Enterwise Finance

A Fair Market Valuation Estimate

As of September 26 2024

Valueright

A BusinessesForSale.com Service

Contents

Disclaimer

The value presented in this report is an automated estimation of the fair market valuation of the business and its assets and liabilities. Some events and circumstances that might impact the overall valuation of a specific business may not be taken into account for the purpose of this report. Valuation methods from the income, market and asset approach have been utilised to reach the valuation results for the subject company. The opinion of value given in this report is based on information provided by the user and other sources. This information provided by the subject company is assumed to be accurate and complete. However, BusinessesForSale.com has not audited or attempted to confirm this information for accuracy or completeness. It's important to note that the estimates presented herein are not definitive. Instead, are providing general estimates. As a result, the overall valuation should be considered a frame of reference and not an official appraisal.

Asset Based Fair Market Valuation Estimate Methodology

The ways and means to deliver a Business Valuation can manifest itself in a variety of methodologies. As such the ends of the Business Valuation itself can vary in a commensurate manner. The overarching valuation methodology adopted in this report is centred on the income-based approach: An addition of the multiple of Seller's Discretionary earnings and all assets included in the sale. This is the most commonly accepted valuation model associated with the purpose of selling a small to medium size owner managed business to a new owner. The result is an attempt to provide a guideline, a pricing model if you will, to what could be deemed to be fair and reasonable market value.

Summary Valuation

Fair Market Value		**R191,426**
Seller Discretionary Earnings		R38,413
SDEM		2.44516
Multiple of SDE	+	R93,926
Assets Included	+	R97,500

Profit & Loss (P&L) Statements

A profit and loss account or income statement is one of the financial statements of a business and shows the business's revenues and expenses during a particular period. It indicates how the revenue is transformed into income.

	Year 1 01 Sep 2023 - 31 Aug 2024
Net Income	R16,113
Addbacks	
All Owners' Total Compensation	R0
Owners' Total Expenses	R0
All Owners' Total Fair Market Salary	R0
Depreciation and Amortization Expenses	R0
Interest Received from any Non-Excess Cash	R0
Interest Expenses from any Existing Debt (Which is not Being Sold)	R0
Non-Recurring Incomes	R0
Non-Recurring Expenses	R22,300
Seller Discretionary Earnings	**R38,413**

Assets Included

Do not include Fixtures, Fittings and Equipment which are used to operate the business. The value of these items are calculated elsewhere. The only other tangible asset to include is inventory. Also, none of the current or long-term liabilities will likely be included.

Asset	Value
Inventory	R0
Accounts Receivable	R97,000
Prepayments-Subscriptions	R500
Total Assets Included	**R97,500**

Factors Affecting SDEM

To get the best possible valuation of your business answer the questions accurately. Inaccurate answers lead to an incorrect valuation. If a particular factor is not important or you are not sure, do not adjust it.

Factor	Factor Answer	% of Weighting
Annual Recurring Revenue	More than 80% is from repeat business	7.24 %
The Business' Creditworthiness	Average financing terms	5.81 %
The Business' Growth Trend	Significant growth, outperforms industry	7.24 %
Competitors	Small competitors, low consolidation	6.52 %
Customer Concentration	A mix of regular and ad hoc / passing trade	6.52 %
Interest from Potential Buyers	Large pool of qualified business buyers	6.52 %
Earning Track Record	Excellent earnings record	7.24 %
Ease Of Operating the Business	Consistent business processes in place	6.52 %
Employees' Skill & Productivity	Low skills & low productivity of employees	5.09 %
Market / Industry Growth	Industry growth above overall market	6.52 %
The Business' Location	Superior location and facilities	7.24 %
The Business' Management	Professional management team in place	7.24 %

Market Penetration	Several locations, regional market presence	5.81 %
Ease of Entry to the Business's Market	Business operates in a protected niche	7.24 %
Product / Service Concentration	Highly diverse mix of products / services	7.24 %
Weighted Average		**2.45**

Glossary

Accounts Receivable

Accounts receivable is the amount a business has a right to collect because it sold goods or services on credit to a customer.

Typically, this would not be included as an asset, However, you may, according to your judgment, decide otherwise.

Asset Based Approach Valuation

In order to calculate the value of your business as accurately as possible, ValueRight will ask that you input the financials of your business. Although you will only be required to input one year of financials, inputting multiple years will allow for a more accurate valuation.

Each financial year that is inputted into ValueRight will affect the outcome of the value through the calculation of different averages as such:

Assets Included (Non-Operating Assets)

Current assets include cash and cash equivalents, accounts receivable, inventory, marketable securities, prepaid expenses and other liquid assets that can be readily converted to cash.

ValueRight uses an asset-based scale and, therefore, assets that contribute to the running of the business should already be included. They will be part of the value of the SDEM and, therefore, you should be careful not to double-count them.

Depreciation and Amortisation Expenses

These values hold no importance to ValueRight because they are wrapped up in the operating assets and are, therefore, included in the SDEM.

Discretionary Cashflow

Discretionary cashflow is the money that is left over once all capital prospects with positive net values have been funded and after payments such as wages or any other operational costs.

It is the total benefit received by the owner of a business regardless of how the money is taken out of the business (Seller Discretionary Earnings). The discretionary cashflow sums up the ability of the business to make cash because many businesses use capital on things that are not related to its operations such as a car for the manager.

