

Professional Valuation Services

*A Value Building
Service for Business*



PROFESSIONAL VALUATION SERVICES



Why Is a Business Valuation Necessary?

Business Interests Often Represent a Significant Asset

Business valuations are performed because ownership interests in privately held companies often represent a significant portion of one's estate and/or portfolio. The value, or worth, of an interest in a privately held company, as opposed to stock in a public company, is usually unknown because there is no active market to sell or trade that interest from which to ascertain or approximate a value. Value determinations are most commonly needed to calculate estate tax upon death, split up family assets in a divorce, or negotiate value in a purchase, sale, or merger of a business enterprise. Besides these, there are many other reasons why a holder of an interest in a privately held company might require a business valuation. Valuations are performed to determine company or stock value for:

- Actions in Eminent Domain
- Buy/Sell Agreements
- Charitable Contributions
- Damages for Disruption of a Business
- Dissenting Shareholder Actions
- Employee Stock Ownership Plans (ESOPs)
- Family Limited Partnerships
- Gifting Programs and Gift Taxes
- Initial Public Offerings (IPOs)
- Life Insurance
- Partner Disputes and Split-Ups
- Split-Ups/Spin-Offs of a Division or Subsidiary
- Succession/Exit Planning
- Venture Capital and Other Forms of Financing

A Value-Added Service

Possibly one of the best reasons for obtaining a business valuation is to use it as a management tool. A prime objective of every business enterprise, large or small, is to improve and maximize its value to the owners. This is a necessary business requirement to justify the investment of time and, more particularly, capital. A properly prepared business valuation provides management with insightful information that helps identify company strengths and weaknesses that affect value, allowing management to more effectively focus its energies in places that really count. A business valuation, prepared periodically, also serves as a measurement tool that helps owners evaluate overall progress towards goals and management effectiveness.

How Can a Professional Valuation Consultant Help You?

Many business owners believe the value of their business is net profit, or gross sales, multiplied by an industry rule of thumb. This is simply not the case. In fact, the application of an industry rule of thumb formula often results in a value determination that differs greatly from the actual value that could be determined by a qualified business valuation professional.

Accurate Value Determination

The result of an inaccurate value determination, regardless of whether it is high or low, generally leads to undesirable consequences. For instance, if the value is too high, estate taxes will be too high; savvy investors or prospective buyers will usually disregard a value that appears too high. If the value is too low, you can be sure savvy investors or prospective buyers will recognize it and take advantage. Likewise, if you are on the other side of the dispute in a dissenting shareholder action or divorce, you certainly want to know you are receiving a fair value for your interest.

Careful Analysis

Determining the true value of a business enterprise requires a careful analysis of two primary components that make up value: tangible assets such as real estate, machinery, and furniture used by the business, and various intangible assets such as business goodwill. Intangible assets might also include customer lists, trademarks, copyrights, distribution rights, a superior management team, non-compete agreements, physical location, special processes, and name recognition. Quite often, the value of a company's intangible assets is much greater than the tangible assets. Valuing intangibles, however, is where one needs the services of a qualified business valuation professional: it requires a careful analysis of the many aspects and facets of a business enterprise utilizing knowledge acquired through training in all aspects of business fundamentals, including finance and valuation applications, and draws upon a skill set acquired through a range of experiences both working with and valuing business enterprises.

Understanding the Business

To properly value intangible assets, the valuator must acquire a thorough understanding of every aspect of a company's dynamics, including management capabilities, company strengths, weaknesses and vulnerabilities, the competitive environment, overall expectations for the marketplace, and future economic prospects for the industry and the economy in the region and as a whole. All of these elements affect the risk

of ownership in a particular enterprise, and risk directly impacts value. Additionally, the valuator must analyze the inherent financial health of the enterprise and its future profit potential. Generally, profitability equates to intangible value and/or goodwill. As such, a key part of the valuator's analysis will focus on determining a company's *true* profitability. This requires making adjustments to the GAAP or tax-based financial statements that might include adding back to profits amounts for excess officers' compensation/perks over and above the average for the industry, excessive depreciation on assets aggressively written-down, and non-recurring charges to expense, to name a few.

Sorting through a Complex Process

After a thorough analysis of all the company's dynamics and its financial health, the valuator must select the most appropriate methodology from among the many utilized by the valuation industry and apply a series of calculations and formulas to arrive at the ultimate conclusion of value. Overall, the process is highly complex and requires a significant amount of time. Indeed, this is what is required to determine the true economic value of a privately owned business enterprise.

What Is Important in Selecting a Valuation Professional?

A valuation professional should be able to demonstrate through education, training, and experience that he or she has the knowledge and a level of competency in valuing business enterprises. Of the utmost importance is one's affiliation with a recognized valuation organization such as the National Association of Certified Valuation Analysts (NACVA). Members of NACVA are required to adhere to industry standards in performing valuation services and communicating their conclusions of value. Standards are intended to assure users the services they receive meet an industry-acceptable level of due care, including the thoroughness of the analysis and communicating the results. Furthermore, industry standards require adherence to ethical guidelines in the performance of valuation engagements, providing added assurance to users that the valuator they hire performs his or her services conscientiously and competently to the best of his or her abilities.



Professional valuation services are relied upon in situations of need or adversity and include:

Business Valuations of
Private Enterprises

Determinations of Business
Damages in Litigation

Value Determinations for
Intellectual Property and
Component Parts of a
Business Enterprise