

# 10 Things to Know About Business Valuation

Understanding the ins and outs of a business valuation is useful for many reasons. Business owners can use a business valuation to inform their decisions when it comes to selling, buying out a shareholder or gifting shares of their business. Here are the key aspects to help you prepare for a business valuation.

## 1. What is a business valuation?

A business valuation is a valuation by a qualified or accredited appraiser of the equity ownership of a business. Appraisals can be used for different reasons, including gift or estate tax planning, support for charitable contributions of closely held business interests, or preparing to sell a business.

## 2. How much does a business valuation cost?

Depending on the scope of the valuation, a business valuation can cost anywhere from \$6,000 to more than \$20,000.<sup>1</sup> Most qualified or accredited business appraisers will review the scope of work with a prospective client and will quote a project fee in an engagement letter prior to beginning the engagement.

## 3. Why are business valuations needed?

The reasons to obtain a business valuation fall under the following categories:

- **Transactions:** Exit planning, buy-sell agreements, ESOPs, equity financing
- **Tax Reporting:** Gift and estate tax, charitable donations, C-to-S conversions
- **Financial Reporting:** Purchase price allocations in acquisitions, goodwill impairment testing, portfolio valuations, derivatives
- **Litigation:** Marital dissolutions, shareholder disputes, economic damages

## 4. How do business appraisers determine the value of a company?

- **Income Approach:** Weighs the expected benefits from investing in the company against the required return for assuming the risk associated with it. This approach accounts for projected changes in revenue, profits, working capital needs and capital expenditures.
- **Market Approach:** Values a company based on similar publicly traded companies and sale or merger transactions of comparable companies.
- **Asset Approach:** Measures the fair market value of a company's assets, less its liabilities. Frequently used for underperforming companies, this approach is not appropriate for companies with meaningful profits and intangible assets.



## 5. Is the date of a business valuation important?

A business valuation is the estimated value of a company at a specific point in time. As with any equity investment, the value of a company will

change over time due to internal and external factors. Therefore, an updated business valuation will be required for proper support at future dates.

### **6. Can a business have more than one value?**

Yes. A business can have multiple values at a single point in time. Value estimates reflect what a buyer and seller would likely agree to in a transaction. As such, a business may have a lower value to a buyer with no synergistic benefits versus a strategic acquirer that could realize greater benefits. In addition, majority ownership of an entity is inherently more valuable than a minority position that lacks control rights and stock marketability.

### **7. What is USPAP? What are business valuation standards?**

In addition to standards set by organizations such as the Institute of Business Appraisers (IBA) and American Society of Appraisers (ASA), qualified business appraisers follow the Uniform Standards of Professional Appraisal Practice (USPAP). This is recognized as the official source of appraisal standards in North America. Adherence to standards reinforces a business appraiser's expertise and the credibility of his or her work. Appraisers who fail to perform their work in accordance with USPAP standards may be subject to criticism and may have difficulty defending their conclusions in litigation.

### **8. How do I judge a business appraiser's qualifications?**

Professionals in varying occupations may claim to be business appraisers, but only accredited business

appraisers have the training and expertise needed to provide defensible business valuation reports. Business appraisal services offered by an accredited entity will have designations such as Accredited Senior Appraiser (ASA), Certified Business Appraiser (CBA), Certified Valuation Analyst (CVA) and the Accredited in Business Valuation (ABV) of the AICPA.

### **9. What information is needed to perform a business valuation?**

The following documents are necessary to provide a credible valuation: financial statements for the last five years, interim financial statements and forecasts or projections. Other documents requested include information that describes the company's services and/or products, operations, customers, suppliers and competitors. Any business planning materials including reports by consultants are also required.

### **10. What else can owners use a business valuation for?**

Valuations provide business owners with useful information relative to measuring risks and comparing financial performance to their peers. By identifying key value drivers, business owners can use valuations as a tool in long-term planning to enhance the operational and financial performance of their companies.

## **Business Valuation Services**

**[Learn more about our business valuation services here.](#)**

**For more information visit: [marinerwealthadvisors.com](http://marinerwealthadvisors.com)**

<sup>1</sup> ["How Much Does a Professional Business Valuation Cost?"](#)

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