

Key Lesson:

# UNDERSTANDING ENTERPRISE VALUE

*A Measure for a  
Business's Worth*

## Realizing Your Business's Enterprise Value is the Goal. So, How do We Get There?

Enterprise Value is a measure of a business's worth, calculated based on what a theoretical buyer would pay for the business after conducting thorough due diligence. It's a reflection of the business's ability to generate future revenue and profit.

**The calculation of Enterprise Value involves an algorithm that takes into account industry Normalized Trading Ranges (NTR), financial performance, and the CoreValue Rating.** This algorithm was developed at MIT and with the National Association of Certified Valuators and Analysts (NACVA).

In ValuCompass's **Discover Assessment**, the industry selection, designated by NAICS codes, plays a crucial role in determining the NTR. **The NTR uses NAICS codes to gauge the trading range of similar companies in your industry**, which impacts the calculation of Potential Enterprise Value numbers and the Value Gap.

While the concepts are straightforward, quantifying them involves a lot of behind-the-scenes analysis.

## Two Supporting Ideas: the CoreValue Rating & the 18 Value Drivers

When calculating Enterprise Value, the **CoreValue Rating** is a critical factor. **It's a measure of how dependably the business can operate and generate future revenue and profit at or above its current rate.** The CoreValue Rating is scored using what we call **the 18 Drivers, which are a set of Market and Operation Drivers.** These include factors like growth, market share, recurring revenue, product differentiation, and customer diversification among others.

Strategic buyers may pay above the financial value, thereby creating strategic value. However, it can change quickly and shouldn't be solely relied on for future planning. Enterprise Value assumes a neutral balance sheet, with no such adjustments included.

In conclusion, **Enterprise Value is a comprehensive measure of a business's worth, taking into account its future revenue and profit potential, industry comparisons, and internal operational efficiency.** It's a key component in ValuCompass's Discover Assessment, providing valuable insights and serving as a crucial metric in business valuation.



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Interested in learning more?  
Let's chat!

[support@valucompass.com](mailto:support@valucompass.com)