



OCEAN LIFE

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Business Sellers Should Demand an Independent Valuation—Ahead of Time

By Gary W. Herviou



If a small-business owner wants to sell his or her company now or within the next five years, an independent business valuation is an essential first step. If the time is now, then the appraisal serves as the basis for a potential deal structure. Should a transaction be farther down the road, the information provided in the valuation process allows the owner to properly position the firm to maximize financial return when the time comes.

It's recommended that an independent third-party market valuation be put in place prior to any engagement for sale. The benefits to small-business owners are significant from both a time and money standpoint.

Why is a neutral-party fair-market appraisal so important when preparing to sell a business?

The Guessing Game is Eliminated – Even though some owners think they know what their business is worth, they're really only guessing or may be using incorrect industry rules of thumb. A multi-dimensional and accurate report of the firm's worth will ensure that no money is left on the table.

The Need for a Buyer Valuation is Eliminated – If a proper third-party valuation (as opposed to one done by the firm's CPA or broker) is in place, then prospective buyers have no inclination to ask for one themselves. The business owner should control this process. The seller, not the potential buyer, should drive any discussion of fair-market value. An independent appraisal provides the buyer with a value justification and identifies the anticipated rate of return on his financial investment.

Deal Structure and Marketability Feedback is Provided – The independent valuation lets the owner know exactly what to expect if she decides to market her business for sale; a specific deal structure should be in place. Every business sale provides a distinct set of anticipated circumstances. The owner must analyze tax implications, timing, positive leverage, negative deficiencies, and confidentiality. A savvy business seller wants to be aware of these beforehand so goals can be reasonably met.

Value Drivers are Analyzed – The factors that influence a company's value (positively and negatively) are identified for the business owner. By knowing exactly where his company stands relative to others in the industry (and to his own goals), a shrewd owner can implement changes as part of an orchestrated strategy to improve value and better position for sale.

A Faster Deal Closing is Achieved – Since the independent valuation is accredited and recognized by the financial community (including the SBA), commercial financing is obtained more quickly, and the seller gets to the closing table about two months faster than without one in place.

In order to maximize the financial return from a sale of a business, the firm must be both properly priced and properly marketed—the independent accredited valuation sets the stage for both.

If selling the business is a possibility, it's incumbent on the owner to look at the big picture and get the cold hard facts regarding the salability of the company in advance.

This "valuation mindset" can be summed up as follows: Value now, plan ahead, and maximize return at closing. Well-informed business owners will make effective decisions accordingly, control the transaction process as best they can, and reap the rewards upon exit from the business. The unprepared will just have to take their chances and hope for the best.

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