

BUSINESS NEWS TODAY

What is My Business Worth?

Understanding Discretionary Earnings

When you think of all that you have put into your business— not just the money, but the amount of time and passion you've invested— it's hard to imagine what it's worth.

Most business owners believe the value of their business is based upon those investments, but in reality, the basis for valuing any business places very little emphasis on these things.

Valuing a business is less about historical *investment* and more about historical *yield*.

Historical earnings, copyrights, patents, special vendor or client relationships, mission critical assets— *these* are the things that count and will be factored into the value of your business.

The first thing an Analyst considers when valuing a business is its financial track record. The Analyst will review its Tax Returns and financial records. Their goal is to interpret the full benefit that the owner gained from the business. This value is often referred to as the Discretionary Earnings of the business.

Discretionary Earnings are the equivalent of the cash and fringe benefits the business accrued to its owner. Typically this is the sum of the business's net profit on its Federal Tax return plus the owner's salary, non-cash expenses like depreciation, and fringe benefits.

Fringe benefits commonly include things like personal vehicles, cell phones and other personal items run through the business.

While the later expenses may be perfectly legitimate tax deductions there is a certain element of discretion in how much or how little any given owner is going to spend on them— and they may not be mission critical in the overall operation of the business.

For example— the owner of a manufacturing firm has every right to deduct auto expenses on the car he drives to meet his suppliers. Whether that car is a fully loaded Cadillac or a striped

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down Ford Focus, however, is a matter of personal discretion. The Cadillac obviously is of greater benefit to him as owner, but also has a much greater impact on the bottom line of his business.

Although Discretionary Earnings are a key consideration in valuing a business, many other factors affect its value as well. These include the business vertical, as well as current market and industry trends. Economic factors, commercial lend-

ing preferences (which are subject to constant change) and the value of the businesses assets including intellectual properties are also factored into the equation.



If you would like to know more about how much your business is worth - please contact us.

One of our experienced Advisors would be happy to arrange a free consultation.

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