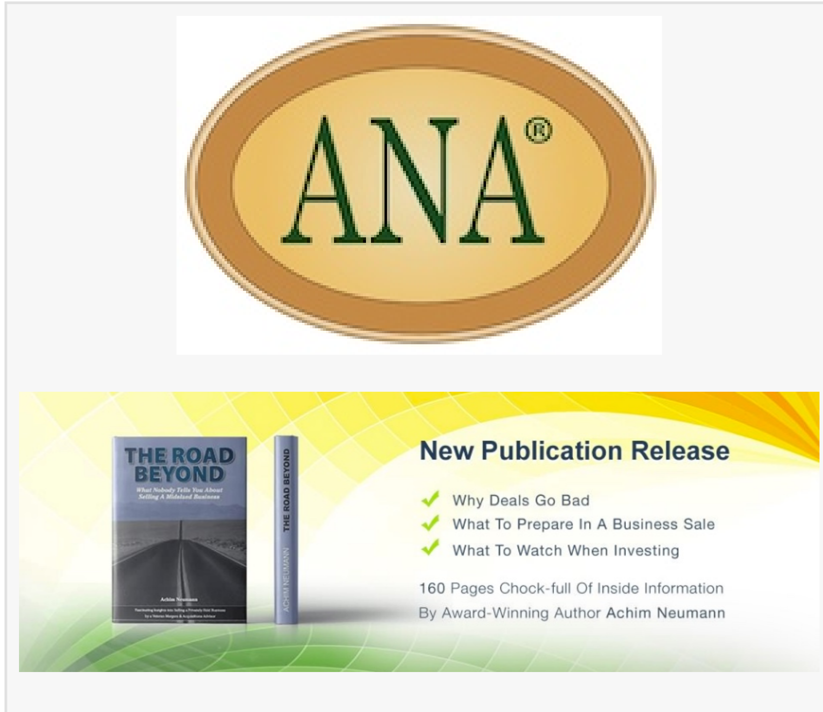
Justifying an Asking Price

A Neumann & Associates, LLC, a New Jersey-based Mergers & Acquisitions and Business Brokerage firm, discusses the proper way to justify an asking price.



ATLANTIC HIGHLANDS, UNITED STATES, US, January 13, 2022 /EINPresswire.com/ -- Arriving at a justifiable asking price – and therefore business sales price – is the purpose of conducting an independent market valuation. Such a valuation is always the first step in a business sale process. There are three distinct attributes of such a valuation, and they all provide for justification of the asking price.

First, the fact that the valuation has been conducted by an independent 3rd party, not the seller's CPA or brother-in-law or broker, gives an investor confidence that it has been performed in an objective manner. Typically, the seller must pay for the valuation up front, meaning that the valuation firm is paid before they calculate the fair market value, not afterwards.

> I recently completed an acquisition using A Neumann & Associates. Tony Valentino was very helpful and accessible during the entire process. They do a thorough job vetting both parties."
>
> *Srini Mudambi, Investor – January 2022*

The second attribute is the valuation process itself. The process of doing a valuation is complex, and accredited, third party valuation firms look at the business from seven different perspectives: two asset-based, two income-based, and three market-based viewpoints. Plus, the valuation process incorporates seven years of financial information for the business. Said valuation firms are accredited and subscribe to financial databases that help them establish risk premiums and comparable market sale prices for similar firms. These data help the appraiser make key decisions upon which the market value is calculated.

Third, all of the accredited valuation firms' reports include a calculation of the return on investment (ROI) to the buyer, given the asking price, suggested deal structure, and expected cash flow based on historical (not pie-in-the-sky projected) results. The report details how the expected cash flow was projected, what the debt service will be on financing obtained by the buyer, and what capital expenditures are required to keep the business operating smoothly. The result is the net cash flow to the buyer, which is divided by the buyer's down payment to arrive at a first-year cash-on-cash ROI. This ROI is used as a check to make sure that the return to the buyer is sufficient to justify investing in the business being sold.

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