



ValuAdder®

Business Valuation Handbook

Fifteenth Edition

ValuAdder® Business Valuation Handbook

Fifteenth Edition

Copyright © 2004-2025 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: 978-0-9829087-8-5

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	58
Discounted Cash Flow: Risks, returns, and business value	62
Adjusted Present Value: Benefits of debt financing	67
Net Present Value: Is the business worth the price?	70
Capitalized Earnings: Valuation based on earnings and capitalization rate	72
Deal Check: Structuring your business sale or purchase	75
Loan Schedule: Business acquisition financing terms	79
Future Value: How business value grows over time	80
Employee Stock Option Valuation Tutorial	82
Business valuation: common situations, method choices	87
From accounting statements to business value: Recasting financials	90
Entering your data into ValuAdder	94
Your business valuation scenarios	95
Creating your business valuation reports	96
Using what-if scenarios in business valuation	97
IV. ValuAdder Business Valuation Software Tools	99
Customize your tools: Start Tab	101
Choosing your business valuation methods with a mouse click	101
Business Goodwill Tab	102
How to calculate business goodwill and total business value	102

Your inputs: Earnings, assets, rates of return	102
Market Comps Tab	104
How to calculate business market value	104
Just a few inputs	104
Using your own valuation multiples with Market Comps	105
Exporting Market Comps results to Report Builder	109
Earnings Multiple Tab	111
How to value a business: Earnings and valuation multipliers	111
What are my inputs?	111
Multiplier table	112
How the earnings multiplier is calculated	116
Adjusted Present Value Tab	118
Inputs Required	118
Discounted Cash Flow Tab	119
Company valuation: Cash flows and discount rates	119
What inputs are needed?	118
Net Present Value Tab	121
Business valuation: What is my investment worth?	71
What are my inputs?	122
Capitalized Earnings Tab	123
Your inputs: earnings and risk	123
Deal Check Tab	124
How to put together a successful business acquisition	124
Your inputs here	125
Loan Schedule Tab	127
How to check seller financing and bank loan terms	127
What inputs are needed?	127
Future Value Tab	128
How value of business assets grows over time	128
Your inputs	128
V. ValuAdder Menu: Using Your Business Valuation Software to Get Results	129
I. File	130
New » Scenario	130
New » Recasting Worksheet	130
Open	130
Open in New Window	130
Save	130
Save As	131
Export	131
Page Setup	131
Print	132
Close	132
Exit	132
II. Edit: Speeding up your business valuation	133
Cut	133
Copy	133
Paste	133
III. Tab: Customizing your business valuation tools	134
Add	134
Delete	134
Duplicate	134
Change Name	134
Move Left	135
Move Right	135

IV. Reports: Communicating your business valuation results	136
Create Report	136
Save Report	136
Print Report	136
Page Setup	137
About ValuAdder Reports	137
V. Tools: Saving time	138
Auto Calculate	138
Manage Custom Valuation Multiples	138
Worksheets for Recasting Financials	138
Employee Stock Option Valuation	139
VI. Help: Business valuation Info Center at your fingertips	140
Contents	140
Tutorials	140
Glossary of business valuation terms	140
Index	140
Search	140
Save Printable Handbook	140
Show Tips	141
License Agreement	141
About ValuAdder	141
VI. Glossary: Business Valuation Terms, Explanations, Tips and Examples	142
Addbacks	143
Amortization	144
Asset accumulation valuation method	145
Asset assemblage business value premise	146
Asset purchase	147
Assets	148
Balance sheet	149
Balloon loan	150
Business enterprise value	151
Business goodwill	152
Business market value	155
Business valuation approaches	156
Basis of business value	157
Business value definition	158
Capitalization of earnings valuation method	159
Capitalization rate	160
Current assets	161
Current liabilities	162
Debt financing	163
Debt service coverage ratio	164
Depreciation	165
Discounted cash flow valuation method	166
Discount for lack of marketability	167
Discount rate	168
Due diligence	170
Earnings	171
Earnout	172
Excess earnings valuation method	173
Fair market value	174
Fair value basis	175
Forced liquidation business value premise	176
Furniture, fixtures and equipment	177

Going concern business value premise	178
Interest	179
Internal rate of return	180
Intrinsic business value definition	181
Inventory	182
Investment business value definition	183
Liabilities	184
Long-term liabilities	185
Minority ownership discount	186
Multiple of discretionary earnings valuation method	187
Net cash flow	188
Net present value	189
Net realizable value	190
Net working capital	191
Orderly disposition business value premise	192
Premise of business value	193
Present value	194
Principal	195
Profit and loss	196
Project costs	197
Return on investment	198
Recast financials	199
Market comps valuation method	200
Seller's discretionary cash flow	201
Seller's note	202
Stock purchase	203
Terminal value	204
Transaction costs	205
Valuation multiple	206
Weighted average cost of capital	207
Working capital	210
Index	211
A. Software License Agreement	214

List of Tables

1. Earnings Multiple multiplier table.	112
2. Earnings Multiple weight selections.	116

List of Equations

1. Seller's discretionary cash flow formula, simple average	60
2. Seller's discretionary cash flow formula, weighted average	60
3. Seller's discretionary cash flow formula, squared weighted average	60
4. Terminal value formula	64
5. Terminal value calculation example	64
6. Discounted Cash Flow math	65
7. Discounted Cash Flow – Mid-Year Adjustment	65
8. Capitalization of earnings formula	72
9. Capitalization rate for capitalization of earnings formula	72
10. Capitalized earnings formula with mid-year adjustment	73
11. Discount rate build-up formula	168
12. WACC formula	207
13. Constant growth capitalization	207