

Why Value Your Business?

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By guest blogger, Ron Numon, Managing Director, A Neumann & Associates LLC

There are many reasons business owners need to value their business: estate planning, partnership splits, refinancing, recapitalization, outright sale of the business, mergers, acquisitions, generational transfers, or divorce are just a handful of situations where an accredited valuation is essential.

Equally important is the rigorous process of due diligence that supports the valuation process and presents the business in its most favorable light. "Due diligence" is commonly referred to as the process of verifying information in preparation for the types of events noted above. Unlike buying a car or house, justifying the price of a business entity requires credible financial documentation to verify the true cash flow of the business and to support a full "quality of earnings assessment." Typically, this process requires the cooperation of various parties, including the principals, the CPAs, the lender, and an accredited business appraiser.

In today's business environment, a certified business valuation by an accredited firm is the only accepted way to accurately and confidently determine a business' true market value. The major benefits to buyer and seller are obvious: it helps set and justify the asking price to the buyer and to the bank that is financing the acquisition and lets the investor obtain a quick decision from the bank on financing. That's crucial because 80 percent of all acquisitions are at least partially financed by a lender and backed by the SBA.

For a seller, the lack of a valuation will leave one in the dark about the proper asking price. If the asking price is too low, the seller leaves money on the table. Conversely, if the business is overpriced, it won't sell and can compromise the confidentiality of the transaction by causing the business to be on the market too long.

However, there are other less obvious implications of not having an accredited valuation. Most importantly, it will immediately render any offer suspect, since the owner would never know if it's a fair offer.

Moreover, a qualified valuation will allow the owner's experts (think CPA, wealth advisor, estate planner, attorney, tax accountant, etc.) to plan in advance for the sale and maximize after-tax net proceeds. Finally, investors, who might conclude that the business is as poorly prepared operationally for a transition as it is in its financial presentation, almost always view the lack of a third-party valuation negatively.

Without a business valuation, a potential buyer may not take the seller seriously, won't make a fair offer, and will likely want to conduct their own due diligence. This will require the business owner to expend valuable time and resources to produce financial reports, tax returns, support buyer investigations, and potentially lead to a breach of confidentiality exposing the potential sale to employees, customers and vendors causing irreparable harm to the business. To make matters worse, the buyer is under no obligation to buy and can simply walk away after months of making request after request for information.

In sum, whereas a business seller might perceive the upcoming due diligence with trepidation, in reality, it's merely a professional verification and re-casting of previously presented business information. Most importantly, with today's technology, such due diligence is commonly executed off-premises with no employee involvement ensuring confidentiality.

A highly qualified M&A firm that is well versed in both business valuation and due diligence can guide the business owner through the preparatory, due diligence, and valuation processes in a confidential manner. Without such guidance, the process can be quite daunting and fraught with many pitfalls.

Ron Numon is the Managing Director for the state of Connecticut representing A Neumann & Associates LLC (ANA), a mergers and acquisitions adviser and business brokerage firm. ANA has offices in eight states and is affiliated with national networks of qualified investors and sellers and has assisted owners and buyers with business transfers for over 15 years.

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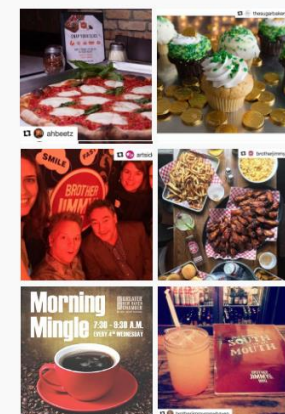
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