



How much is your business really worth?

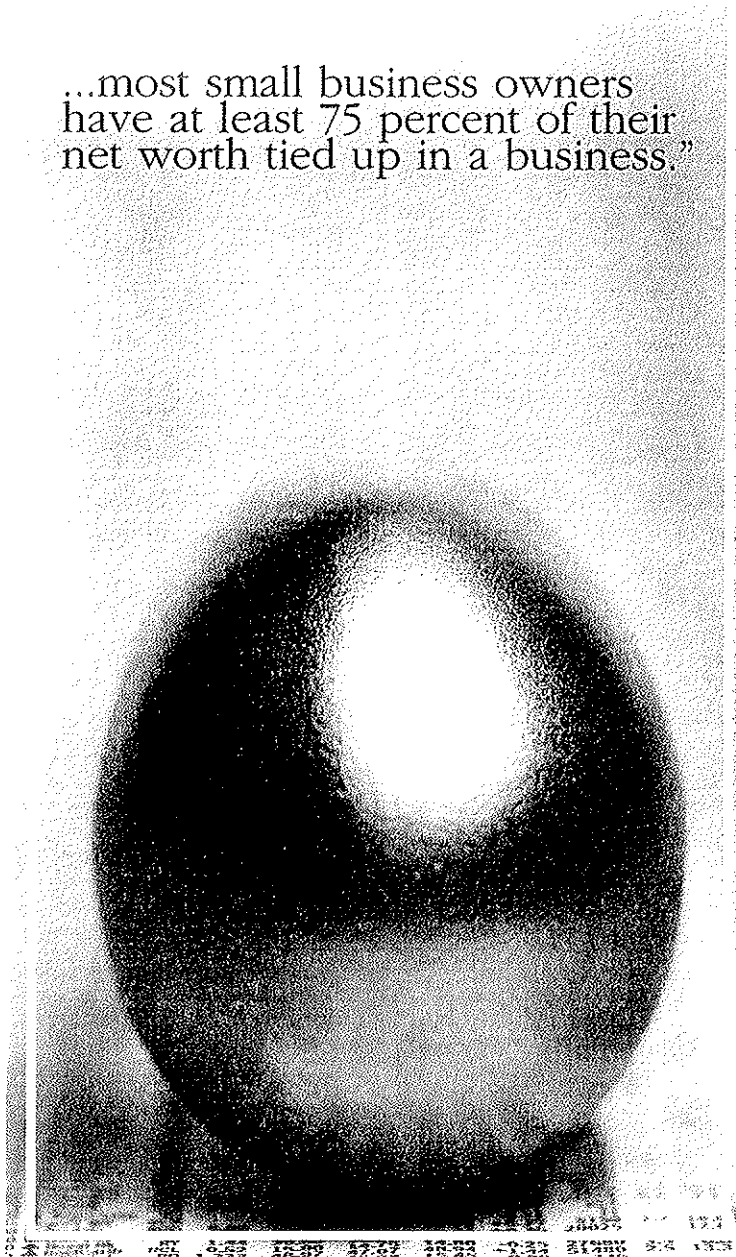
By Richard Stump

COLUMNIST - TRANSFERS AND ACQUISITIONS

How much is your business worth? It is a question of great interest and importance for the private business owner. Unlike publicly held companies where the market determines their worth each day or the real estate market where comparable homes sell in each neighborhood year after year, privately held companies change hands less often. This lack of liquidity makes valuing these businesses more difficult and yet no less important. Further, each business is unique. Two businesses in the same industry can have different cost structures, pricing schedules, contracts, and quality of customers that make the value of each of these businesses very different. It is against this backdrop that many business owners face some of the most important decisions of their lives, where the value of their business is key.

Most business owners only think of the value of their business in relation to what they could sell it for in the marketplace. However there are many other instances where valuation either plays a key role or should play a key role. For example, when a business owner sits down with an attorney to put his estate plan in place, often the most valuable asset the owner has is his/her business. In fact, most small business owners have at least 75 percent of their net worth tied up in a business. The assumptions the attorney makes about structuring the estate plan are often centered around the value of the clients assets. Yet in most instances, the only valuation done is an estimate by the business owner, which is often biased by the owner's emotions and feelings, or using some general rule of thumb. Leaving something as important as your estate plan to chance based on a rule of thumb or estimate is a roll of the dice.

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This is not the only situation where a proper business valuation is crucial; buy-outs of partnership interests, business succession planning, sales and acquisitions, gift/estate tax value, divorce and

SBA financing are all areas facing the business owner where a realistic valuation is key. A realistic business valuation is one where the price is the amount a ready and willing buyer, armed with all the relevant

facts, will pay for the business at this date and time. This value also fluctuates over time, so setting a base value and then updating periodically is the way to track true value enhancement. One example of a common agreement that needs a regular valuation of your business is a buy/sell agreement. These useful documents set out the terms and conditions under which one or another's ownership interest in a business can be purchased. In many cases these documents are drafted, then filed and forgotten. In the case in which your family is exercising to sell on an out-of-date buy/sell, they risk receiving less than what your share of the business is actually worth. In the reverse scenario, you risk having to buy out a partner's share at more than market value. This scenario can easily be avoided with a credible valuation.

In order to attain credible value, a business owner needs to work with a firm that has specific experience in business valuations. Your accountant, while a brilliant tax planner, may not have the experience necessary to provide you with a true picture of the market value of your business. It is important to find not only an accredited firm, but one that specializes in and has proficiency in valuing small, privately held companies. Ready places to find firms qualified to do this work include the American Society of Appraisers, the Institute of Business Appraisers and the National Association of Certified Valuation Analysts. These organizations will guide you to a group that can help you determine the proper market value for your business. You've spent your blood, sweat and tears building your business; why take a chance with the value you have earned?

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