

Abstract: Valuations aren't just useful for business owners seeking to retire or to sell their companies. A good way to view a valuation is as a checkup that can assist you in planning for a better future for the business. This article looks at the many benefits of business valuations.

A valuation may lead to a better business future

If someone suggests that you should have your business appraised, you might wonder if that's a subtle suggestion that you should retire and sell the company. But a valuation can serve many purposes other than preparing your business for sale.

Think of a valuation as a checkup. You can use it to take the temperature of your business as part of a business health improvement plan.

A diagnosis of business strength and weakness

Today's economy offers both challenges and opportunities for companies. One major challenge you may be facing is access to financing due to current interest rates, ongoing inflation concerns and stricter lending standards.

A business valuation conducted by an outside expert can help you present timely, in-depth financial data to lenders. The appraisal will not only help lenders better understand the current state of your business, it will also demonstrate how you expect your company to grow. For example, the discounted cash flow section of a valuation report can show how expected future cash flows are projected to increase in value.

In addition, a valuator can examine and state an opinion on company-specific factors, such as specific risks your business may face and ways to mitigate them. You might even recognize some weaknesses you weren't aware of that you can remedy. A valuator can also pinpoint how your leadership is — or isn't — tuned into market conditions.

Acquisitions and sales

There's no getting around the fact that, in many cases, the primary reason for getting a valuation is to prepare for a transfer of business interests. This might involve an acquisition or a sale. Even if you're not ready to make a move like this right now, an appraiser can help you get a better sense of the optimal time.

If you're considering a purchase, a valuation of the company should be part of your due diligence. When negotiating the final sale price, an appraiser can help determine the reasonableness of the seller's asking price and related factors.

If you're the seller, a formal appraisal adds credibility to your asking price in the eyes of a potential buyer. Most appraisers subscribe to transaction databases that report the recent sale prices of similar private businesses.

Go above and beyond

An appraisal is a savvy way to raise the bar. It enables you to get the information you need for wise future planning. Contact us for support throughout the valuation process and to help you make the most of the information you receive.

Sidebar:

Add peace of mind to your gifting strategy

When business owners transfer business interests to their loved ones, the IRS generally has three years to challenge the valuation for gift tax purposes. But that period doesn't begin until an owner "adequately discloses" the gift on a timely filed gift tax return. Among other things, the return must provide various details about the transferred interest, the terms of the transfer, and the relationship between transferor and transferee.

Start the clock ticking on the statute of limitations by filing a timely gift tax return that includes a qualified appraisal — even if filing a return isn't required (because, for example, the owner hasn't exceeded the lifetime gift exclusion). A qualified appraiser is one who meets certain minimum education and experience requirements or has earned a designation from a recognized professional appraiser organization.