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## Knowing What Your Business is Worth Yields Valuable Business Intelligence

Frankel Zacharia shares insight on several important reasons why a business owner should have an accurate valuation of their business.

It's a common question among business owners: "Why should I go to the time and trouble of having a business valuation performed if I don't currently seek to sell my business?"

Even if your intent right now is to maintain ownership and operation of the business, having an accurate gauge of your company's value provides a wealth of valuable information that can enable you to make intelligent decisions about important issues. While certain events could necessitate that a valuation of your business be performed (for example, transfer of ownership via estate or gift, shareholder buyouts and disputes), business valuations serve an array of strategic planning purposes as well.

### **Owner Expectations**

When performed by an experienced professional, a business valuation provides a baseline of value for your business as of a specific point in time. Many business owners think they know what their business is worth; sometimes expectations turn out to be reasonably accurate, but in other cases, they are misaligned with reality. An accurate business valuation will either confirm or challenge your expectations. If the value of your business ends up being below your expectations, knowing that now gives you time to plan on improving and/or growing the business to achieve the value you want. It also helps you understand key metrics that drive your company's value. After all, you don't want to be underwhelmed by offers received when it does come time to sell, because your expectations were not in line with how buyers will view your business.

### **Strategic and Exit Planning**

Part of what a valuation offers is a true assessment of your company's profitability and growth trends. This, in turn, can be used to help you develop a strategic plan or an exit strategy for your business. Developing a three-, five- or 10-year plan will allow you to focus on areas of the business that will maximize the value of your company. Businesses are often part of family estates, so understanding the business' current value, as well as the path that your business is on, will help ensure you're on the right track in your estate planning.

### **Industry Comparison**

The data and analyses that are part of a thorough business valuation include industry ratios and metrics that will help you to determine how your business compares to similar businesses in your industry. Having reliable industry data is important in assessing key performance indicators (KPIs) such as your asset utilization, profitability and relative leverage versus your competitors.

This can help identify not only where your company is strong, but also where it can be improved and de-risked prior to a sale.

### **Benchmarking Progress**

As mentioned earlier, a business valuation measures a company's value at a specific point in time. If valuations are performed regularly, you as a business owner have the intelligence and data necessary to measure the improvement in value from one time period to the next. You'll also be able to assess the impact of business improvement strategies implemented during that time frame. Additionally, this creates accountability for strategic plans or exit strategies and allows you to track your progress in relation to your goals.

### **Capital Investment**

If you are considering expanding your business and seek additional equity funding, a business valuation is an essential first step that typically is necessary when securing capital. The negotiation with the new investor(s) will often focus on value and the amount of ownership that will be provided in exchange for the planned investment.

Life is unpredictable; issues arise in your personal sphere, and events in and around your business can evolve quickly and change your reality. As a result, it's crucial to establish a baseline valuation of your business from which you can determine a plan to effectively grow, regardless of your current disposition intentions. Valuations are an essential tool that allow you to assess your company's current performance and set a course for the future.

Do you have questions about valuing your business or other related matters? Please contact Dan Morris by phone at 402.963.4304 or by email at [dmorris@fzacpa.com](mailto:dmorris@fzacpa.com).