

Meta Title: How do I Value My Business? | XIT Acquisitions

Meta Description: Small business owners must determine their company value in order to gain actionable insights. Discover how to compute business value here.

Page URL: <https://domain.com/page-url/> how-do-i-value-my-small-business

<h1> How Do I Value My Small Business?

Small business owners can become so preoccupied with the daily operations of their business that they never take time to evaluate the real value of their company. Understanding your company value can help you make better decisions about how to run and operate your business, how to structure your processes, what types of people to hire, and much more.

In this article, we will discuss how to compute your business value. By the time you have finished reading this, we hope we have given you actionable insights for your business goals. Read more to learn the importance of knowing your business value and the math behind it.

When do You Need to Value Your Business?

According to a poll by M&T Bank, [98%](#) of small business owners don't currently know the value of their business. This lack of knowledge can leave business owners vulnerable to missed opportunities. Business owners must assess the value of their businesses. This critical information helps business owners:

- Fully grasp their business growth and its trajectory.
- Provide proof and a basis for future investment from investors.
Assist in making a profitable exit from their business through a sale.
- Apply for a bank loan against the business.
- Issuing or selling equity or stock in their company.

Small business valuation is commonly used to persuade buyers and investors. By valuing your business, you are showing proof of how much your business is worth. This is also helpful information for you as business owners have a strong tendency to overvalue their business and what it is worth because of the hard work they put in. Having a realistic of your business value allows you to make better decisions and to take actions that help build value.

What is the most common way to value a small business?

The most common method to assess business value is subtracting liabilities from assets. However, this method is limited. It only shows the value of your business if the buyer owns it and then sells it. But it doesn't show a business' profitability or growth opportunities.

Suppose a retail store has an inventory asset of \$6,000,000 and its liabilities cost \$3,000,000. Using the assets-minus-liabilities method, the value will be \$3,000,000.

But what if the manufacturing company is located on a property that appreciated in five years? This method would not have included its appreciation in the business value.

Furthermore, this method does not apply to businesses with intangible assets. Therefore, other methods are used to determine the actual value.

Business Valuation methods

There are different business valuation methods. Depending on your business situation, one method may be more beneficial to you than the others. However, you can also get a business appraisal professional to assess your business value objectively.

Market Comparison Approach

The market comparison approach is made by asking the industry's similarly located and sized businesses what their estimated value is. You will also have to consider the market state as well as the willingness of individuals to invest or buy your business.

Multiplier Approach

If the market comparison looks outward, the multiplier approach is about looking into your business regardless of similar companies. In this method, you will have to check your business situation. Is your market going strong? Is the competition high? Are you advantageously located? The more positives your business has, the higher your business' multiplier will be.

Market-Multiple Approach

The market-multiple approach uses business comparison to find your business' multiple. You will need to inquire about the selling price of recently sold businesses in the same industry, region, and size as yours. Then you divide its sales price by any of the following:

- Your company's annual revenue
- EBIT (earnings before interest and taxes), or
- EBITDA (earnings before interest, taxes, depreciation, and amortization)

The outcome would be your multiple. Multiply your multiple by your company's annual revenue, EBIT or EBITDA. The product would be your business value.

Discount Cash Flow Approach

The DCF approach is often used to determine your business value for investors. It considers your 3-5 years' future cash flow against the depreciation rate of money over time. If the resulting

value from DCF is bigger than their investment, they are more willing to buy or invest in your business.

$$\text{Value} = \frac{\text{Cash flow year 1} + \text{Cash flow year 2} + \text{Cash flow year 3}}{(1 + \text{discount rate}) (1 + \text{discount rate})^2 (1 + \text{discount rate})^3}$$

Components that affect Business Value

For calculating the business value below, we have chosen the multiples method. The said method is more widely used and less complicated than DCF. Before we compute, we must find the numbers that affect the value.

Determine your net income

Your net income is your gross profit minus all the expenses. Let's say your business's total sales are \$1,000,000. Your expenses racked up to \$600,000 (pandemic, equipment, salary, etc.). Therefore, your net income is \$400,000.

Determine your multiple

Your multiple denotes how long your business will last with the current factors at play. It is affected by several factors. Financial state history, current business situation, customer base, supplier connections, etc.

For small businesses, a multiple ranges between 2-10. You can Google the multiple other businesses used in your industry.

Or you can follow the rule of thumb regarding revenue. Businesses with net income below \$500,000 have multiples between 2-5. Any net income beyond \$500,000 can reach a double-digit multiple.

