



# 10 Things to Know About Business Valuation

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Why are business valuations needed and how is the value of my business determined?



*“Valuations provide business owners with useful information relative to measuring risks and comparing financial performance to its peers.”*

## 1. What is a business valuation?

A business valuation is a valuation by a certified appraiser of the equity ownership of a business. Appraisals can be used for different reasons, from preparing to sell the business to gift tax support.

## 2. 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

## 3. How do business appraisers determine value?

- **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.

## 4. 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.



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