

What Is My Business Worth?

For many owners, the answer to one question determines their eagerness and ability to leave their companies: "How much is my business worth?" This question is indeed critical and answering it is the second step of your seven-step Exit Plan.

Take Ron Nee, the owner of Landscaping Supply Company, as an example.

Ron was ready — and had been for several years — to sell his company but he felt it was worth little more than its net asset value — his industry's rule of thumb when valuing his type of company. While that value was not inconsiderable (\$2 million), Ron wanted more. So, he continued to work in the business well past the point where he found it to be either fulfilling or energizing. In doing so, Ron committed a serious but common ownership mistake: working after the fun and challenge are gone on the mistaken assumption that the company can't be transferred for sufficient value.

Because Ron failed to get a proper and professional business valuation, he also failed to realize that his business could have been sold for significantly more money than his industry's "rule of thumb." And these failures were cumulative, for, in the end, he failed to exit his business when he wanted and for as much money as he wanted and needed.

How can you help to avoid Ron Nee's predicament?

- Understand first that there are different types of valuations, performed by different types of valuation advisors, for different reasons.
- Appreciate that different appraisers charge vastly different amounts for a valuation; and
- Realize that the questions you need to ask now are what type of valuation do you need and who should perform it? The answers depend on how ready you are to leave your business.

If you are ready to exit the business now, (meaning last Friday) you need more than just a thumbnail sketch of value. You need a thorough valuation which includes a marketability component: Can your company be sold today at its appraised value?

An experienced appraiser active in today's merger and acquisition marketplace can give you an accurate answer to that question.

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An accurate answer can tell you if your business is as ready to be sold as you are ready to leave it.

In Ron Nee's case he hired a certified valuation analyst whose thorough valuation included what the business would be worth in today's mergers and acquisitions market.

Expect to pay \$5000 to \$15,000 depending on the complexity of the valuation and whom you select to value the company.

On the other hand, if you and your business are several years away from ownership transition, a full-blown valuation may well be unnecessary. Instead you need a value approximation or range of value — a "ballpark estimate" of what your business is worth today. Think of an annual valuation as a test of whether the business is on track and of the distance to the station.

Depending on the size of your business and the need for certainty, your CPA can provide this type of valuation approximation for a modest fee.

Had Ron Nee started with a "ballpark" valuation, he would have discovered his business was likely worth significantly more than he thought. He could then have paid a professional valuation expert to determine the value and marketability of his company which would have opened the door for him to sell his business at that time.

"Ballpark" valuations, thorough valuation and marketability appraisals all have their place. Don't skimp on paying for an accurate valuation, but don't get one before you need it.

Why is a valuation necessary in this early stage of your Exit Planning? Simply because you and your financial and tax advisors must be able to determine if your financial objective can be met by a sale or other transfer of your company, to whom and when. Only a current business valuation can supply this vital information. Remember that the recent collapse of the mergers and acquisitions marketplace teaches us the valuable lesson that it takes *both* a strong company and a strong market to maximize business value.

Bottom Line: If you can realize your financial and other objectives today based on the current value and marketability of your business in today's market, why delay your exit?

Subsequent issues of Sage Solutions will discuss all aspects of Exit Planning.