VALUING YOUR BUSINESS

WHAT IS MY BUSINESS WORTH?

WHAT DRIVES THE VALUE OF YOUR BUSINESS, HOW IT IS MEASURED, AND HOW TO GROW IT



AEKLVYA

BY MANISH KUMAR
MANAGING DIRECTOR
AEKLVYA ADVISORS, NEW YORK

ESTIMATING THE VALUE

The saying goes, "Beauty is in the eye of the beholder." Similarly, a company's value is ultimately the price a buyer is willing to pay, and a seller is willing to accept under normal conditions. In middle-market M&A, that price is shaped by the seller's circumstances, such as the urgency created by age, health, or retirement, and by the competitiveness of the sale process, including the number of serious buyers involved.

Many owners do not fully understand what their business is worth, which limits their ability to maximize it. Common questions include: Is my business worth what I think? Would a private equity firm value it differently from a strategic buyer? How can I determine its value even if I am not selling? Whatever the situation, knowing your value matters. Valuation is as much an art as a science, and it is best expressed as a range rather than a single number.

Buyers assess value based on the company's current position and their own strategic and financial priorities, and the outcome is always negotiable. The sections that follow explain the key terms and the main approaches used to establish a valuation range.

KEY TERMS: EV AND EBITDA

Enterprise value (EV) represents the value of the operating business to all capital providers: the value of its equity plus debt, less cash. Most middle-market transactions are structured on a "cash-free, debt-free" basis, meaning the seller retains the cash and repays the company's debt at closing.

EBITDA, or earnings before interest, taxes, depreciation, and amortization, is the starting point for most market-based valuations. It is calculated as net income plus interest, taxes, depreciation, and amortization. Non-recurring expenses and above-market owner or family compensation are then added back to arrive at **adjusted EBITDA**.

Applying a valuation multiple to adjusted EBITDA produces an estimate of EV. For example, a business with $10 million of adjusted EBITDA valued at 6x would have an EV of $60 million.

CASH FLOW AND FCFF

Intrinsic methods such as discounted cash flow (DCF) estimate EV as the present value of the **unlevered free cash flow** to firm (FCFF) the business is expected to generate. FCFF is the cash available to all capital providers after funding operations and investment, calculated as after-tax operating profit (EBIT less taxes), plus depreciation and amortization, less capital expenditures and the change in working capital.

EBITDA is widely used to compare companies and is a useful proxy for operating cash flow, but it does not capture capital expenditures or working capital needs. For a DCF, FCFF is the better metric because it most closely reflects the economic value the business generates, independent of how it is financed. Because every company is unique, a sound valuation combines industry and sector data with company-specific assumptions.

> **Three approaches to valuation.** There are many ways to value a company, but for M&A purposes the focus is typically on three: discounted cash flow, precedent transactions, and public company comparables. No single method is right in every case; the best answer usually comes from weighing all three.

01

DISCOUNTED CASH FLOW

In practice, a DCF projects the company's FCFF over an explicit forecast period, typically five years, and adds a terminal value representing the business beyond that horizon. These cash flows are discounted to today at the weighted average cost of capital (WACC), which reflects the business's risk: the riskier the cash flows, the higher the discount rate and the lower the value. Because terminal value often accounts for most of the total and results are sensitive to growth and discount rate assumptions, DCF outputs are best presented as a range.

The DCF method is tailored to your company, reflecting its specific growth rate, capital requirements, and cost of capital. Values are typically developed on three bases: management’s projections, a risk-adjusted version of those projections, and the potential value to a buyer once post-acquisition synergies are considered.

02

PRECEDENT TRANSACTIONS

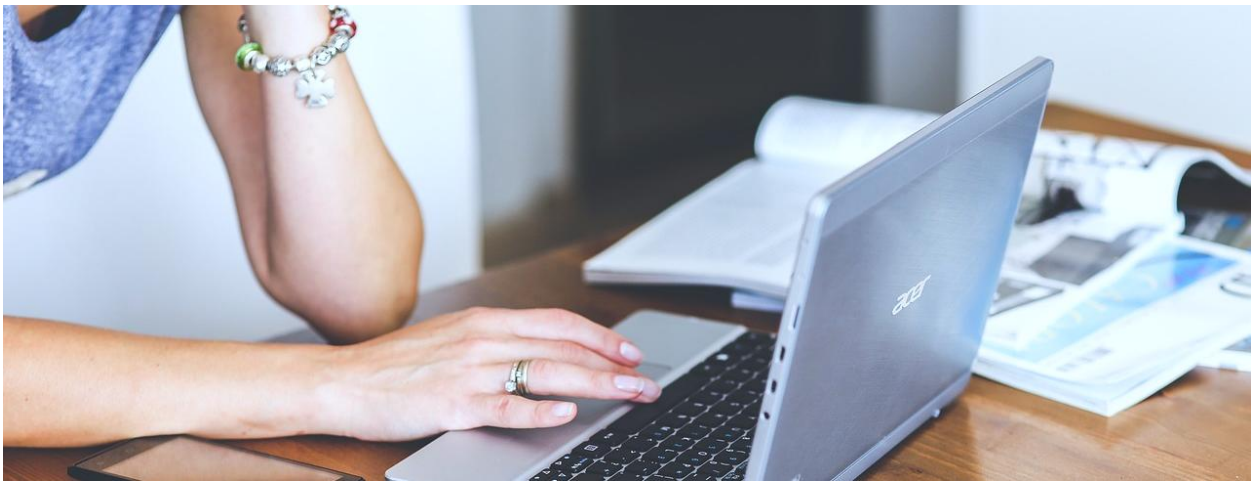
Precedent transaction analysis looks at the prices paid for comparable businesses in your sub-sector, measured as multiples of revenue and EBITDA. Mean and median multiples from relevant past deals are applied to your company's figures to estimate EV. For example, if comparable businesses have sold at a median of 10x EBITDA, a company with $10 million of adjusted EBITDA would be valued at roughly $100 million.

03

PUBLIC COMPARABLES

Public comparables analysis applies the revenue and EBITDA multiples of publicly traded peers to your company. For example, if peers trade at a median of 5x revenue, a company with $10 million in revenue would indicate an EV of about $50 million. Because public companies are typically larger, more liquid, and less risky than private middle-market businesses, the resulting value is usually discounted.

The multiples in these examples are illustrative only; actual multiples vary widely by sector, size, growth, and market conditions. No single method is right, and the key is choosing the approaches that best fit your company.



PERSPECTIVE

UNDERSTANDING VALUE TO GUIDE IMPROVEMENT

Whether or not you plan to sell, thinking like a seller helps you identify what drives value. Consider these questions as if you were preparing for a sale, and compare the answers with where your business stands today:

- *What type of buyer would be the ideal fit for my company?*
- *How can my business create value for that buyer?*
- *Where should I invest or focus to strengthen my company's appeal?*

Even without near-term plans to sell, you can grow value by setting clear priorities and executing them well. Value changes over time as growth, specialized expertise, people, technology, and competition evolve. Understanding your current value, the drivers behind it, and when to capitalize on your efforts gives you a clear starting point.

Every business has unique characteristics. Contact us if you have questions or would like to know what your business is worth. We are happy to have a confidential conversation, without commitment or pressure.

AEKLVYA

Aeklvya Advisors, Inc.
5 West 37th Street, 6th Floor, New York, NY 10018
Tel: +1 347 644 0666 | www.aeklvya.com