

BUSINESS VALUATION

In the case of business loss due to eminent domain, the measure of compensation to the business owner is the market value before and the market value after the taking. There are several classes of experts who have been employed to determine the difference in the fair market value of a business, including accountants, bookkeepers, business analysts, businessmen and real estate appraisers. In most cases, these experts take into account the real estate, any improvements to the property or business, and fixtures and equipment owned, to calculate the measure of compensation. While the Courts have not provided guidelines for valuation, experts commonly use a multiple of the business' Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA), or one times its gross revenue, to arrive at a general value for the business. However, extreme caution is exercised when using these guides for valuation purposes as they can be very helpful in determining a rough estimate but in no way do they fully explore the three essential components of valuing a business. For a more in-depth and accurate view of the value of the business, the experts consider: (1) Expected Risk - greater risks will decrease the value of a business (i.e. all things being equal, a pending lawsuit will greatly increase the business' risk and decrease its value); (2) Expected Growth Rates - logically it follows that if a company has a high growth rate, the company will have an increased value; and (3) Expected Income/Cash Flow - a superior expected future income/cash flow will also increase the value of a business. These values are considered prior to and subsequent to the taking, to arrive at the measure of compensation a business owner can expect.