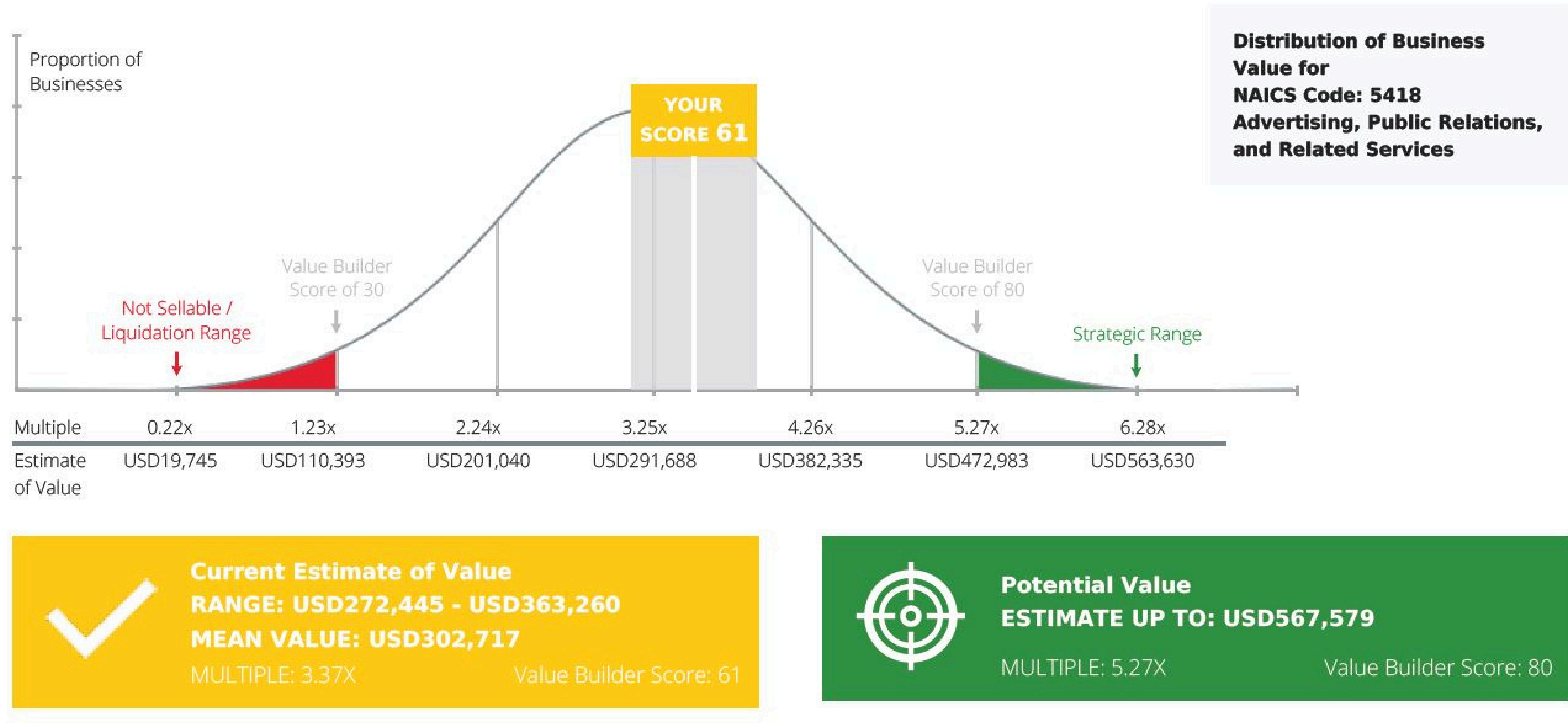
HOW ARE COMPANIES VALUED?



Discounted Cash Flow Method (DCF):
In this method, the acquirer "buys" future income discounted for risk. The discount rate is influenced by internal factors (e.g., dependency on the owner) and external market factors (overall industry stability/growth, interest rates).

Market Comparables ("Comps") & Rules of Thumb:
In this method, the acquirer arrives at a value by comparing a business with companies of a similar size and industry that have sold recently. Rules of thumb have developed over time to provide a close approximation for certain industries.

Liquidation Value:
This is usually a worst-case scenario and involves the hypothetical value of the business if it were to be closed and all assets liquidated.

Our Method
Our Estimate of Value makes use of the first two methods by comparing industry standard data sources of over 50,000 market transactions along with Rules of Thumb for hundreds of NAICS codes to determine an average market price. Your Value Builder Score is used to measure soft risks and therefore where you will likely land on the range of value typically found among similar businesses in your industry.

While we always show an estimate of value, higher-scoring businesses can command strategic prices that may go significantly higher than estimated, while lower scores may indicate that the business is not sellable beyond its liquidation value.

While a valuation may sometimes include inventory, usually the business is sold on a debt-free, cash-free basis, meaning the seller would assume any cash or debts as well as non-direct assets (i.e., real estate).

Your Legacy Matters: Connecting Life & Wealth
1146 S Washington Ave, Lansing, MI 48910 | waadvisors.com | 517.220.2413

Washington Avenue Advisors is a registered investment adviser. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and, unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed herein. Past performance is not indicative of future performance. Washington Avenue Advisors may discuss and display, charts, graphs, formulas which are not intended to be used by themselves to determine which securities to buy or sell, or when to buy or sell them. Such charts and graphs offer limited information and should not be used on their own to make investment decisions.