How to value a business

Navigating the complex world of corporate finance valuations

EntrepreneursHub

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Valuation is a topic that divides the world of mergers and acquisitions. It can be a contentious issue – acquirers might think the seller is overstating the company value, while sellers may think the buyer is being unduly pessimistic. The truth is, as always, somewhere in between.

Of course, the broad aim of a seller is to get as much as reasonably possible for their business, while a buyer will be trying to pay as little as they can reasonably get away with. This is why it's advisable to work with an experienced third party to stand in the gap and help bring negotiations to a conclusion that is satisfactory for all parties.

But even among corporate finance advisors you will find a difference of approach when it comes to establishing what the likely value of the business might be. Here we must, of course, declare an interest… as one of those advisors, we would obviously advocate for our methodology. However, we hope that this guide will not only explain how we approach the topic of valuation but also the very solid rationale behind the methods we employ.

Before we go any further, there is one major caveat that must be understood, one that applies to any third-party advisor. Because we are not the ones who will be buying your business, any figures given to you by a third-party advisor should only be understood as educated estimates. The only way to ascertain exactly what a business is worth is to take a properly prepared business to a carefully curated selection of motivated acquirers – but that's another topic.