**Establish Preliminary Valuation Ranges**

***Business Owner Action Item:*** Establish a preliminary valuation of the Company based on current market trends.

The two most common valuation methods to value the Company are (i) multiple of EBITDA and (ii) comparable company analysis.

**Multiple of EBITDA**

The Buyer will generally prefer to value the Company at a multiple of EBITDA. The general formula is to multiply EBITDA by the multiple. For example, if the Company's EBITDA is $100 and the multiple is 3.0, then the value of the Company is $100 * 3.0 = $300.

Multiples vary for different industries and different sized companies. The size of the Company, its profitability, its growth prospects, and its industry will have an impact on its multiple. There are generally industry-specific average multiples and multiples for individual companies within a given industry will vary based on the size of the company.

**Comparable Company Analysis**

Using this approach, public companies in the same industry of a similar size, age, and growth rate are identified, and averages of their valuations are calculated for comparison to the Company. If there are recent acquisitions, mergers, or initial public offerings for comparable companies in the industry, then the information from those transactions can also be used to help estimate the Company's value.

***Why is This Important?***

- The business owner should have realistic expectations of the valuation of the Company prior to negotiating with prospective buyers.
- The process of establishing preliminary valuation ranges helps the business owner understand factors that will increase the valuation.

***In My Experience:*** The Buyer will value the Company at a multiple of EBITDA. The multiple will be a range that is consistent with industry standards.