BUSINESS

What are the Different Methods of Business Valuation?

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When you want to buy or sell a business, how do you know how much it's worth? The value of any business can be challenging to assess. After all, it's not like you can put a business on eBay with an asking price and see what kinds of offers you get. Instead, when valuing a business for sale or purchase, there are a number of different methods that may come into play. While some businesses will have their value estimated by accountants, financial advisors, and brokers based on internal numbers they see as well as external information they research. Depending on the type of business and its industry, one approach may be more applicable than another. Let's take a look at some of the common methods used to calculate the value of a business.

Discounted Cash Flow Method

The Discounted Cash Flow Method or DCF for short, is one of the most widely used valuation methods. With a DCF valuation, an analyst will start by forecasting the income the business will generate in the future, as well as its expenses. To do this, the analyst will make certain assumptions regarding the future, such as company growth, the cost of labor, and the cost of materials. Once these figures are plugged into a spreadsheet, the analyst can then figure out the cash flow those figures will create. Next, the analyst will discount this cash flow using a discount rate to arrive at a final valuation. The discount rate is often comparable to the rate of return a new investor might be expecting. The discount rate also varies depending on the industry and other factors.

Income Capitalization Method

business in which there is no or very little cash flow. This method is often used to value a privately owned business that is not publicly traded. With an ICM valuation, the analyst will start by forecasting what the company's earnings will be in the future. After that, the analyst will use a capitalization rate to determine how much it would cost to buy a company that is growing as quickly as the current business. Since the future earnings are being discounted, the valuation will be less than the earnings of the business in the future. This method of valuation is useful for businesses that don't have a lot of cash flow but have significant assets, such as real estate or intellectual property.

Asset-Based Valuation Method

The Asset-Based Valuation Method or ABVM for short, is a method of valuation that looks at the business as a collection of assets. The analyst will then determine the value of each of these assets and add them together to arrive at a total value. To do this, the analyst will often use appraisals and other valuations to arrive at a final number. This method of valuation is commonly used for businesses with lots of assets, such as manufacturing companies.

Relative Comparison Method

The Relative Comparison Method or RCM for short, is a method used to compare a business to similar businesses. This method is often used when there is limited data that can be plugged into a valuation model. Start by finding comparable businesses, and then use these businesses to determine a valuation for the business being analyzed.

Equity Value Calculation

The Equity Value Calculation or EVC for short, is a method that is often used when a business is being financed by an investment from an outside party. With this model, the analyst will start by plugging in the amount of capital being invested and the terms of the investment. Next, the analyst will calculate the cash flow that the business is expected to generate after the capital investment and plug the expected cash flow into the rate of return the investor is looking for. The EVC model allows an investor to place a value on the equity in a business.

Summing up

The business valuation process can be complex, and there are many different methods that can be used to assess the value of a business. While some businesses will have their value estimated by accountants, financial advisors, and brokers based on internal numbers they see as well as external information they research. Depending on the type of business and its industry, one approach may be more applicable than another. If you'd like a professional to aid in the process, check out A. Neumann & Associates, LLC, leading business brokers on the East Coast.

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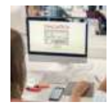
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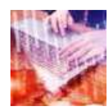
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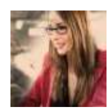
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Written by Maddie Vagadori, Solutions Consultant, Forter and Alyssa Huitema, Solutions Consultant, Forter

With constant news of data breaches exposing user credentials, traditional username and password authentication is not secure enough. According to a Spycloud study at the beginning of 2022, 64% of users repeat passwords and apply the same set of credentials across many sites, giving bad actors relatively easy ways to gain unauthorised access to their accounts. The National Cyber Security Centre (NCSC) recently published guidance for retailers in particular to "move beyond password authentication" – in order to protect both brand reputation and customers.

This rising threat underscores the importance of protecting digital identities — ensuring a user is indeed who they say they are prior to granting sensitive access. Multi-factor

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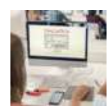

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Digital transformation has revolutionized the way people discover new products, share information, and communicate with each other and with the brands they love.

Consumers are also more empowered than ever to solve their own problems whenever possible. Companies like Starbucks, Lyft, and Airbnb that allow self-service within their apps have trained their customer base to seek out the services they want, when they want them.

This shift in consumer behavior has both complicated and lengthened the buying process. That being said, a well-implemented digital self-service strategy can not only help set them apart from competitors but deliver long-term ROI and increase customer satisfaction.

Ultimately, when you invest in self-service solutions like automated agent experiences and modern call center technology, you're investing in customer experience.

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