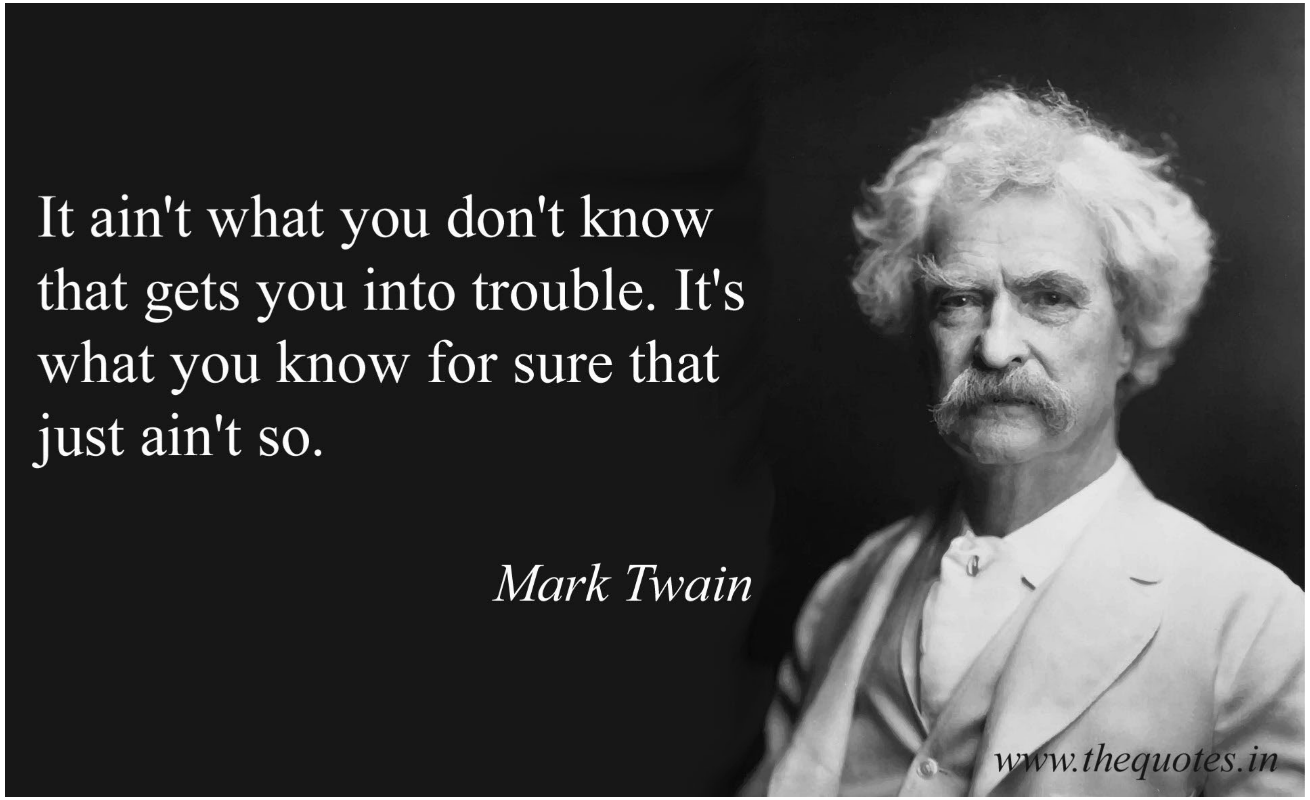
I’ve got bad news for you…there are no truly simple, one-size-fits-all answers.



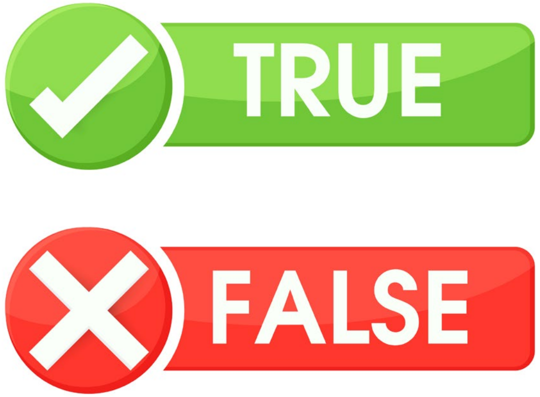
Some common notions of value

- 2 to 3 times Seller's Discretionary Earnings plus inventory
- 5 times EBITDA
- "My sweat equity"
- Some function of revenues (1x revenues, 0.5x revenues, etc…)
- **Often, folks who are familiar with one approach simply discard other approaches. They apply their favored tool even when it's not the best one. (When all you have is a hammer, everything looks like a nail)**

(nods head slowly)



True or False?



- A business is worth the present value of the future cash flows of the business.
- A business is worth what one person will sell it for and another person will buy it for…as long as the buyer can come up with the money.
- I quit my job making $40,000 per year. This was 25 years ago. So I figure the business is worth $40,000 times 25 years, or $1 million, because of the sweat equity I have contributed.

What is Fair Market Value?

"The price at which such property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell, and both having reasonable knowledge of relevant facts."

--IRS Revenue Ruling 59-60 (United States v. Cartwright)

Let's get back to that Buddha

- If you meet him on the road, kill him. (If anybody is selling you certainty, don't buy!)
- There are not a lot of universal truths in valuation. It is not just science, but also art.
- I don't believe in the notion of one, true, indisputable value.
- **Valuation is VERY purpose-and-use specific.**
- Possibly worth different amounts to different buyers (Internal, such as family or employee; external such as owner-operator, financial, strategic)
- Uh oh….so what about FMV? (May mean that not all transactions take place at FMV!)

