



# **Business Valuation Handbook**

Twelfth Edition

---

# **ValuAdder® Business Valuation Handbook**

Twelfth Edition

Copyright © 2004-2021 Haleo Corporation

All rights reserved. No part of this book may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, faxing, emailing, posting online or by any information storage and retrieval system, without written permission from Haleo Corporation.

ValuAdder and the ValuAdder logo are trademarks or registered trademarks of Haleo Corporation. Mac is a trademark of Apple Inc., registered in the U.S. and other countries. Windows is either a registered trademark or trademark of Microsoft Corporation in the United States and/or other countries. Adobe, Adobe PDF, and Adobe Reader are either registered trademarks or trademarks of Adobe Systems Incorporated in the United States and/or other countries. All other trademarks are the property of their respective owners.

To purchase additional copies of this Handbook, please visit: <http://www.valuadder.com/>

ValuAdder Business Valuation Tools

P.O. Box 344

Lake Oswego, OR 97034

USA

ISBN: 978-0-9829087-5-4

---

---

## Table of Contents

Introduction to the ValuAdder Business Valuation Handbook .....	ix
Business valuation based on income, assets, and market comparables .....	1
Quick tips .....	3
I. Business Valuation Guide .....	4
Measuring business worth: The three approaches .....	5
Five steps to value any business .....	8
Business valuation: Why and how to do it .....	14
Business valuation based on market comparisons .....	17
Choosing methods to value a business .....	20
Company valuation results depend on your assumptions .....	22
Keep your business valuation current .....	23
Top 7 mistakes to avoid .....	24
II. Business Valuations for Different Purposes .....	26
Business valuation for the business buyer .....	28
Looking for a business to buy: Time-saving tools and tips .....	28
What is the business worth? .....	29
Avoid costly mistakes: Structuring your purchase offer .....	30
Business valuation for the owner .....	31
Top 5 reasons to value your business .....	31
What is my business worth? .....	31
How to increase your business value .....	32
Business sale: Maximize your price! .....	33
Valuation for buy-sell agreements and partner buyout .....	35
Gift and estate taxes .....	37
Business valuation in divorce .....	39
Employee stock ownership plans (ESOPs) .....	42
Lender's perspective on business valuation .....	43
III. Tutorials .....	45
Business Valuation Step by Step .....	46
Business valuation method summary .....	48
Business Goodwill: Why businesses are worth more than their assets .....	49
Market Comps: Business valuation based on comparable business sales .....	55
Earnings Multiple: Valuing a business based on cash flow .....	57
Discounted Cash Flow: Risks, returns, and business value .....	61
Net Present Value: Is the business worth the price? .....	66
Capitalized Earnings: Valuation based on earnings and capitalization rate .....	68
Deal Check: Structuring your business sale or purchase .....	71
Loan Schedule: Business acquisition financing terms .....	75
Future Value: How business value grows over time .....	76
Employee Stock Option Valuation Tutorial .....	78
Business valuation: common situations, method choices .....	83
From accounting statements to business value: Recasting financials .....	86
Entering your data into ValuAdder .....	89
Your business valuation scenarios .....	90
Creating your business valuation reports .....	91
Using what-if scenarios in business valuation .....	92
IV. ValuAdder Business Valuation Software Tools .....	94
Customize your tools: Start Tab .....	96
Choosing your business valuation methods with a mouse click .....	96
Business Goodwill Tab .....	97
How to calculate business goodwill and total business value .....	97
Your inputs: Earnings, assets, rates of return .....	97

Market Comps Tab .....	99
How to calculate business market value .....	99
Just a few inputs .....	99
Earnings Multiple Tab .....	101
How to value a business: Earnings and valuation multipliers .....	101
What are my inputs? .....	101
Multiplier table .....	102
How the earnings multiplier is calculated .....	106
Discounted Cash Flow Tab .....	108
Company valuation: Cash flows and discount rates .....	108
What inputs are needed? .....	108
Net Present Value Tab .....	110
Business valuation: What is my investment worth? .....	110
What are my inputs? .....	111
Capitalized Earnings Tab .....	112
Your inputs: earnings and risk .....	112
Deal Check Tab .....	113
How to put together a successful business acquisition .....	113
Your inputs here .....	114
Loan Schedule Tab .....	116
How to check seller financing and bank loan terms .....	116
What inputs are needed? .....	116
Future Value Tab .....	117
How value of business assets grows over time .....	117
Your inputs .....	117
V. ValuAdder Menu: Using Your Business Valuation Software to Get Results .....	118
I. File .....	119
New » Scenario .....	119
New » Recasting Worksheet .....	119
Open .....	119
Open in New Window .....	119
Save .....	119
Save As .....	120
Export .....	120
Page Setup .....	120
Print .....	121
Close .....	121
Exit .....	121
II. Edit: Speeding up your business valuation .....	122
Cut .....	122
Copy .....	122
Paste .....	122
III. Tab: Customizing your business valuation tools .....	123
Add .....	123
Delete .....	123
Duplicate .....	123
Change Name .....	123
Move Left .....	124
Move Right .....	124
IV. Reports: Communicating your business valuation results .....	125
Create Report .....	125
Save Report .....	125
Print Report .....	125
Page Setup .....	126

