

## The Variables that Drive and Influence Business Valuations

If you've never bought or sold a business before, then the factors that drive and influence business valuations likely seem a bit murky. In a recent Divestopedia article from Kevin Ramsier entitled, "[A Closer Look at What Drives and Influences Business Valuations](#)," Ramsier takes a closer look at this important topic.

Business brokers and M&A advisors play a key role in helping business owners understand why their business receives the valuation that it does. No doubt, the final assessed value is based on a wide array of variables. But with some effort, clarity is possible. In his article, Ramsier points out that "value means different things to different buyers" and that the "perceived value depends on the circumstances, interpretation and the role that is played in a transition." It is important to remember that no two businesses are alike. For that reason, what goes into a given valuation will vary, often greatly.



### Looking to EBITDA

Ramsier points to several metrics including return on assets, return on equity and return on investment. Another important valuable for companies with positive cash flow is a multiple of EBITDA, which stands for "earnings before interest, taxes, depreciation and amortization." EBITDA is widely used in determining value. On the flip side of the coin, if the company in question has a negative cash flow, then the liquidation value of the business will play a large role in determining its value.

### Primary Drivers to Consider

Ramsier provides a guideline of Primary Drivers of Valuation, Secondary Drivers of Valuation and Other Potential Drivers of Valuation. In total there are 25 different variables listed, which underscores the overall potential complexity of accurately determining valuation.

In the Primary Drivers of Valuation list, Ramsier includes everything from the size of revenue and revenue stability to historical and projected EBITDA as well as potential growth and margin percentages. Other variables, ones that could easily be overlooked, such as the local talent pool and people training are also listed as variables that should be considered.

## Support for the Business Owner

The bottom line is that determining valuation is not a one-dimensional affair, but is instead a dynamic and complex process. One of the single best moves any business owner can make is to reach out to an experienced business broker or M&A Advisor. Since business brokers and M&A Advisors are experts in determining valuation, owners working with them will know what to expect when the time comes to sell.

**CK Business Consultants, Inc.** has been dealing exclusively in the sale and acquisition of petroleum and propane related mid-market companies since 1976. We are qualified, experienced, and highly professional intermediaries working with both buyers and sellers in the successful transfer of business ownership. We handle all phases of the project including initial analysis, valuations, developing a confidential information memorandum, locating qualified buyers, negotiations, and execution of the transaction. For more information, please call or email Gary Papay @ 570-584-6488, [gpapay@ckbc.net](mailto:gpapay@ckbc.net) or visit our website @ [www.ckbc.net](http://www.ckbc.net).