Business valuation

How much is your business worth?

Venture Planning Associates, United States

Reasons to value a business:

- When buying or selling;
- When raising venture capital;
- Payment of estate taxes;
- Divorce settlements;
- Buy/sell agreements;
- Stock re-capitalization;
- Payment of gift taxes; and
- Shareholder disputes.

Information required

(maximum number of years possible)

- Balance sheets
- Income statements
- Cash-flow statements
- Earnings projections
- Business comparables if available

Seven Valuation Types

- Adjusted Net Assets
- Capitalization of Earnings
- Dividend Paying Capacity
- Excess Earnings: Return on Assets
- Excess Earnings: Return on Sales
- Discounted Cash Flow
- Discounted Future Earnings
- Combination Method Weighted Average of All Types

Conventional Valuation with Variations and Averaging

Generally, Venture Planning Associates offer programmes that give the total business value, however it may be possible to value a portion of the stock, to add a discount or premium to stock as well.

For an example of a conventional venture capital valuation with variations see the chart below.

Valuation calculation	Notes	Best case	Worst case	Expected case
Base year revenue	User input	$ 500,000	$ 500,000	$ 240,000
Annual growth %	User input	40	10	20
Ending year revenue	Calculated	$ 3,500,000	$ 1,440,000	$ 2,750,000
Years to harvest	User input	5	5	5
Target year revenue	Calculated	$ 3,500,000	$ 1,440,000	$ 2,750,000
After tax profit %	User input	50	10	30
Target year profit	Calculated	$ 1,750,000	$ 275.000	$ 432,000
Price/earnings multiple	User input	12	12	12
Future value of venture	Calculated	$ 21,000,000	$ 3,300,000	$ 5,184,000
Required annual return %	Lookup *	51.6	51.6	51.6
Present value factor	Lookup *	0.132	0.132	0.0132
Discounted present value	Calculated	$ 2,772,000	$ 435,600	$ 684,288
Required equity investment	User input	$ 250,000	$ 250,000	$ 250,000
Equity sold/purchased %	Calculated	9.02	57.39	36.53
Probability by case %	User input	10	50	40
Wtd. ave of scenarios	Calculated	percentage stock to be sold = 44%		

NPV and P/E ratios from data bank sources for your business type

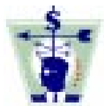
First Chicago Method

The First Chicago Method is used to value venture type businesses by venture capital firms.

High-risk ventures are usually valued using the First Chicago Method that evaluates probabilities of success (IPO), the sideways scenario, and the failure scenario (liquidation).

This method uses a high-risk adjusted, discount rate and embodies many assumptions.

We specialize in the First Chicago Method as a means of determining the pre- and post-investment values for entrepreneurial (pre-IPO) business investments.



You have the money!
Now what?

William F. (Bill) McCready, Founder/CEO, Venture Planning Associates

The search for capital has ended. Your business plan, masterful presentation skills, and negotiating abilities served you well, and you've finally received the funding you need to move your business forward. It was a long process, but now that it's over all your problems are solved!

Not so fast!

Obtaining venture funding is really only the beginning. Along with your funding, your level of accountability just shot up dramatically.

If you received your capital from investors, someone else now owns a part of your business. And they will want to be reassured that they're getting their money's worth.

The degree of hands-on involvement may vary, but most funding sources will expect to invest a combination of equity and expertise in the form of strategic management or board level direction.

Knowing that venture capital was instrumental in the success of companies like, Apple Computer, Intel, Genentech, Federal Express, Gymboree, and The Sports Authority can make your transition from sole proprietor to a national company easier.

Key considerations

- The same management, financial savvy and growth projections that made you a good investment risk, must be now perpetuated, and reported on.
- Management participation must increase, and may be upgraded as the company grows.
- Strict financial and budgetary controls must be implemented.
- The whole success of your company now rests on the ability of your sales and marketing team to reach your sales goals.

Venture capital professionals are essentially managers of risk. Besides providing an important source of expertise for the emerging companies they finance, venture capitalists know individuals in banks and brokerage firms, attorneys, accountants, and others needed to help your company succeed.

- Your business plan will become your budget;
- Milestones must be met; and
- Intra-company communications must be enhanced and improved.

A VC firm's 'Value Added'

Venture capital firms are not the only ones looking for value. Usually the entrepreneurs expect more than money in return for a share in their company. What differentiates venture capitalists from the world of passive investors is their long-term involvement with their investments.

As an active board participant, a VC investor offers his/her unique set of experiences and skills. A good VC firm arranges for the long-term financing of a company, and aids in developing the management team, advisory board, new product ideas, strategic relationships, and key customers and accounts.

- Venture capital organizations are generally privately held partnerships or corporations that invest alongside management in young, rapidly growing or rapidly changing companies.
- They invest large quantities of long-term risk capital, usually seeking capital appreciation rather than cash repayment.
- The company has a business plan that clearly defines the next year's goals.
- The company uses a budget and constantly updates it against the business plan.
- The company's sales force projects sales, and there is consistency with the inventory and personnel loading in the budget.
- The company has a programme to quantitatively measure customer satisfaction.

A Venture Capital firm expects to make significant profits from their investment. They will not hesitate to suggest liquidation or sale of your business if you do not meet the milestones agreed upon! Keep them informed and involved.

Constantly looking for new opportunities to merge with or acquire new companies to enhance shareholder value will keep you fresh in the marketplace. Always looking for the next round of funding will also do so.

Remember that it takes a minimum of six months to raise each round, so get started NOW! ■

For more information, visit: http://www.Business-asia.net
or buy the Business Coach on CD-ROM at US$ 120/Indian Rs. 5,000.