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6 Overlooked Benefits of a Company Valuation

By [Meghan Daniels (http://www.axial.net/author/meghan/)](http://www.axial.net/author/meghan/), Axial | July 26, 2016

Most business owners seek a valuation for their company when there's an immediate need — they're ready to sell or raise capital now, or they have a shareholder that is being bought out or gifting equity to family.

But valuations can be useful whether a deal is imminent or not. We talked to Cameron Cook, Managing Director of Business Valuations and Ryan Niermann, Manager of Business Valuations at Gordon Brothers-AccuVal, for their thoughts on some of the biggest benefits.

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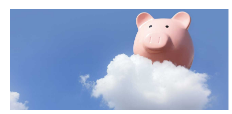

(http://www.axial.net/forum/ebitda-adjustments-from-crazytown/)

1. Preparing for the worst

Death of a partner, death of a fellow owner, a contentious divorce — these are possibilities most business owners would rather not confront head-on. However, in the case of these events, "it's good to have valuation knowledge up front, rather than all of a sudden needing to scramble to get an idea of value" before talking to the deceased's surviving spouse or estate, says Cook.

A valuation can also ensure your family is protected should you pass away. For example, if the value of your business increases significantly, you may need to increase the payout on key person life insurance policies.

2. Laying the groundwork for retirement

Ideally, Cook recommends engaging a valuation expert at least a few years before you plan to exit the business you own. A year or two prior to a transaction, a full valuation is crucial to help you better understand your options. "This scenario is becoming more common as the baby boomer generation hits retirement age," says Cook. For example, he points to a client planning to sell his shares to the two other equity owners of his business. "They want to start thinking about how they're going to pay him out and start to negotiate what that purchase will look like," says Cook.

3. Benchmarking growth

"There's a reason obtaining a valuation gets written into a shareholder agreement," says Cook. Even if not mandated, getting a valuation "helps management and owners keep track of the value of the business and the assets they own." As an alternative to performing a full valuation and to keep costs down, valuation firms can perform a calculation of value or an agreed upon procedures analysis on a yearly basis. This might be as limited as determining the current market EBITDA multiple and applying it to the company's most recent EBITDA stream. "That helps owners get a feel for what the value of the company is as a whole" in the light of recent market trends. (Note that this is a limited analysis and not a full appraisal.)

4. Making the most of a hard time

It's crucial for business owners to understand how shifts in the market might impact their company. For example, says Cook, "we have a lot of clients right now that are impacted by the oil industry. They may not *want* to know their value right now — but it's important for them to know." There are always options to make the most of a rough time — for example, says Cook, a downmarket can be a good time to gift equity so as to minimize gift taxes.

5. Revealing weaknesses

Identifying weaknesses is important whether or not a sale is on the horizon. "A valuation is all about looking at a company's performance and assessing risk," says Cook. It "helps a management team look at all the factors that are driving value" in a holistic sense, and develop a plan to address any weak links. Issues like customer concentration, AR turnover, working capital position, and leverage ratios will be red flags for buyers, but they will also impede growth in general. A valuation can "reveal things that may become a problem ahead of time," says Niermann.

6. Getting beyond cocktail chatter

"We hear all the time, 'So-and-so got X multiple, so why can't we?'" says Niermann. "Every company is different. A valuation expert can look at the intricacies of a company's financial health and history to figure out a realistic multiple to shoot for." For business owners casually contemplating an exit, getting a valuation well ahead of time will help you plan and build out your case.

A valuation firm can help a business owner get a realistic expectation of a company's current worth, and create a plan to address weaknesses. "Owners always want more and buyers always want less. An independent professional appraiser can give them a more realistic expectation and help them present the company to a potential buyer in a way that hopefully closes that valuation gap a bit."

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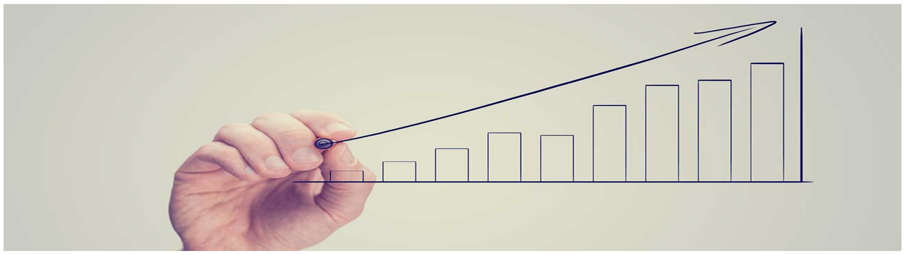

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During negotiations in an M&A deal, buyers and sellers look closely at several factors in order to agree on a price that properly captures a company's value. One of the closely examined metrics in this process is EBITDA, which stands for earnings before interest, taxes, depreciation, and amortization. EBITDA is used as a way...

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