BUSINESS VALUATIONS

DETERMINING THE WORTH OF YOUR COMPANY

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WHAT IS YOUR BUSINESS WORTH?

Do you know the actual value of your business? While the majority of business owners have between 50%-70% of their net worth invested in their business, most do not know the actual value of their business.

A typical business valuation uses a certified professional review to establish its real-world value which can be a tool for building value and providing business owners with greater knowledge and flexibility. A good business valuation identifies a business' key value drivers and anticipates what effect management decisions will have on value.

The ultimate value of a business is determined by how much a buyer is willing to pay for it. So, a good business valuation should make real-world sense and reflect this value. Business valuation professionals are able to determine this real-world price and evaluate what changes should be made to increase value in a business.

Business valuation is the tool that helps business owners make the right decisions, no matter the conditions.

WHY A BUSINESS VALUATION?

Business owners know that the ability to control their own destiny is one of the most appealing rewards of owning a company. When business owners have accurate value information about their company, they can more easily understand how its value can be increased. Business valuation is the tool that helps business owners make the right decisions, no matter the conditions.

WHO NEEDS A BUSINESS VALUATION?

Having a realistic picture of a business' worth can help owners and investors make reasonable decisions.

A business valuation is a means to determine the value, or what a company is worth, at any given point in time. Value can have multiple meanings depending on the situation and goals of the individual. Owners, investors, potential investors, and buyers will all see value differently. Determining your goal of valuation as well as the parties using the final valuation number will help you determine what to focus on and how to adjust.

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WHEN DO YOU NEED A BUSINESS VALUATION?

PROACTIVE

Business valuations can be done by proactive management searching for ways to maximize value, make better business decisions, develop succession plans, and prepare for the future. The best time to conduct a business valuation is long before those decisions are made and those succession plans are put into action. This should be the first step, not the last.

REACTIVE

Business valuations must be done in response as a reaction to an event such as a business dispute, divorce, or death. These business valuations are time sensitive, as these events are typically unexpected when they occur.

UNDERSTANDING THE BUSINESS VALUATION PROCESS

By having an understanding of the business valuation process, you will be more prepared to better interpret your final business valuation. To best accomplish this, be aware of these four steps:

EDUCATION

While you obviously understand how to run your business better than anyone else, you may not know how to place an accurate value on the business (which is why you are looking for a qualified business valuation!) Letting your business valuator explain the standards of value, including fair market value, strategic value, and the basis of value, including controlling and minority, will help you begin to understand the process of valuation. Depending on your situation and reason for valuation, the process and information required will look different.

DEFINED PARAMETERS

The best business valuations include well-defined parameters from the start. Without clear parameters at the outset, the probability of miscommunication and failure of execution increases greatly. Some guidelines to consider are report type and format and ancillary services.

While an oral report may be sufficient in some situations, typically a formal, written report of the business valuation is required. Make sure this is specified. Additionally, you will want to consider any ancillary services that could be required other than the appraisal of the business. Will there be any purchase price allocation or post-acquisition accounting issues? If so, will the appraiser handle those? Knowing the scope of these additional services is another key to success.

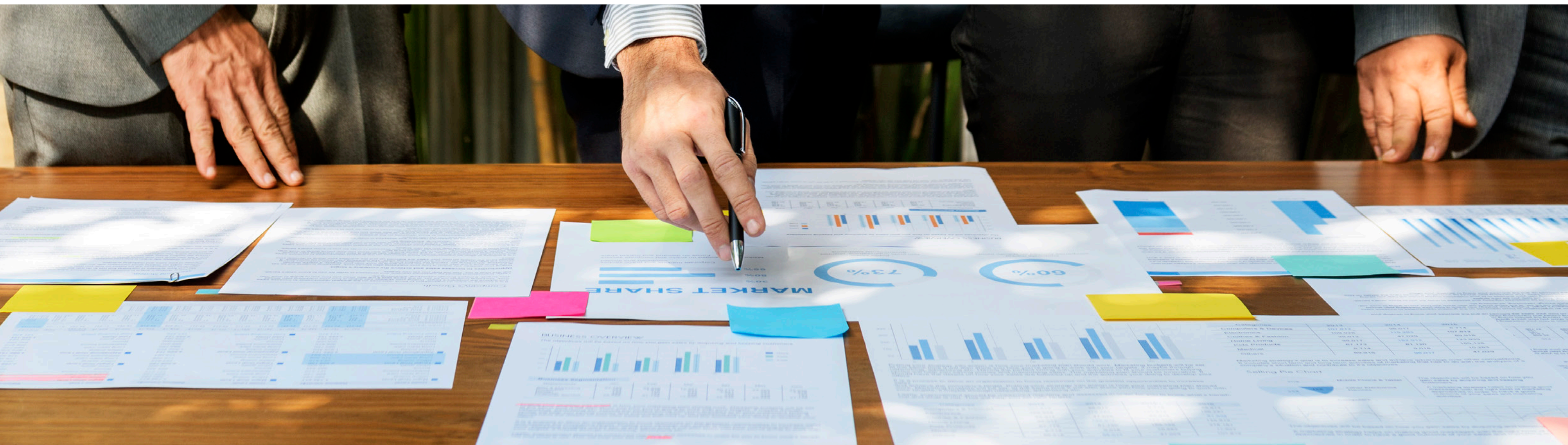
OBJECTIVES

Business valuations should include an engagement letter from the valuator serving as a legal contract between the client and appraiser. Aside from being the legal contract of the service, this document also provides a list of the expected duties and responsibilities of the business valuator and proposed costs. This benefits both parties by clearly setting expectations.

TIMELINE

Along with objectives, an agreed upon scheduled timeline is important to determine. A timeline outlining major milestones throughout the process helps to keep communication lines clear and open throughout the full operation.

Once your company gathers all the required information for the valuation team, and assuming it is all there, a complete business valuation can typically be completed in a couple of weeks. Back and forth between the appraiser and company to obtain information can greatly slow down the process. However, 3-4 weeks is a typical valuation period (while 6-7 weeks would be considered a long valuation period).



READY TO DETERMINE THE VALUE OF YOUR BUSINESS?

When you understand the actual value of your business, you are able to make more effective decisions in the short and long term. No matter the industry, a solid business valuation helps you determine your company's strengths and opportunities for improvement. Does your business need a business valuation, or do you have questions after learning more about them?

CONTACT ATA CPAS TODAY TO SPEAK TO ONE OF OUR CERTIFIED BUSINESS VALUATION EXPERTS.

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