About ValuAdder Reports .....	126
V. Tools: Saving time .....	127
Auto Calculate .....	127
Worksheets for Recasting Financials .....	127
Employee Stock Option Valuation .....	128
VI. Help: Business valuation Info Center at your fingertips .....	129
Contents .....	129
Tutorials .....	129
Glossary of business valuation terms .....	129
Index .....	129
Search .....	129
Save Printable Handbook .....	129
Show Tips .....	130
License Agreement .....	130
About ValuAdder .....	130
VI. Glossary: Business Valuation Terms, Explanations, Tips and Examples .....	131
Addbacks .....	132
Amortization .....	133
Asset accumulation valuation method .....	134
Asset assemblage business value premise .....	135
Asset purchase .....	136
Assets .....	137
Balance sheet .....	138
Balloon loan .....	139
Business enterprise value .....	140
Business goodwill .....	141
Business market value .....	144
Business valuation approaches .....	145
Basis of business value .....	146
Business value definition .....	147
Capitalization of earnings valuation method .....	148
Capitalization rate .....	149
Current assets .....	150
Current liabilities .....	151
Debt financing .....	152
Debt service coverage ratio .....	153
Depreciation .....	154
Discounted cash flow valuation method .....	155
Discount for lack of marketability .....	156
Discount rate .....	157
Due diligence .....	159
Earnings .....	160
Earnout .....	161
Excess earnings valuation method .....	162
Fair market value .....	163
Fair value basis .....	164
Forced liquidation business value premise .....	165
Furniture, fixtures and equipment .....	166
Going concern business value premise .....	167
Interest .....	168
Internal rate of return .....	169
Intrinsic business value definition .....	170
Inventory .....	171
Investment business value definition .....	172

Liabilities .....	173
Long-term liabilities .....	174
Minority ownership discount .....	175
Multiple of discretionary earnings valuation method .....	176
Net cash flow .....	177
Net present value .....	178
Net realizable value .....	179
Net working capital .....	180
Orderly disposition business value premise .....	181
Premise of business value .....	182
Present value .....	183
Principal .....	184
Profit and loss .....	185
Project costs .....	186
Return on investment .....	187
Recast financials .....	188
Market comps valuation method .....	189
Seller's discretionary cash flow .....	190
Seller's note .....	191
Stock purchase .....	192
Terminal value .....	193
Transaction costs .....	194
Valuation multiple .....	195
Weighted average cost of capital .....	196
Working capital .....	199
Index .....	200
A. Software License Agreement .....	203

---

## List of Tables

1. Earnings Multiple multiplier table. ....	102
2. Earnings Multiple weight selections. ....	106

---

## List of Equations

1. Seller's discretionary cash flow formula, simple average .....	59
2. Seller's discretionary cash flow formula, weighted average .....	59
3. Seller's discretionary cash flow formula, squared weighted average .....	59
4. Terminal value formula .....	63
5. Terminal value calculation example .....	63
6. Discounted Cash Flow math .....	64
7. Discounted Cash Flow – Mid-Year Adjustment .....	64
8. Capitalization of earnings formula .....	68
9. Capitalization rate for capitalization of earnings formula .....	68
10. Capitalized earnings formula with mid-year adjustment .....	69
11. Discount rate build-up formula .....	157
12. WACC formula .....	196
13. Constant growth capitalization .....	196



---

# Introduction to the ValuAdder Business Valuation Handbook

Welcome to the ValuAdder Business Valuation Handbook. To help you get started using ValuAdder quickly, the Handbook is organized into main topics as seen below. Bring along your new ValuAdder as you explore the Handbook.

Introducing ValuAdder	Provides a brief introduction to the ValuAdder business valuation calculator.
Searching for a business	Gives examples of how ValuAdder can help you find the right business.
Selling a business	Suggests how ValuAdder can help you sell your business.
Business Goodwill Tutorial	Shows you how and when to use the Business Goodwill Tab.
Deal Check Tutorial	Shows you how and when to use the Deal Check Tab.
Discounted Cash Flow Tutorial	Shows you how and when to use the Discounted Cash Flow Tab.
Earnings Multiple Tutorial	Shows you how and when to use the Earnings Multiple Tab.
Future Value Tutorial	Shows you how and when to use the Future Value Tab.
Loan Schedule Tutorial	Shows you how and when to use the Loan Schedule Tab.
Net Present Value Tutorial	Shows you how and when to use the Net Present Value Tab.
Capitalized Earnings Tutorial	Shows you how and when to use the Capitalized Earnings Tab.
Market Comps Valuation Formulas Tutorial	Shows you how and when to use the Market Comps Tab.
Financial Recasting Tutorial	Shows you how to use the ValuAdder worksheets to do the important financial statement adjustments.
Creating Reports	Shows you how to create, save, and print attractive and presentable reports.

Once you are comfortable using ValuAdder, the Business Valuation Handbook offers the following quick reference resources:

Business Goodwill Tab	A quick reference to the Business Goodwill business valuation calculation.
Deal Check Tab	A quick reference to the Deal Check business valuation calculation.
Discounted Cash Flow Tab	A quick reference to the Discounted Cash Flow business valuation calculation.
Earnings Multiple Tab	A quick reference to the Earnings Multiple business valuation calculation.
Future Value Tab	A quick reference to the Future Value calculation.
Loan Schedule Tab	A quick reference to the Loan Schedule calculation.
Net Present Value Tab	A quick reference to the Net Present Value business valuation calculation.
Market Comps Tab	A quick reference to the Market Comps Valuation Formulas calculation.

There are a number of business valuation and general financial terms used throughout the Tutorials and quick references. For your convenience, definitions of all such terms are provided in the Business Valuation Handbook Glossary. Click on an unfamiliar term hyperlink to see its definition in the Glossary. You can also consult the Index for a term definition you are interested in.