Earnings Before Interest & Tax (EBIT)

This is a way that the profitability of a business can be understood. Calculating this allows for the focus to be on the earnings that are generated from operations without looking at tax burdens or the capital structure of the business.

ValueRight uses this calculation in its valuation of a business because the ability for a business to earn money is more important to a potential buyer than the capital structure. It is the earning potential of the business that is most important to a buyer.

A buyer will be concerned with the business's ability to generate cash. Tax and interest expenses, likewise, can be different from business to business and are, therefore, less relevant.

Using EBIT allows potential buyers to compare companies on an even playing field and, therefore, get a better idea of what they are buying.

Excess and Non-Excess Cash

A business needs a certain amount of cash in order to keep things running. This cash is the working capital and is the non-excess cash. Any cash that is more than this is the excess cash.

Factors Affecting Business Value

These are the factors that will affect the SDEM such as income. Things that are specific to your business that will move it away from the starting point that ValueRight has presented in the way of the SDEM.

The factors that impact the earnings multiplier are the growth of the business, the financing that is available and if this is on attractive terms, the annual recurring revenue and the competition to the business that exists. They are the circumstantial aspects to the business.

Fair Market Valuation

Fair market value (FMV) is an estimate of the market value of a business, based on what a knowledgeable, willing, and unpressured buyer would probably pay to a knowledgeable, willing, and unpressured seller in the market.

Growth Trend

This is the overall trend of increasing economic activity of the business. This will be an indication of a general direction of growth. Potential buyers of your business will see more value in it if you can show long term movement in a positive direction.

This trend can only be assessed with at least three financial years.

Income Statement

An income statement or profit and loss account is one of the financial statements of a business and shows the business's revenues and expenses during a particular period. It indicates how the revenues are transformed into the net income.

Income Statement Add-backs

Add-backs are expenses that are either one off or are expenses that come at the owner's discretion rather than for the necessity of the business. In order for an expense to qualify as an add-back, it should not be an expense that will be incurred by the new owner once a business has been sold.

Industry Specific Comparable

This is a ratio that is used in order to correctly value a business. Each industry has a ratio that is specific to it. ValueRight has used data collected from 20 years of experience helping businesses sell on BusinessesForSale.com in order to create an accurate figure for each industry.

This ratio allows potential buyers to compare companies on an even playing field and, therefore, get a better idea of what they are buying.

Inventory

A complete list of items such as the goods that are in stock. The stock of goods is treated as a non-operating cost.

Manager Replacement for all Working Business Owners

The salary / package that would be required to replace any / all business owners with staff, this amount may vary from the owner's compensation.

Measured Average

A measured average is one in which each value is given or multiplied by a weight before coming to a single average value. This gives each value an importance by how it is measured in regard to the other values. Importance is given to the most recent year.

Net Income

A business's total earnings (or profit); net income is calculated by taking revenues and subtracting the costs of doing business such as depreciation, interest, taxes and other expenses. Net income also refers to an individual's income after taking taxes and deductions into account.

Due to the asset-based approach that is taken by ValueRight, this is the starting point and is almost interchangeable with EBIT.

Non-Recurring Expenses

One off expense that isn't part of the business and therefore cannot be seen as a burden for a future buyer. It's an expense that won't recur – for example, the replacement of windows following a natural disaster.

Non-Recurring Incomes

Any income generated for the business which is not a regular income, this could include the one-off sale of an asset, in the case of a farm, this could be the sale of a tractor or other equipment.

Other Working Owners' Compensation

Where the business has multiple owners that also work at the business, this additional salary / package is added back to the business's income.

Seller Discretionary Earnings (SDE)

Smaller businesses may keep their reported earnings low for tax purposes. Therefore, discretionary, non-recurring expenses should be added back to come up with a true reflection of the cash flow of operations.

This is a useful metric because it will give buyers a much more accurate picture of the available cash flow as the SDE will be available to be used at the discretion of the new owner.

Seller Discretionary Earnings Multiplier (SDEM)

ValueRight has calculated the SDEM through the compilation of years of gathered data. Each industry has its own SDEM therefore, depending on your industry, the SDE will be multiplied by a specific value. This value is the Industry Specific Comparable.

Multiples are used because no two businesses are alike and yet comparisons are needed. The SDEM is the starting point that ValueRight has come up with in the calculation of the value of a business.

Our database of over 200 industry specific multiples of income has been collected from over 20 years' experience of helping businesses sell on BusinessesForSale.com

There are a lot of factors that will influence the earnings of a business. Depending on the weight of these factors, the earnings multiplier will be affected.

Simple Average

In calculating the value of your business, if you have only used one year of business financials in the calculation, you will be given a simple average. The simple average will not take the changes in business earnings year to year into account when calculating the value of your business.

Single Owner Total Compensation

The salary or complete package the owner of the business is paying themselves. This amount can be added back to the business's total revenue once the owner has sold the business.

Squared average

For three or more values, the measured value becomes exponential as the direction of the increasing or decreasing value is calculated and future earnings are predicted according to this direction.

Weighted Average

During the calculation of the value of your business on ValueRight, you will be asked to prioritise the factors that affect the earnings multiplier. The result will be the weighted average.

SDEM + Factors = Weighted Average

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