# BUSINESS VALUATION: WHAT IT IS AND WHY YOU NEED IT

GENESIS BANK
INSTITUTE FOR ENTREPRENEURSHIP

During negotiations, a valuation can help you avoid accepting a lowball offer.

If the valuation is higher than you expected, you may have key employees or activities that are growing the business in ways you didn't realize.

**Business Valuation: What It Is and Why You Need It**

Do you know what your business is worth?

The 30 million small businesses in the U.S. are a tremendous force in our economy, and a valuable part of our local communities. But many – perhaps most – small-business owners don't know the true worth of their own enterprises.

And that's understandable. Entrepreneurs have to stay focused on day-to-day operations, and sometimes the bigger picture can get neglected. But there are several reasons why you may want to get a proper business valuation sooner rather than later. Whether you're in an early growth phase, looking toward retirement, or somewhere in between, a business valuation can provide the insight you need to get where you want to go.

**What Is Business Valuation?**
Simply put, business valuation is the process of determining the ultimate value of a company.

There are multiple ways to approach a business valuation. An asset-based approach will total up the assets belonging to your firm, looking at its balance sheet or calculating the net cash received if all assets were sold off and liabilities paid. An earning value or earnings-multiplier approach will analyze your business's ability to generate revenue in the future.

Some approaches will take your intangible assets into account – your intellectual property, brand recognition, client and supplier relationships, and internal communication systems that set you apart from your competition but may not be reflected in your financials.

Which business valuation method is best? It depends on your individual circumstances and reasons for getting your business appraised. A qualified business appraiser with experience in your industry can let you know what approach or combination of approaches is most appropriate, how long the process will take, and the costs involved. To find a business appraiser to assist with this process, reach out to your CPA.

Why might you need to have your business appraised? Here are four possible reasons.

**1. Strategize Better**
A comprehensive valuation can help you make necessary adjustments to your short- and long-term strategy to stay agile in an ever-changing marketplace. It can help determine what is and isn't working, depending on whether your business is valued lower or higher than your expectations.

If the valuation is higher than you expected, you may have key employees or activities that are growing the business in ways you didn't realize. You'll want to reward and develop those successes while taking steps to protect your company from financial loss should those revenue sources cease. If the valuation is lower than you expected, you'll need to determine what you need to do to reach your goals, whether it's investing in operations, selling assets, or going in a new direction.

If you need to secure financing for expansion or liquidity, or are in talks with potential investors, a business valuation can help present a stronger case for a lender or investor to do business with you.

**2. Develop a Succession Plan**
All business owners should consider developing a succession plan. A succession plan can ensure that your business is continued or discontinued on your terms, and an up-to-date business valuation is a critical component of the process.

If there's an option to sell your business to a family member, business partner, or competitor, a valuation will help inform funding decisions. If you are considering gifting the business, an IRS-compliant valuation may be required for tax and estate planning purposes.

Whatever your vision is, having your finger on the pulse of your business today can support a smoother transition in the future.

**3. Secure Your Future**

After years of investing your time and money into the success of your business, your company has hopefully grown into a valuable part of your retirement nest egg. Regardless of how you plan to exit the business in the future, you want to ensure the business's value in a sale will provide the income you need to live comfortably in retirement, support your family, or meet other financial goals. Performing a business valuation can give you a better sense of how much money you could potentially receive through its sale, which can be crucial to effective retirement and estate planning.

After all, people receive and review quarterly and annual 401(k) statements, so why wouldn't you want to have up-to-date and detailed information on the value of one of your biggest assets?

**4. Determine a Sales Price**

A business valuation is an important first step in selling your business. Guessing at the value of your business may scare away buyers with a price that is unrealistically high or leave cash on the table with a price that is too low.

Ideally, you should begin this process well in advance. That way, you'll be able to develop and implement strategies to increase the value of your business before going to market, and you'll be up to speed on your business's financials and market position when you enter the due diligence phase. Having an up-to-date valuation may be useful even if you don't have immediate plans to sell, since you'll be prepared for an unexpected need to sell or an unsolicited offer.

During negotiations, a valuation can also help you identify and defend the value of your business and help you avoid accepting a lowball offer.

**A Valued Relationship**

Entrepreneurs are faced with making important decisions every day. That's why it's so valuable to have a trusted financial partner who's always in your corner. Reach out to your financial institution today.

Interested in more?
Visit **mygenesisbank.com/GBIE**

For more information on how you can get involved with the Institute, please reach out to **Dani Feigin** • Head of Brand Partnerships

**E** dfeigin@mygenesisbank.com **P** 949.273.1497
**A** 4675 MacArthur Court, Suite 1600 Newport Beach, CA 92660