Step 3: Income

Revenue: The amount of money your firm receives for selling good or service.

Pretax Income: This is the amount of money your business earns before deducting income taxes

Officer Compensation: This is the amount of actual compensation (wages, bonus wages, perks, and other tax deductible discretionary payments made on behalf of the primary owner operator) paid to the primary owner-operator. Distributions should NOT be made as they are already accounted for in Pretax income above.

Interest Expense: This is the amount of interest expense paid by your business on particular loans, credit card expenses, etc.

Non-Cash Expenses: These are expenses that did not require the use of cash in the current period. Customarily these items include only amortization and depreciation expense.

One-Time/Non-Operating Expense/Loss: This does NOT include typical sales and admin expenses. Characterized by being "unusual in nature and infrequent in occurrence". Any amount entered will raise the amount of earnings and increase the businesses value.

One-Time/Non-Operating Revenues/Gains: This does NOT include gains from typical operations and sales. Characterized by being "unusual in nature and infrequent in occurrence". Any amount entered will decrease the amount of earnings and lower the businesses value.

Step 4: Assets

Cash: This account should include cash and all cash equivalents such as checking and savings accounts, short term CD's, money market funds and even marketable securities which can be quickly liquidated.

Accounts Receivable: This is the amount of money owed to your company by clients who have been provided goods or services on credit.

Inventory: Typically measured at original cost, this account should reflect office supplies, raw materials, work in progress and finished goods.

Other Current Assets: The 'catchall' account typically includes items such as lease deposits, prepaid expenses and employee/officer loan receivables but may include accounts such as accrued revenue and deferred income tax.

Fixed Assets: Commonly referred to as 'furniture, fixtures and equipment' or 'property, plant and equipment', these long-term assets are subject to ongoing depreciation expense. Most balance sheets will present their 'original cost' followed by 'accumulated depreciation' with the difference being 'book value'. For financial analysis purposes, book value should be entered in this line item.

Intangible Assets: Most balance sheets will NOT include intangible assets based on GAAP rules. The common exception is when the subject company has been purchased via the 'asset sale' deal structure which requires the buyer and seller to agree on the 'allocation of purchase price'. Most such allocations will include value attributed to intangible assets such as goodwill, customer base, tradename or covenant not to compete. Similar to fixed assets, the balance entered here should be the 'book value' figure (original cost less accumulated amortization). Certain 'internally-generated' intangible assets may be capitalized and amortized but this generally applies to advanced, high-tech-oriented businesses.

Step 5: Liabilities

Accounts Payable: This balance should reflect amounts currently owed to suppliers of all types. Amounts owed on credit cards could also be included here.

Other Short-Term Liabilities: Any financial obligation due within the next year which is not included in accounts payable. Common examples include credit card payables, line of credit balances and accrued liabilities related to payroll and taxes. This line item could also include 'current' amounts due to long term creditors, e.g. current portion (due over the next 12 months) of 10 year term loan from a bank.

Bank Loans: This account represents the total principal balance outstanding on all loans made by banks or other financial institutions which possess a term of longer than one year.

Any real estate related debt, such as mortgage balance, should be excluded here. It will be asked later in the Operations Step.

Other Long-Term Liabilities: Other Long-Term Liabilities may include real property mortgages with non-banks, obligations under long term capital leases, bonds payable and deferred income taxes.

In general, this category should include all long term liabilities other than bank loans.

Any real estate related debt, such as mortgage balance, should be excluded here. It will be asked later in the Operations Step

Contingent Liabilities: These are potential obligations which are dependent on the occurrence/non-occurrence of a certain event in the future. A common example would be a pending lawsuit which is likely to lead to legally enforceable financial payments owed by the company in the future. Other examples include potential warranty payments or payments related to the guarantee of a third party loan.

Step 6: Growth

Projected Revenue Growth: This slider reflects the company's intermediate / long term rate of growth in germs of "topline" revenues specifically the projected 5 years "Compound annual growth rate". The higher the projected revenue growth, the higher the future of profits and current business value. The combination of revue growth rate and long-term EBITDA margin will impact the discounted cash flow paradigm which is particularly important from valuing high growth, high profit companies.

Long Term EBITA Margin: This slider represents expectations as to long run operation cash flow (EBITDA) margin in the future period once the firm is in "Steady State" mode, e.g. year five in the company forecast. EBITDA is a measure of a company's operation profitability and equals earnings before interest, tax, depreciation and amortization. EBITDA margin is defined as EBITADA divvied by total revenues. The combination of revenue growth rate and long-term EBITDA margin will impact the discounted cash flow paradigm which is particularly important for valuing high growth, high profit companies.

Percent of Business Recurring: This indicator is a key risk determinant in that building a client base which returns year and year will reduce the riskiness of future cash flows (Lower risk, higher values). Repeat customers are easier to work with and tend to spend more money and refer new customers, enhancing their value.

Intellectual Property: Does the business have any intellectual property or goodwill that should be taken into account. The effect of IP on the final multiple is relatively minimal, and this question is largely included for data gathering purposes.

Step 7: Operations

Percentage of Sales from top 3 customers: How much of the businesses revenue comes from a small portion of the customer base? Concentration of revenue streams may have an impact on business value.

Owner Leaving Impact: An owners departure may have a significant impact on value. In a succession planning scenario this is a key question to address for purposes of ensuring that revenue-generating relationships are transferred ahead of or as part of a sale. This question can also show the impact of a "key person" leaving the organization, and may show a need for a key-person insurance coverage conversation.

Key Person Insurance: Life insurance and "key person" or "key man" insurance may be an important protection that this business does not have. While this question has no effect on the valuation figures, and is included for data gathering purposes, the concept of proper protection should be explored with a financial professional.

Rent or Own: If your business owns the building or property you operate from, knowing the value of your business with the property included may be of interest. When property is owned by the business entity and property value details are entered, an "including real estate" value will appear just below the Estimated Business Value. Property value will also have an effect on the Asset Sale and Liquidation Values found in the valuation report. It is also possible to include the value of real estate used by the business BUT owned by another separate legal entity (with common ownership).