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## WHAT IS YOUR COMPANY WORTH? SIX REASONS WHY YOUR BUSINESS NEEDS A VALUATION

Many business owners only think about valuations when it is time to buy or sell a business, or transfer shares to new members. For some, the overall economic worth of their company is less important than day-to-day factors like profitability and cash flow. Others may believe they have an objective idea of the value of their business based on the selling price of similar operations. Did you know that relying on casual assumptions about your organization's fair market value can be detrimental to the overall health of your business? As you will see, investing in professional valuations is not only sound management practice, it can also make a significant contribution to a company's bottom line.

### What is a business valuation?

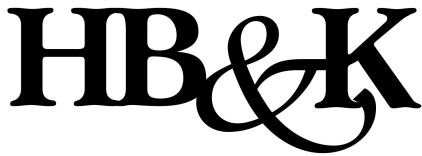
Simply put, a business valuation is an independent assessment of your company's fair market value based on a variety of management, industry and economic factors. Appropriately valuing a business involves significant research and complex calculations. Therefore, it is important to work with experts who have been certified by one of the major industry associations such as The National Association of Certified Valuators and Analysts or the American Institute of Certified Public Accountants.

### Valuations can mean real savings.

Even if business owners have no plans to sell or restructure their company, regular valuations should be part of a comprehensive management plan. Following are six common scenarios in which a valuation can be of significant benefit to an organization:

- 1. Divorce:** If an owner's share in a business is considered marital property, a value must be established to ensure an equitable division of assets during divorce proceedings. Having a professional valuation of the business prevents the opposing side from attempting to manipulate the value of the asset.
- 2. Defending against legal action:** Our business climate is increasingly litigious, and many businesses will find themselves the target of legal action at some point. Professional valuations are generally admissible as evidence in court, which can make a big difference in how a business's current and future worth is treated during the proceedings.

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- 3. Securing financing:** In order to assess a company's financial health and risk level, lending institutions may require a valuation as part of the application process. If a business can produce several years' worth of professional valuations to establish a growth trend, it is easier for lenders to assess an organization's financial health and repayment ability. Healthy businesses tend to qualify for lower interest rates, which means real savings over the life of the loan.
- 4. Estate planning:** Certain estate planning strategies include the gifting of shares to heirs, or transferring shares into another entity for future distribution to family members. Knowing the fair market value of these shares is important when accounting for such transactions during the estate planning process.
- 5. Sale/Purchase of a Business:** When a business is to be sold, the owners need to establish a price they would expect to receive. A business valuation will help owners establish a range of value for a possible sale, and help buyers determine a ceiling price. Establishing a realistic value for the business helps ensure the transaction is equitable for both parties.
- 6. Buy/Sell Agreements:** A detailed business plan should include buy/sell agreements among owners of a closely held business. These agreements allow for planned succession of ownership through formal agreements among owners. In the best case scenario, the valuation should be updated annually.

As you can see, having your business professionally valued at regular intervals can return important operational insight as well as measurable savings. We encourage you to contact your HB&K advisor to learn more about how our valuation specialists can help you lay the groundwork for long-term financial health.

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