

# Valuation Entry Tips

BIZ EQUITY

Use these tips to guide you through BizEquity's quick, 7 step valuation process. These will help save time with the data entry and ensure that the valuation is accurate.

## 1

### Use Tax Returns to Run the Valuation

BizEquity highly recommends using tax returns to run the valuations. If tax returns aren't available, other financial statements, such as P&Ls will also work. However, we find that the process is easiest when using the tax returns.

## 2

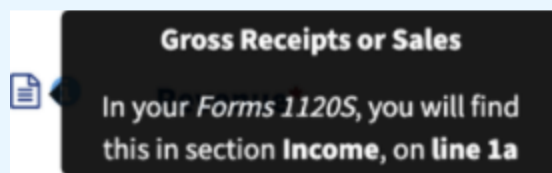
### Enter the Correct Industry Code

Industry Code is the most important component of the valuation, found on Step 1. BizEquity uses this code to determine the industry multiples and comparison data. These are pulled from NAICS codes which are usually found in the upper left-hand corner of the tax return. If the number isn't available on the tax return or doesn't seem accurate, feel free to search by keyword.

## 3

### Fill Out Business Structure

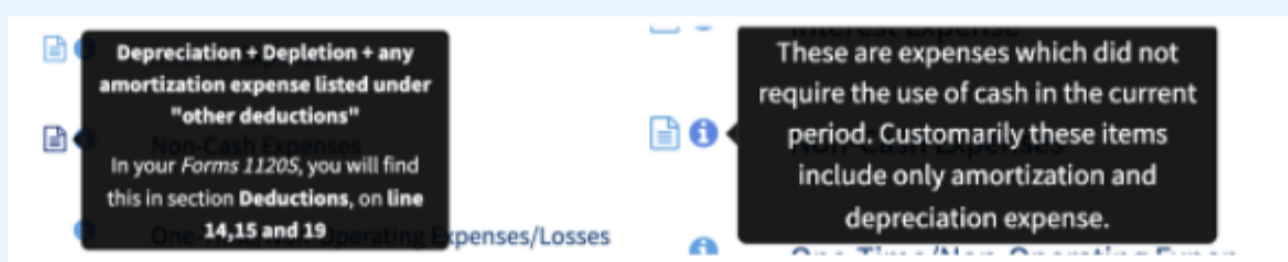
This dropdown, found in Step 2, will automatically select a tax return from the next dropdown. Once a tax form is selected, the system will activate paper icons on steps 3-5. These paper icons will guide you through exactly which lines to reference for most of the financial data, ensuring data accuracy and optimizing time. \*Note: LLCs have more than one tax form option so make sure to select the appropriate tax form as well.



## 4

### Use Indicators As Your Guide

Found next to each form field, these will point out any nuances in the values and help drill down on what the calculation is looking for. For example, Non-Cash expenses tells you to pull from 3 lines of the tax return. However, we are only looking for any amortization expense listed under "Other Deductions" (line 19), rather than the full value of Other Deductions.



## 5

### Understand Owner's Compensation

The "Officer's Compensation" field should only include ALL of the ACTUAL compensation paid to a single, primary owner working on a full-time basis. The goal is to reach an earnings level that will be available to a hypothetical new owner-operator/buyer.

Some unique scenarios may arise, including:

Multiple owners being paid more or less than a market wage. For example, if a second owner is being paid more than a market compensation level by \$50K, then the officer compensation amount should be increased by \$50K. If the second owner is being paid less than market compensation, the officer compensation amount should be decreased by \$50K.

A single owner who is "absentee." In this case, it will be necessary to include the actual total compensation paid to the top manager of the firm.

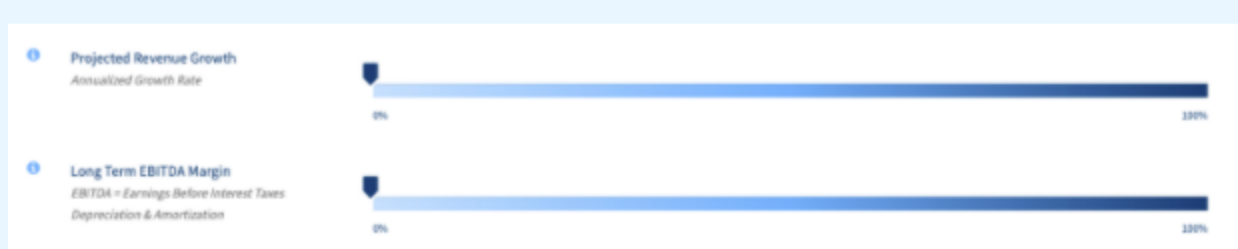
Two paid owners, one active and one passive ("absentee"). All of the actual compensation paid to this passive owner should be included in the owner compensation line entry (along with the primary owner compensation).

Two or more absentee owners. All of their actual compensation should be included in the owner compensation.

## 6

### Understand Growth Slider Impact

The growth sliders in Step 6 will impact the discounted cash flow paradigm which is particularly important in valuing high growth, high profit businesses. **These sliders won't typically impact the valuation until they're both above 25-30%** so no need to drill down on the difference between, for example, 8% and 12%.



## 7

### Enter Relevant Real Estate Information

Any relevant real estate info should be entered on Step 7. This will typically be the office building that houses the business. In the case that the business owns their property through a separate entity and pays rent back to themselves, we recommend selecting "Rent" and "Rent is paid to an entity that you own or are affiliated with."

## Questions?

Reach out to your advisor for more information!