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**By Kevin Wilson, Principal, The DAK Group**

# What Is Your Business Really Worth? Keys to Determine Value

Business Owners usually have a preconceived idea of what their business is worth, and it is often different from the value prospective buyers may put on it.

Knowledge of a company's true value is essential for business owners. This is particularly true in order for them to receive reasonable value when considering a transaction with a third-party. Owners need to be prepared and know what to do if approached by a prospective buyer or to help develop a plan if they are considering selling the business in the near future.

In all these situations, owners must know their business' true value to determine their next move, although most owners are at a loss as to how to determine this value. The danger is that some owners may begin pursuing a transaction with a third party without consulting their advisors, and that could be problematic, especially if the owner has inappropriate assumptions of the business' value.

Unfortunately, some owners will underestimate their business and its value, which could cause them to leave a lot of money on the table and, ultimately come up short in a future transaction. Conversely, some owners overestimate the value of their business causing them to be left empty-handed as they turn down a reasonable price for their business because they mistakenly think it is worth much more. The latter situation can be especially problematic for an owner with no family heirs for the business or an owner who has a health challenge or other issue that makes a sale important to consummate soon.

## "The Right Value" – Formula Setting

It's critical for the owner and advisors to have a realistic and objective value of what the business is worth prior to beginning a transaction. A common, and often very costly, mistake is to just use the business' reported earnings as the sole basis for the valuation. Reported earnings often do not paint a complete and accurate picture and can give an erroneous image of the company's true worth. Therefore, other factors need to be considered as well, such as normalized or adjusted earnings, which will factor in things like excessive salaries and expenses that are really owners' perks. Earnings that are "normalized" may also be adjusted for unusual nonrecurring events—for example, a problem of a supplier that slowed sales for a given year but is very unlikely to recur or a new development that makes current earnings more reflective of future earnings than historic earnings that occurred prior to the development.

The best way to determine value is to start by looking at earnings, but then to dig deeper and examine the quality of those earnings so that the unique aspects of the business can be incorporated into the analysis. That more robust approach could add or detract significant value. For example, if you sell a product into a certain geographic or demographic niche that prospective buyers are eager to penetrate, then buyers might be willing to pay more for your company because of the value that this niche brings to that specific buyer.

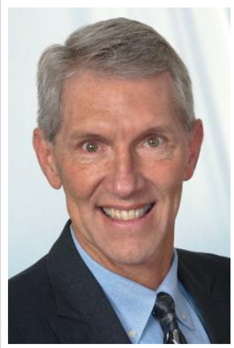
On the other hand, there are factors that could lower the valuation of your business. Questions to ask yourself might include: Are there customer or supplier concentrations? Would the loss of a key customer or vital vendor lead to a significantly negative impact on revenue?

## Factors Impacting Valuation

A key aspect of valuation is not to focus on what the business is worth to the owner but what it is worth to a potential buyer. Buyers are often planning to take your business "to the next level." So, you should therefore address and weigh the current value of the business as well as the potential value to the prospective buyer. That value includes intellectual property, any market niches, special client base or other strategic aspects that could be that could be lucrative to a buyer.

## Wide Range Outlook Can Increase Value

To determine the true value of a business, many factors need to be considered. While some less-qualified appraisers will determine the value based on "the numbers," an appraiser or investment banker may combine solid financials with a wide-range outlook that can provide different vantage points on the soft details of your business and find the "hidden" value in your company. Select a firm that has experience with M&A and valuations and a group who is familiar with selling companies similar to yours.




*About*

**Kevin Wilson**

*Kevin Wilson is a Principal with The DAK Group, an investment bank specializing in middle-market, privately held companies. Kevin advises business owners on sell-side and buy-side transactions, financial restructuring, capital advisory and valuations.*

*Email Kevin directly: kwilson@dakgroup.com*
*Or Call: 812-550-6315*