From the perspective of a CVA…

- Hypothetical, financial…
- Not strategic, not synergistic
- WHOLE lotta latitude, really….and I can’t really tell you what it WILL sell for.
- Judgment of analyst is more important than one might think….as well as the ability of the analyst to create a narrative through-line
- Think of this as a range of possible FMVs (house, car) but I’m going to settle on one.

ONE universal truth

- **V = B/R**
- **Value equals a benefit stream (B) divided by some appropriate capitalization rate or “risk” rate(R).**
- KEY: you have to MATCH the benefit stream to the appropriate (R)!!!
- A multiple is the INVERSE of a cap rate:
  - 2x = 50% cap rate
  - 2.5x = 40% cap rate
  - 3x = 33.3% cap rate
  - 4x = 25% cap rate
  - 5x = 20% cap rate

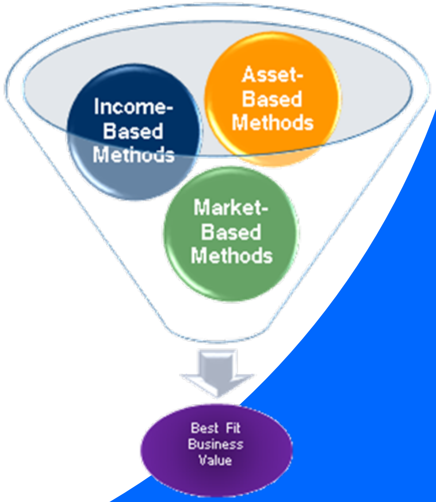
1 divided by 2 = 0.5
1 divided by 2.5 = 0.4
1 divided by 3 = 0.3333

- Now think about risk with me.

Common Approaches to Value

There are basically three, and they are similar to what you might find in something like a real estate appraisal

- Asset approach—business is worth what the assets are worth (HoldCo or maybe real estate, but with caveat)
- Income approach—business value is determined by the cash flows
- Market approach—business value is derived from comparable transactions



Methodologies

Within each approach there are more specific methodologies.

- Income: capitalized earnings, Discounted Cash Flows
- Market: guideline public, private transactions, SDE vs. EBITDA, which we'll get back to later.
- Hybrid methodologies such as Excess Earnings
- Not sure this warrants more, but I'll discuss if you'd like

What is the point about approaches and methodologies?

- Not that you need to be familiar with all of them
- Mostly just that you want to make sure that your notion of value doesn't just get rooted in ONE thing
- ESPECIALLY if it is not the most logical approach/method.
- Shockingly, I see this lot.

What are the Three Things?

- Three things you need to know to exit. I didn't make this up.
- How much money do you need?
- How much is the business worth? (is there a gap?)
- What do you want to be when you grow up?

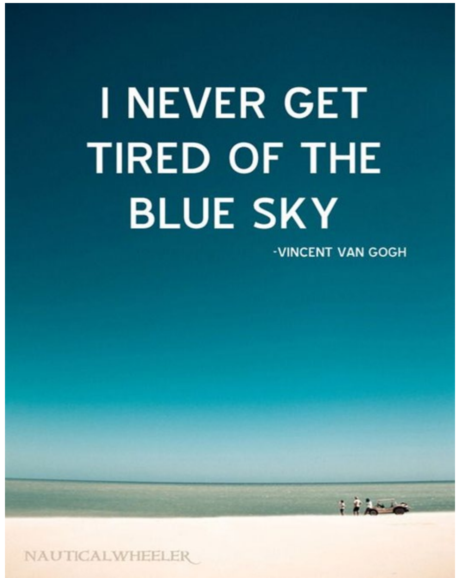
What do you do in order to make your business more valuable?

- What if there is a gap in #1? No shortcuts. No magic.
- More revenues…more PROFITABLE revenues. This is the "B" in our equation of V=B/R
- De-risk…make it easy to take over for you. If you are working really hard and there are only things that you know, that won't help value.
- Clean up the financials. If this ain't your thing, hire somebody to do it. Have them prepare an adjusted statement. Really needs to be obvious to a buyer what they are buying.
- Too many to list, really, but grow cash flows, reduce risk. Or make it more obvious.

Things that make me nervous

- Anecdotal rule-of-thumb guesswork. "I hear that insurance brokerages usually sell for 3x revenues. I want to sell mine for that. I mean, basically, it's money in the bank."
- Analysis that ONLY includes one methodology.
- If more than one…Any analysis that presents a range of values that is unhelpful. "Hey, I want to sell my house. What's it worth? Somewhere between $200K and $500K." Is that REALLY helpful? No! So why would that be helpful for a business owner?

Other random points



- When analysts/owners/combatants agree on the underlying facts, things like projected growth rates and premise/standard of value, they usually agree on results. It's close, anyway.
- **What is "goodwill", anyway? What is the difference between "goodwill" and "blue sky"?**
- (I don't often use the term "blue sky")
- Imagine these two businesses….both with $200,000 in cash flows…
- Intangible value is value that one can SEE in the cash flows. So your business isn't worth more just because it's well-known, unless being well-known drives profitable revenues.
- But you have my permission to resist when somebody says "blue sky".

More random

- Market conditions at time of sale.
  - Interest rates! Just like with houses, this moves the price. When people buy a house, they buy at a some price, but it's based on the monthly payment they can make. If you can make a $2000 payment, that might be a $400,000 house at 3.8% but it might be a $300,000 house at 5.8%. With a business, it's the same. How much debt can it support?
  - What are market conditions RIGHT NOW?
- Possible synergies. Can your business be rolled up into another one? Do you have IP? (trade secrets, patents, something valuable about customer base, etc...) Is your business a platform? Or a bolt-on to another platform?
- Are you selling equity? Is this an asset sale? If you don't know, it's time to think about it.

Thank you so much!

Questions???