

Ask the Advisor

Q. How can a business valuation help me plan my exit strategy?



A: Whether your decision to move on is motivated by a planned event such as retirement or a new professional challenge, or by unforeseen circumstances such as a health crisis or financial trouble, an accurate business valuation is essential.

Naturally, you want to get a fair price for your company. A professional valuation provides insight into its financial state, market position, and overall strengths and weaknesses — enabling you to set a base price and make improvements that could help maximize your profit.

Primed for sale

When you enlist the help of a valuation expert, he or she will prepare your financial statements for buyer scrutiny by making various adjustments to earnings — a process called “normalizing.” Your valuator, for example, might remove one-time or discretionary items from your balance sheet and income statements, such as owner-specific and nonrecurring capital expenditures. This will provide the buyers with a more accurate picture of the business’s potential performance when it comes under their control.

To enhance your company’s perceived value, a valuator might also advise you to pay down debt, beef up your internal controls and ensure that legal documents, such as contracts, are in order. Sometimes, experts suggest more drastic measures, such as cutting staff, freezing expenditures to reduce overhead, implementing accounting practices that increase inventory turnover, or divesting businesses of a poorly performing unit.

Order to business affairs

Even if a sale isn’t in your immediate future, a valuator can provide you with the information necessary to draft a buy-sell agreement. This agreement provides a plan to follow in the event you or a business partner unexpectedly dies, becomes disabled or otherwise withdraws from the company. A valuator will help name and define your agreement’s standard of value

and determine a formula for calculating it, so that ownership can be transferred at fair market value.

And because the value of your company will affect the tax-related costs of gifting or bequeathing business interests, if you choose to pass the business to your family or loved ones, a valuation can prevent you from improperly estimating value. Otherwise your heirs could end up with a sizable estate tax bill that could force them to sell your company after your death.



Valuators use a variety of methods, most of which use some variation of market multiple — operating cash flow, revenue or book value — as a benchmark to assess a business’s purchase price. Your valuator will likely perform a complex analysis using several methods that suit your company, balancing quantitative financial techniques with qualitative analysis of general business performance, economic conditions and your industry’s specific circumstances.

Your role in the process

To help your valuator make a fair and accurate appraisal and get the most from the engagement, gather all pertinent data and contractual agreements relating to financials; marketing and sales; operations; and products and services. Also be prepared to provide this expert with information related to the value of intangible assets — something many business owners forget to consider, but which could be a major contributor to your company’s worth. ■