So if we use our past example with your net income is \$400,00, then your multiple is between 2-5. Let us say that the state of your business at present looks good, but you don't want to overdo it. So we choose a multiple of 4 -not too high or too low.

Determine your business' past growth rate

Look through your business records to track your profit growth. Your business growth rate is evidence of how well your business can do in the future.

Since we have a multiple of four, let's track your business growth rate for the past four years. If your business has grown by 9-10% since then, we can determine that your business has an annual growth rate of 10% with a multiple of four.

Determine your market's growth rate

Research your industry. Compare your market's growth rate against your business growth rate. Let's say your market grew by 10% last year, which coincides with how your business grew by 10% in the same year. We now have evidence that your business can grow in your industry.

Calculate Your Business Valuation

If your business has an annual growth rate of 10% with a multiple of four, these will be your net income for the next four years:

- Year 1: \$400,000
- Year 2: \$440,000
- Year 3: \$484,000
- Year 4: \$532,400

Therefore, your business value would be \$1.9 million.

Business Value vs. Fair Market Value

Even if you have calculated your business value, the market ultimately dictates its value. While they may see the components that make up your business valuation, they may not be willing to pay its full price.

For example, if you plan to sell your business, sellers may not agree that its value is \$1.9 million. They may only pay \$1 million for your business.

It is up to you to negotiate or adapt. If you need the investment, you may have to lower your value.

Once you and the other party have settled on the price, it doesn't end there. You will need to set the terms and conditions of the business deal.

If you're selling your business, buyers prefer low-interest rates or delayed payments a few months after the sale. A business deal can start with a 60-80% down payment and installments with interest.

Other Things to Consider

Account for overlooked factors such as your business reputation, location, and age. These can drastically affect your business cash flow and, therefore, your value. Your value goes up if you're a retail business in a densely populated area. If you're a trusted brand in your location for ten years or more. In that case, your company's staying power increases your value

Determine Your Small Business Value

Small business valuation is crucial for the business owner. It shows them their business growth. It also gives persuasive financial proof to buyers, investors, and lenders. We've introduced the multiple methods as it is the most commonly used and less complicated approach to DCF.

With the computation above, we use four components that affect your business value. These are your net income, multiple, business growth, and market growth. By using these components, we can compute your company's business value. However, the result may be different from its fair market value.

Here at XIT Acquisitions, we use factors to determine your company's value. We look for long-term growth potential. But we also use standard metrics such as EBITD and SDE and consider fair market value. If you need more help understanding the value of your business, [tell us about your company](#) so we can provide advice and insight.

Small Business Valuation FAQs

- **How do you value a small business with no tangible assets?**

For small businesses with minimal to no tangible assets, there are ways to determine their value. Their value can be determined by discounted cash flow (DCF) and market comparison. You can also use its future profitability by knowing the [four components that affect business value](#).

- **How many times profit is a small business worth?**

The Times-Revenue method is a form of the multiples approach. It multiplies annual business revenue by a multiple. For a small business, the multiple can vary from two to 10. A business with below \$500,000 revenue can have a multiple of up to five.

Let's say that the mentioned business has a multiple of four. By using this multiple, their business value is \$2,000,000. However, read our article above if you want to have a more in-depth number.

--- END OF PAGE ---

-- Notes for the OMs --

Your recommendation comments should include a couple of items: where the issue is, what the changes are and why you are suggesting the changes. Keep in mind this should be clear enough that anyone reading them can understand what is going on.

-- Notes for the Content Writer --

The page's current word count is {{Enter Word Count}}. Ideally, the word count on this page would be {{Enter Ideal Word Count}}.

We will want to increase and/or decrease the **number of heading tags** used on this page.

Heading Tag	Current Usage	Suggested Usage
<h1>	1	1
<h2>		
<h3>	7	
<h4>	3	
<h5>		
<h6>		

and in those heading tags we will want to increase and/decrease the amount of keywords and which keywords are **included in the subheading tags** of this page.

Keyword	Current Usage	Suggested Usage

We will want to increase and/decrease the amount of **keywords in the body text** of this page.

Keyword	Current Usage	Suggested Usage

Internal Linking Opportunities:

- <https://domain.com/opportunity-one>
- <https://domain.com/opportunity-two>
- <https://domain.com/opportunity-three>
- <https://domain.com/opportunity-four>
- <https://domain.com/opportunity-five>

-- Notes for Production --

Place any notes for production in regard to the on-page optimization such as: heading structure, image file names, image alts, etc.