

# Your company may be your most valuable asset

Following is a compilation of Q&As that has been asked by our clients over time. For anyone who is considering exploring their exit strategies, and/or are seeking to obtain a certified business valuation, this is a must read.

## GUEST VIEW



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According to Pew Research Center, a nonpartisan fact-tank that informs the public about the issues, "Baby Boomers are reaching age 65 at a rate of 10k per day until 2030. This generation will need to transfer its wealth in the form of Estate and Gift Tax; Income Tax and Charitable Contributions."

**Question:** Why should I obtain a business valuation? And, secondly, why do I need to use a certified, business appraiser?

**Answer:** Knowing your business value affects your ability to secure investment capital financing or for qualifying for a loan. Having a documented valuation allows you to obtain an accurate value for your insurance company in underwriting your business properly as well.

Business valuations are also performed for buying or selling a business, for partner buy-outs or buy-sell agreements, for litigation support, for marital dissolution, for family & business estate planning, gift & estate taxes, ESOPs and mergers & acquisitions.

Privately held, business owners typically obtain a business valuation to establish a benchmark so that they can make and/or modify changes to their company's overall business operations.

If you don't fully understand the value of your business at a given point in time, the question is how can you gauge and plan accordingly?

Recently, *IbisWorld*, one of the world's leading publishers of business intelligence that specializes in Industry and Procurement research, "estimates that nearly 75% of privately-held businesses are expected to be put up for sale during the next decade." There are approximately 29 million small businesses in the United States.

A company may be your most valuable asset and, yet, approximately 80 percent of business owners don't know what their business is worth. Unfortunately, a business owner, more often than not, has their own inflated perception of value that is not based upon relevant factors that an appraiser utilizes.

A certified business appraiser takes the guesswork out of the equation and utilizes unbiased opinions and professional analyses to draw their own conclusions. When searching for an appraiser, you should select an appraiser that is accredited by the American Society of Appraisers and has a solid background in performing business valuations.

**Question:** We have grown our company and my partners and I are

now looking towards retirement after 32 years at the helm. How do we establish a fair market value of our company?

**Answer:** The first step is to recognize selling a business requires pre-planning. The biggest mistake you can make while growing your business is not creating an exit strategy well ahead of time in order to position your firm in its best light with ample time for the M&A process.

As defined by the IRS, The fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and

both having reasonable knowledge of relevant facts.

The second step is to obtain a certified valuation of your business. Valuing a privately held business involves many variables, yet the two key variables are cash flow and risk. A privately held company does not have an established market to sell as a publicly traded company has. Therefore, the company's worth is primarily predicated upon the company's inherent risk and return-on-investment. Your company's historical revenues combined with adjusted cash flows that are usually indicative of future cash flows, establishes the buyer's ability to determine a reasonable return

on the investment.

A formal business appraisal will provide credibility to prospective buyers and will improve the chances of selling your business.

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**his health in tune?**



Doug Hendrickson, a music store owner, was meeting his Tri Counties business banker Sweeny Leham for a periodic financial review. Discovering Doug was saving up for a costly medical procedure, Sweeny composed a harmonious duet. Using the equity in his home, she refinanced his mortgage, freeing up funds for the delayed operation, while lowering his loan payments as well. Bravissimo! For personalized service like this, just switch to Tri Counties Bank.

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